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Luxembourg,

FINAL FINDINGS

EDP dialogue visit to Estonia

20-21 January 2015

Executive Summary

An EDP dialogue visit to Statistics Estonia (SE) took place on 20-21 January 2015.

The main objectives of the dialogue visit were: to discuss statistical capacity issues, to review the existing practices in general government sector delimitation with a focus on a number of specific entities, to discuss issues concerning the recording of taxes, social contributions and interest and to examine the recording of specific government transactions.

Eurostat reviewed the **institutional responsibilities** with respect to the reporting of data under government finance statistics and EDP. Eurostat briefly discussed with the Estonian statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the developments since the latest EDP dialogue visit, which took place on 27-28 of February 2013. As far as the division of responsibilities is concerned, there have been no changes compared to the previous EDP visit: in Estonia, the national accounts for the general government sector, both financial and non-financial (annual and quarterly) are compiled by Statistics Estonia (SE). Currently, there is no signed or otherwise formalised co-operation agreement between the institutions involved in the EDP compilation process. Eurostat welcomed the good cooperation between these institutions, nevertheless recommended SE to formalise their co-operation by signing a Memorandum of understanding with the National Central Bank of Estonia. Eurostat also recommended to SE to work more closely and establish a formal exchange of information on EDP related issues with the Estonian Court of Audit.

Eurostat discussed with the Estonian statistical authorities the **revision policy** for national accounts and some other aspects related to the implementation of **new data sources and methods** in the context of ESA 2010. Eurostat extensively discussed with SE the changes due to the implementation of the new cash working balance and to a new improved information system. Regarding the **revision policy** for national accounts, SE informed Eurostat that the revision policy of GFS, EDP and national and financial accounts has been nationally arranged with the National Central Bank, which implies a more restrictive policy regarding the publication of financial and non-financial accounts by the two institutions.

Regarding the **EDP Inventory** of the methods, procedures and sources used to compile actual deficit and debt, Eurostat discussed with the Estonian statistical authorities possible improvements to the existing version and further steps in order to update the current version in line with ESA 2010 template.

As a **follow-up of the EDP dialogue visit** of 27-28 February 2013, Eurostat welcomed the implementation of all resulting action points and discussed the state-of-play of the action points with a continuous deadline.

The analysis of EDP tables - follow-up of the October 2014 EDP reporting - focussed on the data provided by SE for the October 2014 EDP Notification and mainly on technical issues related to trade credits, the B9 of other central government units, the calculation of B9 at sub-sector level as well as on other accounts receivable and payable (F8).

The discussions on methodological issues focussed mainly on the delimitation of the government sector, the implementation of the accrual principle, as well as on the recording of specific government transactions.

Concerning the **delimitation of the general government sector**, Eurostat discussed the changes in sector classification due to entry into force of ESA 2010, the practical implementation of the market/non-market test as well as the classification of companies in liquidation.

Particular attention was also given to the analysis of government controlled units classified outside general government, notably to some entities having results near or under the 50% threshold of the market-non-market test.

Furthermore, the classification of specific units such as the Financial Supervision Authority, the Guarantee Fund, the Estonian Development Fund, the Estonian Oil Stockpiling Agency, KredEx and Estonian Air was also analysed. Eurostat discussed with the Estonian authorities the current **classification of units involved in financial intermediation,** such as the Financial Supervision Authority and the Guarantee Fund. Due to the complexity of the aspects involved, Eurostat agreed with the Estonian authorities, that further analysis of these entities should be undertaken in the context of the recent MGDD[1] updates, focussing in particular on the autonomy of decision and on the effective decision making process of these entities. It was also agreed that Statistics Estonia will analyse the current situation of the Guarantee Fund in the light of ESA 2010 and provide a note to Eurostat on their analysis and on the appropriate classification of the unit.

Eurostat and the Estonian statistical authorities reviewed the **implementation of the accrual principle** for taxes and social contributions.

The recording of specific government transactions such as capital injections in public corporations, public private partnerships, guarantees, disposal of non-financial assets, carbon trading rights and Energy Support Scheme were also discussed.

In addition, SE raised Eurostat's attention on the accounting implication of a forthcoming cross border project in relation to Rail Baltic involving Estonia, Latvia and Lithuania.

Eurostat appreciated the openness and transparency demonstrated by the Estonian statistical authorities during the meeting and the extensive documentation provided prior to the visit.

[1] MGDD – The ESA2010 Manual on government deficit and debt

Final Findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Estonia on 20 and 21 January 2015.

The delegation of Eurostat was headed by Ms. Lena Frej Ohlsson, Head of the Excessive Deficit Procedure I Unit. Eurostat was also represented by Mr Luca Ascoli, Ms Camelia Jüttner and Mr Denis Besnard. The Estonian authorities were represented by Statistics Estonia (SE), the Ministry of Finance (MoF), the National Central Bank (NCB) and the State Shared Services Centre (SSSC).

