



**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 Slovenia**

**9-10 February 2006**

## **Executive summary**

Eurostat undertook a dialogue visit to Slovenia on 9-10 February 2006 with the primary aim of assessing the suitability of Slovenian public accounts data for use in underlying the forthcoming treatment of Slovenia'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 Slovenia by 1<sup>st</sup> April 2006.

Discussions were constructive and informative. Eurostat welcomed the close cooperation taking place between the different institutions in Slovenia on these issues, and the way in which this was formalised.

A review was made of Government Finance Statistics data transmitted to Eurostat. This is generally rather complete, although there are gaps. The Slovenian authorities explained their difficulties in compiling historical data, but undertook to provide selected historical years and to start to report interest on a consolidated basis. The Slovenian authorities noted that their compilation of financial accounts is still in early stages, but that quarterly financial accounts of General Government will be reported to Eurostat in summer 2006.

There were no new methodological issues anticipated for clarification in the forthcoming EDP Notification tables. Eurostat underlined the importance of integrating data from financial accounts into EDP Notification tables, and of reporting transparently the statistical discrepancy between financial and non-financial accounts.

With regard to the treatment of partial calls on guarantees from the Slovenian government to certain public corporations, an agreement was reached whereby the full guarantee would be considered as called upon the occasion of the third partial call in three consecutive years, or in close years.

With regard to the treatment of conversion of state claims on public corporations into equity, the Slovenian authorities undertook to examine these operations taking into account the Eurostat Decision on capital injections, and make any necessary reclassifications to capital transfers. These reclassifications were made after the meeting.

With regard to the recording of profit taxes, the Slovenian authorities explained that until now no receipts from the results of tax audits had been included. Eurostat agreed that this would be appropriate and invited the Slovenian authorities to investigate the matter. The Slovenian authorities concluded after the meeting that a time-adjusted cash method would be more appropriate and this was accepted by Eurostat.

The main other issues discussed related to the classification of certain units, the correct recording of a change in the Slovenian VAT budget year in 2002, and the recording of EU transfers according to the relevant Eurostat Decision.

## **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 Ljubljana on 9-10 February 2006. The delegation of Eurostat was headed by Mr Barredo, head of the unit "Validation of public accounts". The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting, as observers. The Slovenian authorities were represented by experts from the Slovenian Statistical Office, the Slovenian Finance Ministry and the Slovenian Central Bank.

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### **1) Review of reported Slovenian data on general government and their consistency**

Eurostat and the Slovenian authorities examined set-by-set the data to be transmitted under the ESA95 transmission programme for general government.

#### Table 2

Eurostat noted that whilst the table was relatively complete for the years 2000 onwards, there are no back-data for the years before this. The Slovenian authorities undertook to deliver 1999 data (including data by sub-sector) during 2006, and 1995-1998 data during 2007. The Slovenian authorities indicated that they will request a derogation in the new transmission programme for the years before 1995. Eurostat stressed the need for Table 2 data to be consistent with data in EDP notifications.

Furthermore Eurostat noted that property income (interest) was being reported on a non-consolidated basis (this consolidation issue is also relevant for Slovenia's quarterly Maastricht debt reporting). The Slovenian authorities explained that the amounts of cross-holding of debt/loans between General Government sub-sectors is very low, but they would endeavour to construct a consolidated property income series by the end-September 2006 notification.

#### Table 9

Eurostat welcomed the completeness of the reported data, including back series, but requested that data on amounts of taxes and social contributions unlikely to be collected be discussed under point 6 of the agenda.

#### Table 11

Eurostat thanked the Slovenian authorities for recently reporting COFOG level 1 series from 2000 onwards. The Slovenian authorities explained that there are no reliable data sources for constructing accruals-based COFOG breakdowns before 2000 and that they would be requesting a permanent derogation for non-reporting of this data in the new transmission programme.

Eurostat further explained that there is a growing demand for COFOG level 2 data from the Economic Policy Committee and encouraged the Slovenian authorities to report this data. The Slovenian authorities indicated their intention to report some series at COFOG level 2 during 2006 and the remainder during 2007.

#### Quarterly non-financial accounts

Eurostat noted that the Slovenian authorities are not currently reporting certain key aggregates on a quarterly basis (e.g. B9, total expenditure, total revenue). The Slovenian authorities explained their intention to progressively complete this dataset with data by end-March 2006 for all variables before the capital account in Table 25 for years 1999 on, report a complete set of general government quarterly data for 2005 by June 2006, and report a complete set for 1999 onwards by the end of December 2006. They indicated that these data will be publishable.

