



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-5: Validation of public accounts

Luxembourg, 28 November 2006

- FINAL FINDINGS –

EDP Dialogue visit to Lithuania

9-10 March 2006

Executive summary

Eurostat undertook a dialogue visit to Lithuania on 9-10 March 2006 with the primary aim of assessing the suitability of Lithuanian public accounts data for use in underlying the forthcoming treatment of Lithuania's application to join the Euro area. In this respect it examined in some detail the key data sources underlying the accounts, as described in the inventory of sources and methods, and the administrative arrangements in place to produce them. There was also an opportunity to anticipate any issues which might arise during the forthcoming EDP notification tables to be transmitted by Lithuania by 1st April 2006.

Discussions were constructive and informative. Eurostat made some suggestions for ways in which the cooperation between the different institutions involved in compilation of government finance data could be improved and formalised.

A review was made of Government Finance Statistics data transmitted to Eurostat. This has improved significantly in recent years. The Lithuanian authorities explained their difficulties in compiling certain historical data breakdowns, but undertook to provide these breakdowns for selected years. The Lithuanian authorities noted that they were investigating the reasons for the discrepancies between the quarterly financial and non-financial accounts of general government.

The Lithuanian authorities indicated that some extra data splits would be reported for the first time in the next EDP Notification tables. They also noted that a new government accounting system based on international public sector accounting standards will be introduced from 2008.

With regard to the classification of units in the national accounts, several units were discussed which should be or might be re-classified to the general government sector in Lithuania.

With regard to the treatment of guarantees, Eurostat noted that at present the Lithuanian authorities are treating called guarantees of government as acquisition of financial assets. Eurostat requested further information on guarantees in Lithuania.

Final Findings

In accordance with article 8d of Council Regulation 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, as amended, Eurostat carried out an EDP dialogue visit in Vilnius on 9-10 March 2006. The delegation of Eurostat was headed by Mr Barredo, head of the unit "Validation of public accounts". Representatives from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting, as observers. The Lithuanian authorities were represented by experts from the Lithuanian Department of Statistics (Statistics Lithuania), the Ministry of Finance and the Bank of Lithuania.

Eurostat carried out this EDP dialogue visit with the aim of assessing the suitability of Lithuanian public accounts data for use in underlying the forthcoming treatment of Lithuania's application to join the Euro area. In this respect it examined in some detail the key data sources underlying the accounts, as described in the inventory of sources and methods, and the administrative arrangements in place to produce them.

2. Review of reported Lithuanian data on general government and their consistency

Eurostat congratulated the Lithuanian authorities on their transmission of data and on the improvements that took place in recent years, both in terms of completeness of the reported time series and on the provision of back data. On Table 0200, the Lithuanian authorities confirmed that property income is reported consolidated, and that data for 2003-2004 for taxes and social contributions unlikely to be collected had been reported. The Lithuanian authorities explained that public budgetary organisations are not liable to pay taxes on income. Eurostat agreed to investigate if there are some transmission difficulties.

Following the meeting, Eurostat investigated the transmission issues and a satisfactory resolution was found.

The Lithuanian authorities explained that they would provide a sub-sector breakdown for Table 0200 for the year 2001 by end-March 2006, and for the year 2000 by end-2006. The Lithuanian authorities explained their difficulties in compiling sub-sector breakdowns for earlier years, and indicated that they had asked for a derogation in this respect in the new transmission programme.

The Lithuanian authorities noted that they had sent a list of national taxes for 1995-2004 to DG TAXUD, and would forward a copy of the list to Eurostat. They explained that the allocation of FISIM in all government finance statistics (GFS) tables would take place during 2006.

Immediately following the meeting, the Lithuanian authorities provided a copy of the national tax list to Eurostat.

Eurostat stressed the importance of Table 11 (COFOG) for an important group of users, including the Economic Policy Committee, and indicated that there is a need to undertake further efforts in this area.

With respect to quarterly data, Eurostat and DG ECFIN underlined the importance of publishing the whole series of data, both for non-financial and financial accounts, as soon

as possible. The Lithuanian authorities indicated that in principle they would like to publish the data in 2006, though had some concerns over two volatile series. Eurostat explained that this represented a challenge in presenting the data to users, but should not preclude publication. Eurostat requested to be informed of the plans for publication. Eurostat took note that the discrepancy between quarterly non-financial and financial accounts for the general government sector is due to data sources, and the discrepancy is being investigated by the Lithuanian authorities. Eurostat asked to be informed of the results of this investigation.

Following the meeting, selected series from the Lithuanian authorities' quarterly dataset were published by Eurostat. Some QFAGG series have not been delivered. This issue is currently being discussed.

Eurostat underlined the importance of the EDP notification tables to be delivered by Lithuania this year and stressed that they should be fully consistent with GFS reported at the same time, particularly Table 0200. Eurostat requested the sending of the useful explanatory note which has been sent in the past alongside notifications, but accepted that the note would be somewhat simplified because some of the information would be captured in the Eurostat questionnaires.

The Lithuanian authorities explained that they planned to publish the notification tables in Lithuanian and English at the time of the Eurostat Press Release, though they had some concerns over presenting them in an understandable way to the public.