Eurostat carried out this EDP dialogue visit in order to review the implementation of the ESA2010 methodology and to ensure that rules of the ESA2010 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Estonian Excessive Deficit Procedure (EDP) and Government Finance Statistics (GFS) data.

The main objectives of the dialogue visit were: to discuss statistical capacity issues, to review the existing practices in general government sector delimitation with a focus on a number of specific classification decisions, to discuss issues concerning the recording of taxes, social contributions and interest and to examine the recording of specific government transactions.

In relation to procedural arrangements, Eurostat explained that, in accordance with Article 11(4) of Regulation 479/2009, as amended, within days, the Main conclusions and action points would be sent to the Estonian statistical authorities, which may provide comments. Within weeks, the Provisional findings would be sent to the Estonian statistical authorities in draft form for their review. After amendments, the Final findings will be sent to the Economic and Financial Committee (EFC) and published on Eurostat's website.

Eurostat thanked SE for the comprehensive documentation provided prior to the visit and for the transparency and co-operation demonstrated during the meeting.

1. STATISTICAL CAPACITY ISSUES

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

1.1.1. Institutional cooperation and EDP processes

Introduction

The compilation and quality of the EDP tables, for the four years reported, are under the full responsibility of SE; the Ministry of Finance (MoF) is in charge of the planned data for year T. Currently, there are no signed or otherwise formalised co-operation agreements between the institutions involved in the EDP compilation process. Nevertheless, specific topics of common concern are discussed in the framework of adhoc working groups involving SE, the Central Government Accounting Department of the State Shared Services Centre (SSSC), the MoF and the National Central Bank (NCB).

Discussions and methodological analysis

Statistics Estonia confirmed that there have been no changes regarding institutional responsibilities since the last EDP dialogue visit in February 2013.

Eurostat asked about the progress undertaken regarding the preparation of a Memorandum of Understanding between SE and NCB, recalling that, during the February 2013 visit, it was agreed with SE that the co-operation between the institutions would be formalized by the end of 2013[2]. SE explained that there were several discussions at top management level on the content of the memorandum and that technical preparations for its drafting have already started, but no signing has yet been scheduled.

Nevertheless, since the last EDP dialogue visit in February 2013 some further cooperation arrangements have been established between SE and the Bank of Estonia in the field of financial accounts: SE is participating in the regular validation meetings of quarterly sectoral accounts (MUFA) as a provider of data on general government sector.

Regarding the staffing arrangements for EDP, SE confirmed that there were no changes since the last EDP visit. A team of four persons led by a deputy head of unit works directly on government finance statistics, while two persons are specialised on EDP issues: one dealing with financial accounts and one with non-financial accounts of general government. Input from other experts, working mainly in national accounts, is also used for GFS. There are no additional resources foreseen in this domain for the near future but there are some flexible arrangements which would allow that in case of heavy work load, some staff from other departments could be given some work during a certain period of time. Regarding the existence of a back-up system, SE confirmed that they are working on implementing a functioning back-up system by way of sharing the knowledge among the staff.

Findings and conclusions

<u>*Action Point* 1</u>: SE will inform Eurostat about the state of play of the development of a memorandum of understanding with the NBC. *Deadline: when available*

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[2] The discussions referred to the action point 1 of the February 2013 EDP visit : "Eurostat took note of well-functioning current co-operation between SE, the NCB and the MoF and welcomed the forthcoming signature of a memorandum of understanding on GFS between SE and the MoF which will formalise this co-operation. *Deadline: by the end of 2013".*

1.1.2. Quality management framework

Introduction

There are no changes in the quality management framework and the audit and internal control arrangements as compared to the information already provided in the 2013 EDP Inventory.

Discussions and methodological analysis

During the discussions, Eurostat recalled that upstream issues are now integrated in the regular EDP dialogue visits and thus there will be no more separate Upstream Dialogue Visits. In this context, Eurostat requested more detailed information on the risks due to missing data flows which may result in necessary information never reaching SE , such as data on extra-budgetary accounts and information on accruals. SE stated that there is a good flow of data between upstream providers, and that there are no problems in this respect. Regarding potential risks due to the use of non-harmonized public accounting systems by entities at the various government levels, SE confirmed that there are no such risks. Regarding access to the financial reports, SE confirmed that although there are no formal arrangements in place between the institutions involved in EDP compilation, SE has access to the Public Sector Financial Statements' information system.

Findings and conclusions

Eurostat took note of the explanations provided by SE.

1.1.3. Audit and internal control arrangements

Introduction

The financial statements of all the units included in the general government sector are audited. Financial statements of all state budgetary units, as well as the consolidated annual report of the State, are audited by the National Audit Office of Estonia (Riigikontroll). The accounts of the National Audit Office of Estonia itself are audited by independent auditors appointed by the Parliament.