*Following the meeting, the Slovenian authorities transmitted a first set of quarterly non-financial accounts for general government to Eurostat for 2004Q1 to 2006Q1 at the end of June 2006. These data were subsequently published by Eurostat.*

#### Annual financial accounts

The Slovenian authorities explained that the complete set of annual Financial Accounts were compiled for the first time in 2004 (data for 2001-2003) and in 2005 the Bank of Slovenia compiled data for 2004, with revisions to 2001-2003 data. The Slovenian authorities noted that they have proposed a derogation for the period 1995-2001 due to the lack of reliable data. The Financial Accounts data have not been used to date in the notifications due to ongoing quality concerns. Eurostat invited the Slovenian authorities to make use of Financial Accounts data in the notification and to record the statistical discrepancy between the financial and non-financial accounts. The Slovenian authorities agreed to reflect on the possibilities for doing this in the end-March 2006 notification, and also on an ongoing basis from the end-September notification. Moreover they agreed to develop and report to Eurostat a more complete set of annual financial accounts.

#### Quarterly financial accounts of general government (QFAGG)

At present the Statistical Office, the Bank of Slovenia and the Ministry of Finance are jointly responsible for QFAGG, however the memorandum of understanding between the institutions provides that the Statistical Office will take over sole responsibility from 2007 onwards. The Slovenian authorities indicated that they would be meeting the end-June 2006 deadline for reporting QFAGG data, and that they intended to provide data for 2004 and 2005. Eurostat underlined that the Regulation required a considerably longer time series than this and that, given the extended period provided to the Slovenian authorities for reporting the data, this longer time series should be reported in June 2006.

*Following the meeting, the Slovenian authorities transmitted a first set of quarterly financial accounts for general government to Eurostat for 1999Q1 to 2006Q1 at the end of June 2006. These data were subsequently published.*

There was some discussion about the main changes that could be expected in the end-March 2006 Slovenian EDP notification. The following changes were identified:

- Capital transfers relating to call of guarantees.
- Inclusion of tax audit data in profit tax estimates.
- GFCF adjustments.
- Revisions arising from new source data in 2005.
- Impact of changes in motorway construction.

### **3) Review of Slovenian inventory of sources and methods**

There was some discussion of several issues relating to the inventories:

Current transfers: The Slovenian authorities believe that cash estimates are appropriate for some current transfers (e.g. subsidies), but they also have some accruals-based data for non-government units in certain cases. The discussion of treatment of European transfers was treated under point 7 of the agenda (see below).

Budgetary reserves: The Slovenian authorities explained that they have three reserves (natural disasters, health investment, student homes) where the cash flows booked in the budget do not correspond to final expenditure. Hence an adjustment is entered in the bridge table, based on complete information from the Ministry of Finance.

Gross Fixed Capital Formation (GFCF): The Slovenian authorities explained that their only source of GFCF on an accruals basis for government budgetary units is from a questionnaire survey.

The Slovenian authorities agreed to provide an updated copy of their “bridge table” with the end-March 2006 notification. *This was subsequently provided by the Slovenian authorities.*

Eurostat explained that it is currently producing a template in order to consolidate the two steps of the inventory, and it would contact the Slovenian authorities to check a consolidated version. *Following the meeting, Eurostat provided the draft consolidated inventory to the Slovenian authorities in June 2006, with a deadline for returning a revised version of mid-September 2006.*

### **4) Review of key data sources and administrative arrangements**

The two main data sources for government finance statistics were explained:

#### i) Budgetary returns to the Ministry of Finance (monthly)

These returns are provided following the month in reference by bodies forming part of Central Government, Social Security funds, and 193 local units. For Central Government and social security bodies they follow a chart of accounts structure which is the same for all bodies; likewise there is a prescribed format for local units. These returns were first introduced in 1999. The Slovenian authorities indicated that the quality and completeness of the local units' returns appears to be good.

#### ii) Annual Reports to the Agency for Public and Legal records (annual)

All budgetary and non-budgetary bodies are obliged to report their annual financial statements to the Agency for Public and Legal records in the year following the reference period. These statements include profit and loss accounts.

In addition to these two sources, the Slovenian authorities noted that some units (extra-budgetary funds, special agencies) provide data twice per year to the Ministry of Finance and there is a statistical survey on the gross fixed capital formation of government units.

With regard to cooperation between institutions, the interaction of the Statistical Office, Ministry of Finance and Central Bank continues to be governed by the signed Memorandum of Understanding from 2004.

The Slovenian authorities indicated that the basis for budgetary accounting of budgetary units is cash accounting. However the Ministry of Finance is considering a gradual transition to an accruals basis, though no decision on a timetable has been taken yet.

## **5) Classification of units to General Government**

The Slovenian authorities explained that the register of units is maintained by the Agency for Public and Legal Records. This Agency has the prime responsibility for classification of units, though in practice there is a working group which considers the classification of difficult cases and is composed of the Agency, Ministry of Finance, Statistical Office and Central Bank.