The Lithuanian authorities explained that there should not be any major revisions in the next EDP Notification tables, however there will be some changes for data on EU Transactions and foreign currency securities/loans, and a split introduced between short term and long term liabilities. They further explained that tax receipts in 2005 had been considerably better than budgeted, and that the "PIT and CIT" adjustment in the September 2005 tables reflected additional tax receipts which had not been budgeted.

The Lithuanian authorities explained certain entries in Table 3 of the Notification tables:

- The major increases in currency and deposits during 2002 and 2003 are due to formation of the Stabilisation Fund. The subsequent fall in currency and deposits in 2004 is largely due to loan repayments by this Fund.
- The small statistical discrepancy reported in Table 3 is a genuine discrepancy and no adjustments are made to non-financial or financial accounts in this respect.

3. Review of Lithuanian inventory of sources and methods

Eurostat explained that it has produced a template in order to consolidate the two steps of the EDP inventory, and it will contact the Lithuanian authorities to check a consolidated version.

Following the meeting, Eurostat sent a draft consolidated EDP inventory to the Lithuanian authorities in June 2006 with a request for receiving an updated version by mid-September 2006.

With respect to specific questions on the EDP inventory:

- Interest paid by Municipalities continues to be recorded on a cash basis, due to lack of information on accrued interest, but the instruments concerned are regular loans.
- Data on flows between budgetary units are available in the general reports to be provided by these units to the Ministry of Finance, hence consolidation is straightforward and cross-checks are made.
- Balance sheets for the years since 2000 are becoming available for public units only from 2005 onwards.
- The accounts of Central and Local Government bodies are audited by the State Auditor. This will be added to the EDP inventory in its next update.

4. Review of key data sources and administrative arrangements

The Lithuanian authorities explained that Resolution 702, which governs relations between the concerned bodies for compilation of the EDP Notification tables, remains in force. They noted that relations between the bodies are conducted in a variety of ways, some formal and some informal, but that these relations have improved in recent years through improved personal contacts. The Ministry of Finance has responsibility for producing Table 2, and Statistics Lithuania for the remaining tables. It was noted that the Government Finance Statistics (GFS) team in Statistics Lithuania is young and some vacant posts have yet to be filled.

Eurostat underlined the importance of formalising the cooperation between the Statistical Office, Ministry of Finance and Central Bank. This formalisation would ensure that the robustness of the system could be assured over time, even after staff changes.

The Lithuanian authorities summarised the main sources of data for the GFS, noting in particular the Statements of the State Budget, quarterly statements from both Central and Local units, reporting of extra-budgetary funds (based on Finance Ministry records) and the data provided by accounts of the Social Security and Health Funds. There is a full coverage of units and therefore no exhaustiveness adjustments are required.

The Lithuanian authorities explained that data on budgetary commitments are used to make accruals adjustments, though there is not an extensive checking of the quality of this data. Hospitals maintain their own accounting systems on an accruals basis, and are therefore able to report to a statistical survey on this basis.

The Lithuanian authorities further explained that data on financial leasing and GFCF is collected via quarterly and annual surveys, which have complete coverage. Furthermore, it was explained that borrowed funds are accounted for within the Finance Ministry and therefore full data are available. A recent change to the government chart of accounts means that from 2004 there are no financial transactions included in the operating balance of government. There were no other significant changes affecting GFS introduced in the new Chart of Accounts.

5. Introduction of a new government accounting system

The Lithuanian Authorities made a presentation of their plans for introducing a new government accounting system, based on International Public Sector Accounting Standards, from 2008. Lithuanian statisticians are being associated with the preparations

for this system. Eurostat underlined the need for this to continue, given that the reporting from the new system would largely form the basis for future GFS.

6. Classification of units to General Government

The Lithuanian authorities explained that there is a working group of the relevant institutions devoted to sector classification issues, and that the working group had issued guidance on classification of public units. The unit in Statistics Lithuania responsible for the business register is expected to follow this guidance, with complex cases to be discussed by the working group. There are still two outstanding cases to be looked at (Road Companies and Railways), and two units to be reclassified to the general government sector (Turto Bankas, Turto Fondas) which had been discussed during the 2005 EDP mission. The Lithuanian authorities explained that due to resource constraints, and to the wish to conduct all eventual reclassifications at one time, the reclassifications could not take place until after the end-September 2006 notification.

Eurostat expressed concerns that the system for classifying units appears to be operating too slowly. In particular it expressed a desire that the necessary reclassifications take place before the September 2006 notification. Eurostat also expressed the desire that the Lithuanian authorities establish procedures whereby the classification of units is decided and executed promptly, and subsequently reviewed regularly if necessary (for example in the case of the "50% rule"), and welcomed the commitment of the Lithuanian authorities to a transparent operation of the classification system. The Lithuanian authorities agreed to provide a note to Eurostat before the end of March 2006 explaining the current state of affairs on classification of the units discussed, and also an indication of the likely impacts on general government debt and deficit which would arise from an eventual reclassification of the units.