Discussions and methodological analysis

The auditing process covers all the information provided in the financial statement of the units and the results of the audit are part of the approved financial statement. The financial statements have to be submitted to the Business Register. Most of the units are also publishing the financial reports on their web-pages. Eurostat asked further questions regarding internal audit controls. SE confirmed that there are such controls but not in the case of small local government units. Eurostat recommended to SE to work more closely on quality issues with the National Audit Office. Eurostat also pointed out that the co-operation between National Statistical Institutes and National Audit Offices is already established in several countries, showing very fruitful results.

Findings and conclusions

Action Point 2: Eurostat invited SE to establish a formal exchange of information on EDP related issues with the Estonian Court of Audit.

1.2. Data sources, revision policy

1.2.1. Calculation and recent improvements of the new cash working balance

Introduction

During the April and October 2014 clarification rounds, Eurostat extensively discussed with SE the changes due to the implementation of the new cash working balance and of a new improved information system. For the April 2014 Notification, a mixed working balance was used by SE due to the fact that a reliable cash based working balance was not available at that moment for the Central Government subsector. Therefore, the cash based working balance was substituted with the best estimate based on the accrual data. The estimated figures were calculated based on the accrual claims and liabilities in the Public Sector Financial Statements (PSFS), except for tax revenues, where a time adjusted cash based approach was used. Nevertheless, for the October 2014 EDP Notification, a cash based working balance was used again.

Discussions and methodological analysis

In the context of the EDP visit, SE sent an extensive note providing detailed explanations on the newly introduced changes and their impact on the EDP figures. SE explained that the changes only impacted the State Budget accounts and therefore referred only to the cash working balance in EDP table 2A. The only change regarding the working balance in table 2C is due to the fact that the local government budget execution report is collected and presented in a new form, much shorter and more aggregated than in the past. In this context, Eurostat further investigated whether the fact that the local government data is presented now in a more aggregated and shorter form really constitutes an advantage. SE recognised that, indeed, this is not an improvement, because for some transactions and operations at local government level it will be more difficult to have details and that the benefits of the changes refer mainly to the State budget working balance.

Eurostat further discussed with the Estonian Authorities the improvements of the new working balance, and mainly to the fact that all financial accounting activities of state units are centralised into a single information system. In order to implement this project, a State Shared Service Centre (SSSC) was created at the beginning of 2013. The main task of the SSSC is to organise the state accounting, establishing the necessary standards and providing financial reporting to the state units. The service is also responsible for the development and maintenance of the common financial reporting software and the integration of financial reporting of state units into the common software. In this context, Eurostat asked whether SE was involved in this project or whether a concrete cooperation existed between SE and the SSSC. SE explained that it was not involved in the development of the standards and the implementation of the new system, but that nevertheless SE will benefit in the future from the more detailed and comprehensive reporting system. At the end of 2014, around two thirds of the State units (141 out of 206) had joined the common financial reporting software. The rest of the units should be fully integrated by the end of 2015.

The main benefits of implementing the common financial reporting software refer mainly to: (1) the introduction of unified classification codes both for expenditure and revenue items; in the old system, codes could be added only to expenditure items; (2) the introduction of counterpart codes which will make possible the creation of a consolidated budget reporting and (3) the fact that the budget execution and accounting are directly linked. In the previous e-Treasury system, the link between financial reporting systems of State units and the budget reports was less comprehensive and therefore different classification codes could be used in different systems for the same transaction. SE concluded that the main advantages of the new system would consist in more detailed information on transactions which will possibly improve, in the future, the quality of the consolidation process and will allow a better validation of data due to the possibility of cross checking different transactions. SE pointed also out that the improvements will have a concrete positive impact on the EDP deficit/debt figures in the future, when SE will be able to adapt its IT system in order to capture this new detailed information.

Regarding the working balance for the April 2015 Notification, it was confirmed by SE that is expected that a cash report will be available and therefore the situation should improve compared to the previous EDP notifications. In this context, Eurostat mentioned that during the October 2014 EDP notification, there was a significant correction of errors which was explained by SE as being caused by re-calibration of the coding process. Therefore, Eurostat asked whether these errors in the coding process were due to the changes in the coding system due to the implementation of the new working balance. It was explained that this kind of errors was not linked to the above mentioned implementation, but are due to the normal process of codes updating, a process which sometimes is susceptible to errors.

Findings and conclusions

Eurostat took note of the explanations provided by SE.