The Slovenian authorities explained that they have recently tested the “50% rule” for a number of units and found that some reclassifications are necessary.

There was some discussion of three types of units:

### ***i) Health Care institutions***

The Slovenian authorities confirmed all public health institutions are classified in the general government sector.

### ***ii) Railways***

The Slovenian authorities explained that the Railway Company has been restructured into four units (passenger operations, freight operations, maintenance and holding company), all of which are classified outside general government. There is also an Agency for Railways which makes significant grants for infrastructure. The Slovenian authorities agreed to examine the classification of the maintenance company to ensure that it meets the 50% rule.

*Following the meeting, the Slovenian authorities provided information on railway maintenance company to Eurostat and indicated that they had decided to treat the Railway Company as a single unit for national accounts purposes, to be classified outside general government.*

### **iii) Units managing inventories**

The Slovenian authorities explained that the two bodies for managing government inventories (commodities, oil) are classified outside the general government sector because they are paid for their services by government and not deficit-financed.

## **6) Accrual of Taxes and Social Contributions**

Eurostat explained that there were a number of issues which remain to be settled on taxes and social contributions.

### ***i) Change of budget year***

The Slovenian authorities had indicated during the previous Eurostat mission (May 2005) that there was a change of budget year in government budget figures for VAT. In the years before 2002, payments to and from the central budget made in January based on economic events occurring before the end of previous calendar year were treated as previous fiscal year transactions (in line with the law on the execution of the budget for the current year). For example central budget revenues for the fiscal year 2001 also comprise payments to the budget made until January 31 2002 of VAT and excise duties with underlying transactions in the calendar year 2001. Payments made until January 31 2002 to the budget users for settlements of liabilities from the calendar year 2001 are also treated as central budget expenditures in the fiscal year 2001.

Central budget revenues for the fiscal year 2002 comprise payments to the budget made from January 1 to December 31 2002 except for the VAT payments and revenues from excise duties, which were only included from February 1 to December 31 2002.

For 2002 this meant that the budget included only 11 months of VAT. Eurostat agreed that an adjustment is required in 2002, though wished to reflect on a worked example before advising the Slovenian authorities which line of the notification tables it should be recorded on.

*Following the meeting, there were further exchanges of views but the issue remains to be resolved.*

### ***ii) Profit Tax***

The Slovenian authorities explained that they are currently using an assessment method for recording the company profit tax in national accounts. They have noticed that over time the revenue recorded in this way falls below cash flows. After investigation with the Slovenian Tax Administration Office, they concluded that assessments data did not take into account the tax audits that the Tax Administration Office undertakes with companies on their previous 3 years of tax assessments. Eurostat indicated that the table of data presented seemed plausible, and that it would provide advice to the Slovenian authorities on the proper distribution of the tax audit revenues across years. In the meantime the Slovenian authorities agreed to investigate further the practical impact of the tax audits (i.e. which years of (t-1), (t-2) or (t-3) were corrected most).

*Following the meeting, Eurostat provided advice that the tax audit information should be distributed over previous years according to Tax Administration Office records or using a reasonable assumption. The Slovenian authorities indicated that they had not been successful in obtaining this information and therefore intend to move to a new method of*

*calculating profit tax on an accruals basis, using a time-adjusted cash method. Eurostat agreed with this approach.*

### ***iii) Recording of VAT on an accruals basis***

The Slovenian authorities explained that their system for collecting VAT had changed in 2004. Previously about 80% of VAT had been collected when goods were imported into Slovenia and 20% collected later when the goods were sold to non-exempt purchasers. Following accession to the EU, this ratio had reversed – 80% of VAT is now collected when goods are sold to non-exempt purchasers, and only 20% at the border. Eurostat agreed to provide advice to the Slovenian authorities on the recording of VAT collected at the border and the appropriate recording for a change in the collection system.

*Following the meeting, Eurostat informed the Slovenian authorities that such a permanent change in collection systems should appear in the revenue data series, with no specific adjustment to be introduced in the Slovenian case.*

### ***iv) Amounts unlikely to be collected***

The Slovenian authorities currently use an assessment method to record VAT, profit taxes and social contributions on an accruals basis. An assessment of the amounts unlikely to be collected is recorded for social contributions, using a factor of 0.2% relating to a study of 1998/99. The Slovenian authorities agreed to provide Eurostat with a note explaining their proposals for possible changes to recording of amounts unlikely to be collected across all of the taxes and social contributions, taking into account the most recent data available.

*Following the meeting, the Slovenian authorities informed Eurostat that they have received more information back to the year 2000 and have therefore made further improvements to the calculations of the coefficients of amounts unlikely to be collected for certain major categories of taxes.*

## **7) Review of compliance with Eurostat decisions**

### **i) Capital Injections**

The discussion here focused on the conversion of claims into equity. The Slovenian authorities provided a list of all companies in which a conversion of claims into equity had taken place, indicating which companies had since become bankrupt.