Following the meeting, the Lithuanian authorities provided the requested note on classification of units, together with estimates of the debt and deficit impact, and indicated that they did not intend to undertake the reclassification until 2007. Eurostat underlined the importance of making the reclassification for Turto Bankas and Turto Fondas as soon as possible, and the Lithuanian authorities agreed to make every effort to undertake this.

7. Review of compliance with Eurostat decisions

i) Taxes and social contributions

Lithuania currently uses the time-adjusted cash method (one month lag) for VAT and excise taxes, and cash data for other taxes. The Lithuanian authorities explained that no adjustment to the procedure had been made for the change in the operation of the VAT system after accession. Following a discussion of these taxes, it was concluded that the use of cash data for recording taxes on income seems reasonable given the very low (2%) level of self-employed taxpayers.

The method for calculation of social contributions unlikely to be collected was described, based on an assessment method with an estimate for amounts unlikely to be collected. This method was reviewed during the meeting and found to be reasonable.

Eurostat also asked about the recording of VAT reimbursements, which had formerly been large, and the Lithuanian authorities explained that they have fallen considerably in recent years.

ii) Capital Injections

Eurostat noted that there did not appear to be any major outstanding issues, following an intensive discussion over recent years, and this was confirmed by the Lithuanian authorities. They further confirmed that there were no textile industry-related capital injections in 2005.

iii) PPPs

The Lithuanian authorities noted that there are currently no PPP operations in Lithuania, though some may take place in the future following the creation of a specialised PPP unit in the Finance Ministry. Eurostat briefly explained the contents of the relevant chapter in the ESA95 Manual on Government Deficit and Debt.

iv) Securitisations

The Lithuanian authorities noted that there are currently no operations, though some may take place in the future. Eurostat briefly explained the contents of the relevant chapter in the ESA95 Manual on Government Deficit and Debt, and noted that a Eurostat Task Force has been examining several securitisation-related issues.

v) EU transfers

The Lithuanian authorities explained that all *EU flows* (including for the Ignalina nuclear station) must pass through a single finance ministry account, and therefore data for the implementation of the relevant Eurostat decision for all EU flows are readily available.

vi) Pension Schemes

The Lithuanian authorities explained their second and third pillar pension schemes have been classified outside the general government sector, in line with the Eurostat Decision. They noted that pension schemes for public servants are based on a "pay-as-you-go" system.

vii) Military Expenditure

The Lithuanian authorities noted that military expenditure on equipment in Lithuania is quite low and the procurement methods are straightforward.

viii) Guarantees

Eurostat expressed some concern that most calls on guarantees are treated as acquisition of financial assets (loans), whereas reimbursements for guarantees called seemed quite low. The Lithuanian authorities explained that the granting of government guarantees is based on a legally-defined procedure which ensures that guarantees are only granted to entities which meet certain standards of financial health.

The Lithuanian authorities agreed to provide a note on their methods for assessing whether or not a called guarantee leads to a financial asset, and explaining how the provisions figure reported in the Eurostat questionnaire is calculated. The Lithuanian authorities noted that there are no plans to offer government guarantees in future, except in very special circumstances. Eurostat noted that a specific case-by-case analysis should be made.

Following the meeting, the Lithuanian authorities provided further explanation of system for granting guarantees, and confirmed that no new government guarantees were issued in 2005. The current method of recording of the guarantees was discussed during the April 2006 EDP notification round when Eurostat pointed out that this is not in line with best practice. Discussions on this issue are ongoing.

8. Implications of potential introduction of the Euro for public accounts

Eurostat and the ECB briefly mentioned some statistical issues which may arise upon adoption of the Euro (notably on withdrawal of the old national currency notes and coins, gold sales, and transfer of Central Bank reserves to the Eurosystem), and agreed to send some background documents after the mission.

The Lithuanian authorities explained their organisation for introducing the Euro, in particular relating to the institutions at the meeting. Eurostat agreed to send any useful documents on methods for converting and reporting Euro series, and also to recommend a country which showed "best practice" in this respect.

There are currently no swap operations undertaken by the Lithuanian government. However the Lithuanian authorities mentioned the possibility of swap transactions in the future. Eurostat underlined the importance of keeping Statistics Lithuania fully informed of any such operations.

Annex – list of participants in the meeting

The participants in the meeting were as follows:

Lithuanian Department of Statistics (Statistics Lithuania): Jonas Markelevičius, Irena TvariJonavičiūtė, Gailutė Juškienė, Jūratė Šinkūnienė, Marina Vasiunkina, Vaida Savickaite, Genovaitė Prakelienė, Kristina Tylaite, Daiva Norkevičienė.

Ministry of Finance of Lithuania: Dzintra Sakeviciene, Dalia Zygiene, Danutė Skerytė, Ivona Kuseleviciene, Ingrida Muckute, Egle Radzeviciene

Bank of Lithuania: Rimantas Vaicenavicius, Birute Grikinyte, Diana Liberiene Violeta Klyviene

EUROSTAT: Eduardo Barredo, Ivana Jablonska, John Verrinder

DG ECFIN: Alain Morisset, Luis Fau Sebastian

ECB: Henri Maurer