1.2.2. Changes in data sources and revision policy

Introduction

The data sources for EDP remain the same as extensively described in the EDP Inventory. Thus, all government entities publish monthly accrual accounts based on financial statements at M+35 days. Some units are providing consolidated accounts. At local level, one local government unit may include all its units (schools, cultural centres etc.). The working balances for the S.13 subsectors are drawn from the budget execution reports. For financial transactions, only very aggregated information is available for central government. For the working balance, cash reporting is used while, for the calculation of B9 and B9f, accrual based reporting is used. The information from financial statements is complemented by receipt reports (cash) from the Tax and Customs Board.

Discussions and methodological analysis

SE sent prior to the mission, an explanatory note concerning the revision policy. The revision policy of GFS, EDP, national and financial accounts has been nationally arranged with the National Central Bank, which is the main provider of balance of payments statistics. Since the implementation of ESA2010 and BoP6 in September 2014, all statistical revisions are co-ordinated between Statistics Estonia and the National Central Bank. New changes were introduced recently, but these changes have effect only on quarterly data releases. For the annual data releases, the new revision policy is more restrictive than the common European revision policy. In substance, the revision policy has not changed in recent years for the annual national and financial accounts domains, as well as for GFS and EDP. Financial and non-financial accounts of the general government sector should be revised according to the same timetable. During the discussion, Eurostat asked additional questions on what is meant with a more restrictive revision policy. SE explained that this mainly refers to more restrictive timetables regarding the publication of financial and non-financial accounts, which should be synchronised between Statistics Estonia and the National Central Bank.

1.2.3. EDP inventory

Introduction

SE has provided a very good version of the EDP Inventory, including an extensive description of EDP processes, sources and compilation methods.

Discussions and methodological analysis

The current Estonian EDP Inventory published on Eurostat's website doesn't include the changes introduced by ESA 2010. Therefore, Eurostat recalled the need to revise the current version of the EDP Inventory and agreed with SE upon a time schedule in order to update the EDP Inventory in line with the ESA 2010 template, with the objective to publish a new version by the end of 2015. In this context, Eurostat proposed to SE to add also additional information on some issues, mainly on the recent improvements of the new cash working balance and to elaborate more some parts in order to make the comprehension of the EDP Inventory more user friendly.

Findings and conclusions

<u>Action point 3</u>*:* SE will provide a new version of the EDP inventory on sources and methods including ESA 2010 updates and other changes agreed during the meeting in order to be able to publish the final version by the end of 2015. *Deadline: draft to be sent to Eurostat by the end of June 2015.*

2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF 20-21 FEBRUARY 2013

Introduction

All the action points agreed during the EDP dialogue visit of 20-21 February 2013 have been implemented in time by the Estonian statistical authorities. Due to the fact that several action points from the February 2013 visit had “continuous” deadlines, Eurostat further discussed with SE the state-of-play of their implementation.

Discussions and methodological analysis

Eurostat asked about any progress regarding backwards revisions[3], as well as the steps taken towards a better identification of other accounts receivable and other accounts payable related to the purchase of military equipment[4]. Eurostat pointed out that, as

[3] The discussion referred to action point 4 of the February 2013 EDP visit: "SE should ensure that sizeable revisions for the years t-4, t-3 and t-2 are already included in the 1st biannual notifications (instead of the 2nd) even if this would possibly cause temporary discrepancies with the GFS tables. *Deadline: from the April 2013 notification onwards".*

[4] The discussion referred to action point 11 of the February 2013 EDP visit: "SE will contact the Ministry of Defence in order to find a suitable way to identify other accounts receivable and other accounts payable related to the purchase of military equipment. *Deadline: the October 2013 notification".*

already discussed with SE, it seems that there are no late payments regarding military expenditure and that all the amounts related to military expenditure refer just to pre-payments, which are recorded currently under other receivables. SE confirmed that, in the past, there was a misunderstanding regarding the existence of trade credits linked to military expenditure. Eurostat pointed out that there is still some information in the EDP inventory mentioning the existence of trade credits; therefore, in order to avoid misinterpretation, the information provided in the EDP Inventory on military expenditure should be updated accordingly[5]. Eurostat added that, additionally to the above mentioned action points from the 2013 EDP visit, there was still a pending action point on the classification of units[6] from the 2011 EDP visit, notably on the market / non-market test for all individual units. In this context, Eurostat asked about the market test performed by SE for all the units, including details on how the market test was performed in the context of ESA 2010.

Findings and conclusions

Eurostat took note of the explanations provided by SE and of the progress made regarding the implementation of previous EDP action points.

3. FOLLOW-UP OF THE OCTOBER 2014 EDP REPORTING - ANALYSIS OF EDP TABLES

Introduction

The discussion focussed on the figures provided by SE in the EDP tables and in the Questionnaire related to EDP tables for the October 2014 Notification, concentrating mainly on technical issues related to trade credits, the B9 of other central government units, the calculation of B9 at sub-sector level, as well as on other accounts receivable and payable (F8).