Following a discussion of the contents of the table, it was concluded that the same approach should be applied to past equity conversions as to new cases, and this should be done on a company-by-company basis. The Slovenian authorities agreed to examine each of the cases and, after examining available information on company accounts, to decide if the conversion to equity had been undertaken “acting in the same capacity as private shareholder” (according to the Eurostat Decision on capital injections) or if it had the characteristics of a capital transfer. The Slovenian authorities will send to Eurostat a new version of the table with transactions classified as capital transfers highlighted.



*Following the meeting, the Slovenian authorities provided Eurostat with a table of proposed changes to the classification of certain injections. Eurostat agreed and these were implemented in the end-March 2006 EDP notification.*

The Slovenian authorities described the case of Slovenske Zelazarne, where some explanatory information had been sent to Eurostat. Eurostat encouraged the Slovenian authorities to investigate if the 2005 accounts of Slovenske Zelezarne showed a profit and/or if a study of the value of the company had been undertaken in advance of privatisation. In the light of this information, Eurostat would then provide a view.

*Following the meeting, the Slovenian authorities provided further information on Slovenske Zelezarne which showed the company was profitable in 2005, and therefore Eurostat considered the matter closed.*

## **ii) PPPs**

There has been only one PPP operation in Slovenia to date.

## **iii) Securitisations**

There have been no securitisation operations undertaken by the Slovenian government and none are planned.

## **iv) EU transfers**

The Slovenian authorities indicated that they are following the Eurostat guidance on Pre-Accession aid. However there is no adjustment in the "bridge table" for converting other cash-based EU flows onto a proper basis, in line with the Eurostat Decision on EU transfers. The Slovenian authorities agreed to introduce, in the bridge table and in the end-March 2006 notification, appropriate adjustments to EU transfer data so that they follow the Eurostat Decision (i.e. no impact of flows relating to EU transfers to third parties passing through the government budget) and also to properly reflect the timing of contributions to the EU budget.

*Following the meeting, the Slovenian authorities introduced appropriate adjustments in the end-March 2006 EDP notification for these flows.*

## **v) Pension Schemes**

The Slovenian authorities explained that the Capital Fund has two functions; one is to provide funds to Pension Insurance Fund which is classified within general government and the other is to manage (private) pension schemes of the "second pillar". The Capital Fund as an institutional unit is classified within general government, but the pension schemes it manages are classified outside general government.

## **vi) Military Expenditure**

The Slovenian authorities explained that they already introduce an accruals adjustment for military expenditure. This is based on data collected from the survey on GFCF (see agenda point 3 above) and a special agreement with the Ministry of Defence ensures that

these data are delivered in good time. The GFCF figures are based on deliveries of military equipment.

## **vii) Guarantees**

The Slovenian authorities provided two tables which illustrated the calls on guarantees by company in the 1996-2005 period. These tables showed that some guarantees were called systematically, whereas other guarantees were called once or twice (generally in the context of restructuring and privatisation).

The Slovenian authorities agreed to check the sector classification of Tam Maribor through the 1990s and 2000s, and to report their findings to Eurostat.

*Following the mission, the Slovenian authorities confirmed that TAM Maribor has been in liquidation since 1995.*

Eurostat agreed to reflect on the information on guarantees provided by the Slovenian authorities and to write with its view of the appropriate classification of the guarantee calls, taking into account advice given to other countries.

*Following the meeting, the Slovenian authorities provided further information on guarantees to Eurostat. Eurostat advised that repeated calls on a guarantee over three successive years should lead (in the third year) to the entirety of the remaining guarantee being treated as if called. The Slovenian authorities took account of this advice in their end-March 2006 EDP notification.*

## **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 provided some background documents.

There was a brief discussion on swaps. Eurostat noted that the B9 and EDP B9 measures for Slovenia had been different in the latest Table 2 dataset, and this indicated the presence of swap operations. However the Slovenian authorities explained that there have been no swap operations in relation to government debt to date, and that the difference between B9 and EDP B9 was an error which will be corrected in the next data transmission. *Following the meeting, the error was resolved in the next data transmission.*

## **Annex – list of participants in the meeting**

The participants in the meeting were as follows:

Slovenian Statistical Office: Andrej Flajs, Karmen Hren

Slovenian Finance Ministry: Stane Vencelj, Stanislava Zadavec, Eva Kriznik, Barbara Knapic

Slovenian Central Bank: Dusan Murn, Stasa Petrovic

EUROSTAT: Eduardo Barredo, Javier Sobrino, John Verrinder

DG ECFIN: Alain Morisset, Mateja Peternej

ECB: Julia Catz