Discussion and methodological analysis

3.1. Trade credits

Eurostat asked whether its decision of 31 July 2012 on trade credits relating to factoring without recourse was fully implemented in Estonia. SE confirmed that, for the moment, there are no such cases reported, but this is probably also due to the fact that counterpart sector information is not available. Eurostat further inquired about the completeness of trade credit figures at local government level. As the reporting of local units changed recently, Eurostat asked more details on whether these changes impacted the access to information on trade credits. SE confirmed that, despite the more synthetic way of reporting of local units, this didn't affect the access to data on trade credits. Eurostat asked also whether the amount of trade credits provided in the table 4 is consolidated or not. SE agreed to check the figures and further inform Eurostat on this issue.

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5 The information to be updated referred to the part: *"Based on the information available the major way of financing the acquisition of the military equipment is trade credits."*

6 The discussion referred to action point 5 of the July 2011 EDP visit: "*As far as the issue of classification of units according to ESA2010 is concerned, SE will perform also in future the market / nonmarket test for all individual units and not on the basis of NACE groups, for those companies which are owned by government and have been classified in S.11. The results of the first of such tests in terms of ESA 2010 will be sent to Eurostat*".

3.2. B9 of other central government units

Eurostat discussed with SE some consolidation issues concerning other central government units. Other central government units are subdivided into 4 categories and include: (1) Public-legal institutions (universities, public media, National Library etc.); (2) Foundations (non-profit institutions); (3) Hospitals and (4) Enterprises.

The B9 of these entities is not calculated for the individual entities but for the four groups of entities mentioned above. Eurostat noticed that, sometimes, the revisions of B9 of these entities are significant between the notifications. During the April 2014 EDP Notification it was explained by SE that, as the central government units consists of a number of units, and the balance for each individual unit is not compiled individually, it is difficult to know the reasons behind the revisions. Eurostat enquired how it would be possible to check more in detail at individual level, that the B9 of individual units is reliable and correct, notably in case the revisions are significant. SE explained that, despite the fact that the B9 is calculated at group level, in case the revisions are significant, further investigations are taking place, including verification of the figures at individual level.

3.3. Calculation of B9 at sub-sector level

Regarding the calculation/allocation of sub-subsector B9 figures, SE explained that 'estimation' of B9 by sub-subsector is only performed for the EDP notification and that different data sources need to be used. Because of the different data sources and consolidation, there may be differences between the financial and non-financial accounts. Whereas B.9 for general government and the subsectors as a whole are correct, there are occasionally problems to calculate the precise B.9 at sub-sub-sector level. Due to lack of resources at SE, it is currently not possible to compile individual national accounts at the different sub-sub-sector levels. Only the transactions as capital transfers, social contributions, etc., are calculated on sub-sub-sector basis. In this context, Eurostat asked why the subsidies are compiled using different processing methodology as for capital transfers and calculated only at sub-sector level. In Eurostat's view, there were lots of similarities in treatment between capital transfers and subsidies. SE explained that in Estonia, subsidies refer just to transfers from units inside general government towards units outside general government. All the subsidies between units included in the general government sector are considered as current transfers and not as subsidies.

Information about sub-sub-sector level transactions derived from various sources - compilation files of statisticians and information extracted from source-data with specific query. SE explained that in the compilation process, the sub-sub-sectors S.13111 and S.13131 are so-called residual sectors. These residual figures are included in the line "other adjustments" in EDP table 2 and represent the difference between sub-sector figures and the sum of other sub-sub-sectors figures which cannot be explained.

3.4. Other accounts receivable and payable

During the last EDP visit in 2013, the reconciliation of EDP tables 2 and 3 had been extensively discussed with SE. In a note sent prior to the mission, SE explained the reasons why reconciliation between tables is so difficult, mainly due to the different data sources and differences between cash-based and accrual data. Therefore, adjustments need to be done in EDP table 2. Because of the different levels of aggregation in the PSFS, SE explained that it is difficult to make the appropriate adjustments. In this context, Eurostat asked whether SE expect improvements regarding the reconciliation of other accounts receivable and payable due to the changes introduced in the new working balance. SE explained that the new changes could potentially improve this reconciliation process in the future but only after SE will be able to adapt its IT system, in order to capture this new detailed information.

Findings and conclusions

Action Point 4: Eurostat invited SE to further investigate the counterpart information for trade credits in relation to banks, in order to decide on the appropriate nature of the transactions. *Deadline: End of June 2015*

Action Point 5: SE will verify if data for trade credits provided in EDP table 4 are consolidated. *Deadline: End of March 2015*[7]

Action Point 6: SE will move in EDP table 2A the line "non-financial capital transfers" and "capital injections-financial transactions classified as capital transfers" under the line "other adjustments" instead of "other accounts payable". *Deadline: End of March 2015*[8]

4. Methodological issues and recording of specific government transactions

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

4.1.1. Practical implementation of the market/non-market test in the context of ESA 2010

Introduction

The delimitation of general government and the practical implementation of the market/non-market test are exhaustively described in the EDP Inventory. On the basis of the information provided in the EDP Inventory, Eurostat asked further clarifications on the concrete application of the 50% test for some specific units as well as for units in liquidation.

Discussion and methodological analysis

Eurostat welcomed the detailed information provided by SE in the EDP Inventory on different aspects regarding the delimitation of general government. In this context, Eurostat required further information regarding the application of the 50% test, notably due to the fact that in the EDP Inventory it was indicated that every single unit is tested, with the exception of one large company in the domain of power engineering where only the consolidated financial statements for the whole group are compiled. Eurostat investigated why the 50% test is not performed also for subsidiaries. Eurostat reiterated that, according to the MGDD rules, the 50% test should be performed for all subsidiaries and those entities which are not fulfilling the 50% criteria should be reclassified inside general government. SE confirmed that there is just one company in Estonia having subsidiaries, AS Eesti Energia and agreed to analyse the accounts of all its subsidiaries in order to check if each of these units comply with the 50% test.

[7] Action point implemented within the deadline.

[8] Action point implemented within the deadline.

Regarding the criteria used for sector classification of new units, Eurostat pointed out, that in the EDP Inventory it is mentioned that the legal status of the unit indicates its sector classification, unless the NACE and/or some additional information stipulate it differently. Therefore, taking into account their legal status and the NACE category, the enterprises assuming to be profitable are classified by default outside the general government sector. Newly created non-profit institutions are usually classified inside the government sector. Eurostat mentioned during the discussions that, indeed, the NACE codes could provide some indication of the possible classification, but there are also some other aspects which should be taken into consideration when classifying a new created unit, as for example its business plan.

Eurostat further discussed with SE the situation of companies in liquidation. As explained by SE in a document sent prior to the mission, when public companies have been liquidated, in most cases SE has been informed. The liquidations have happened only in case of small companies. The main reasons for liquidation were caused by:

1) Merger of several companies.

2) Liquidation due to the cessation of main activities.

3) Liquidation due to the own capital falling below required level.

4) Bankruptcy.

The bankruptcy cases have been rare. SE has investigated two cases and in both cases the liabilities of the company involved were very small. SE confirmed that the companies in liquidation have not been reclassified to the government sector during the liquidation process. The main reason for this treatment is that until now, the units involved have been very small; in most cases the assets and also liabilities of each company were well below 1 MEUR and, additionally, finding out about the liquidation processes before the actual liquidation would require regular revision of business registers, which would imply a significant amount of work. Eurostat pointed out that the statistical treatment of units in liquidation was discussed in December 2014 during the Financial Accounts Working Group (FAWG) where it was proposed that units under liquidation could be reclassified in the government sector already during the liquidation process. Nevertheless, until a final decision will be taken, Eurostat considered that the current treatment could continue to be applied in Estonia..

Regarding negative net interest charge in the 50% test, SE informed Eurostat that, for the period 2010-2013, there has been 32 public sector units outside the government sector which had a negative net interest charge, including 6 units classified in the S.12 sector. SE provided, prior to the visit, a list including all the units concerned by the negative interest charge. SE further explained that there have been only four units where the net interest charges have been higher than the other expenditures included in the 50% test. All of those units, including also the Bank of Estonia, are in the S.12 sector and therefore were not concerned by the 50% test. For the units classified in the S.11 sector, the negative net interest charge applies usually if the unit doesn't have any loan liabilities, but has either investments in securities or deposits. Nevertheless, during the discussions, SE confirmed that the inclusion of the net interest charges in the 50% test didn't affect the sector classification of any of the units, due to the fact that they are negligible or small in comparison with other expenditures. Eurostat recalled, that in December 2014 during the FAWG, two options were proposed by Eurostat regarding the treatment of the negative net interest charge. One option would consist in setting the net interest charge to zero and a second option would consist in leaving the value negative.. Eurostat concluded that there will be further discussions on the options to be applied in the recording in the framework of the next working groups.

Findings and conclusions

<u>Action Point 7</u>: SE will analyse the accounts of the subsidiaries of AS Eesti Energia in order to check if each of these units complies with the 50% test. *Deadline: End of March 2015*[9]

4.1.2. Changes in sector classification resulting from the introduction of ESA 2010

Introduction

In the explanatory note sent to Eurostat together with the October 2014 Notification, SE explained that the number of units reclassified in the context of the ESA2010 implementation was limited. The reclassification affected mostly the local government sector, S.1313. The reclassified units were also quite small in size.

Discussion and methodological analysis

During the discussions, Eurostat questioned the impact on the fiscal indicators due to reclassifications. Eurostat pointed out that in the questionnaire provided by the Estonian Authorities regarding the delimitation of general government in the context of ESA 2010 implementation, 23 units were reclassified, mainly due to qualitative criteria or to the 50% criterion. One single unit was reclassified due to the public control criteria. Eurostat asked what exactly was behind this reclassification and SE explained that the unit referred to a kindergarten which was under public control.

Eurostat concluded that, due to the changes introduced by ESA 2010, some parts of the EDP Inventory should be updated accordingly. Mainly, it would be recommended to elaborate more on the control and the autonomy of decision criteria.. Eurostat also suggested introducing a paragraph in the EDP Inventory regarding captive financial institutions notably in the context of the reclassification of KredEx inside general government sector due to its features as captive financial institution.

4.1.3. Questionnaire on government controlled entities classified outside the general government sector and Questionnaire on implementation of ESA 2010 general government delimitation

Introduction

Prior to the mission, SE had provided a new updated version of the Questionnaire on government controlled entities classified outside the general government sector, including information on the liabilities of these units as well as on the controlling subsector and the market-non-market test of the units having liabilities higher then 0,01% of GDP.

9 Action point implemented within the deadline.

Discussion and methodological analysis

During the discussions, Eurostat enquired whether the list of units in the questionnaire was exhaustive, and included all the units at central and local government sector. Eurostat stressed that the exhaustiveness of the questionnaire is very important due to the fact that the questionnaire should be used for the compilation of the data to be published in February 2015 on contingent liabilities, as required by Council Directive 2011/85 on the collection and dissemination of fiscal data. Eurostat pointed out that, while analysing the 50% test results of some companies, some results were quite different between the current version of the questionnaire and the previous one. SE noticed that indeed the last version provided was not correct due to some technical problems and agreed to provide an updated one.

Regarding the liabilities of public corporation, Eurostat noticed that there were very few companies recording losses. The majority of the units included in the questionnaire were classified in S11, with just two units included in S12 and one in S15. Eurostat focussed also on some specific companies, asking more detailed information on the market test as well as why for some subsidiaries of AS Eesti Energia, the market test was not available.

Findings and conclusions

Action Point 8: SE will provide Eurostat with the complete list of units to be included in the questionnaire of government controlled units classified outside government. *Deadline: 26th January 2015*[10]

Action Point 9: SE will provide the list of the results of the 50% test for the latest three years for all public units and not only for those included at present in the questionnaire of government controlled units classified outside government. This will be a one off exercise. *Deadline: End of March 2015*[11]

4.1.4. Discussion of specific cases

Financial Supervision Authority (*Finantsinspektsioon*)

Introduction

Prior to the mission, SE had sent to Eurostat a note on the sector classification of the Financial Supervision Authority, including a detailed analysis of its activities, financing, sources of revenues as well as on the control and autonomy of decision criteria. The Financial Supervision Authority (SPA) is a financial supervision institution with a separate budget and operates in the framework of the National Central Bank. SPA undertakes supervision activities in the name of the State but acts independently. Its activities are regulated by the Financial Supervision Authority Act. The objective of the Financial Supervision Authority is to ensure the stability and quality of services of the companies providing financial services and thereby promote the reliability of the Estonian monetary system. The supervision activities of the SPA are divided into two areas and are focussed on market and services supervision as well as on prudential supervision. The Supervisory Board of the SPA prepares the activities and oversees its management.

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[10] Action point implemented within the deadline.

[11] Action point implemented within the deadline.

Discussion and methodological analysis

During the discussions, Eurostat focussed on aspects linked to the autonomy of decision of the Authority. The composition of the supervisory board as well as the voting procedure has been further discussed with SE. SE recalled that the board was composed by six members, among which the Minister of Finance and the Governor of the National Central Bank. The other four members were appointed and removed by Government and by the Board of the Bank of Estonia (two members by each institution). The resolutions of the supervisory board are adopted if at least four members vote in favour. The Management Board manages the daily work of the SPA and acts as a collective management body taking decisions on a majority vote basis. Each member of the Management Board has its areas of responsibility.. Regarding its financing, SE confirmed that the expenses of the SPA are covered from supervision fees paid by the units which are supervised, as well as from administrative fees and other sources. The annual report of SPA is approved by the supervisory board and audited by the NCB of Estonia. The annual report of SPA is also submitted to the Parliament together with the report of NCB.

SE explained that due to the fact that SPA has its own source of income and budget and a separate annual report, the unit could be considered as a separate institutional unit and therefore could perhaps remain classified into the subsector of financial auxiliaries (S.126). Eurostat pointed out that, as a result of the ESA 2010 implementation, additional attention should be given to the aspect of the autonomy of decision and mainly to the aspect of the actual decision making process analysing whether the entity is effectively able to take decisions regarding the fees to be paid by the supervised entities and other relevant decisions in case of financial crisis. It was agreed that SE will further analysed this aspects in order to determine the appropriate classification of the unit in the light of ESA 2010.

Additionally Eurostat pointed out that it should be assessed whether the payments made to the Financial Supervision Authority by the financial institutions, notably whether these payments should be considered as fees or as taxes. SE agreed to further analyse the nature of these payments and notably whether the amounts collected are only used to cover the cost of supervisory and regulatory actions. In case such payments would be considered as taxes, they should be re-routed through general government.

Findings and conclusions

<u>*Action Point 10:*</u> SE and Eurostat will analyse the appropriate classification of the Financial Supervisory Authority focussing in particular on its autonomy of decision and on the effective decision making process of the entity. *Deadline: Note from SE to be sent to Eurostat by 15 of February 2015*[12]

<u>*Action Point 11:*</u> SE and Eurostat will analyse whether the fees paid by financial institution to the Financial Supervisory Authority have the nature of taxes and therefore should be re-routed through general government. *Deadline: End of March 2015*[13]

[12] Action point implemented within the deadline.

[13] Action point implemented within the deadline.

Estonian Guarantee Fund

Introduction

Prior to the mission, SE provided Eurostat with an extensive note on the sector classification of the Estonian Guarantee Fund, including a detailed analysis of its activities, financing and organisation. The overall objective of the fund is to increase the reliability and stability of the financial sector by guaranteeing the protection of funds held by depositors, investors, unit-holders and policy holders of mandatory funded pensions. In order to achieve these objects, the Fund collects single and quarterly contributions from credit institutions, investment institutions and management companies of mandatory pension funds, in order to be able, in case of financial crisis, to compensate depositors for deposits placed in problematic credit institutions. The fund is established by the Guarantee Fund Act1 and its statutes are approved and amended by Government. Currently, the Guarantee Fund is classified in the financial corporations' sector (S.12).

Discussion and methodological analysis

During the discussions, Eurostat pointed out that there were still some open issues regarding the correct classification of the fund which should be further considered. Notably, Eurostat insisted on aspects as the autonomy of decision of the unit, whether the unit is effectively independent or rather an autopilot unit limited in its decisions and mainly implementing government policy. SE reaffirmed that several aspects were taken into consideration while analysing the autonomy of decision of the unit, namely the composition of the supervisory board, the financing of the unit and the decision process. Regarding the board composition, there are nine members in the supervisory board, appointed by several institutions: two by Parliament, one by the Government, one by the President of the NCB of Estonia, one by the Financial Supervision Authority and four other members by the financial institutions, whose activities are guaranteed by the Fund. A resolution of the supervisory board is adopted if more than half of the members of the board who participate in the voting, but not less than five members, vote in favour. Each member has one vote and in case of equal division of votes, the vote of the chairman is decisive. The chairman of the supervisory board is elected by the members of the board. Taking into account the composition of the board, where six out of the nine board members are representatives of institutions classified in S.12 as well as the decision process, SE concluded that there is no clear evidence that the government had a determined power in the decision process of the unit, due to the fact that none of the three representatives of government had veto rights

Regarding the financing, SE stated that the fund is financed by (1) contributions received by the Fund from the financial institutions (2) fines for delayed payables and (3) income from investing the contributions and other assets of the sectoral fund. The quarterly contribution rates are established by the supervisory board of the Fund. The financial charges are similar for all the participants contributing into the same sectoral fund. Contribution rates are applied on the amounts of the assets guaranteed by the specific sectoral fund and the maximum threshold of these charges is established by the Guarantee Fund Act.

The operating expenses of the Fund are divided into expenses of each sectoral fund and the general expenses of the Fund. Separate accounts are kept for the expenses of each sectoral fund and the general expenses of the Fund. In case the assets of a sectoral fund are not sufficient to fulfil its obligations, the Fund may, based on the decision of the supervisory board, take loans from credit institutions or from another sectoral fund. The money used out of another sectoral fund and the interest to be paid are determined by the supervisory board. If the resources still remain insufficient to cover the obligations, the supervisory board may apply for state loan or for a state guarantee for a loan.

Eurostat argued that the fact that government is the payer of last resort for financial resources in the form of loans or guarantee in case the Guarantee Fund would not have sufficient resources, shows the risk that government would incur in case of financial crisis. Additionally, Eurostat pointed also out that the Guarantee Fund Act is setting a very narrow framework to the activities of the Guarantee Fund, leaving little room of manoeuvre for independent decisions. Eurostat further questioned whether the fund was already activated since its creation in order to better see how the decision processes run practically. Eurostat also asked whether the fund was already activated since its creation. SE confirmed that so far the Deposit Guarantee Fund has never been activated.

Eurostat concluded that additional analysis should be performed by SE in order to determine the correct classification of the Fund, further considering the criteria of government control and aspects related to the autonomy of decision.

Findings and conclusions

<u>*Action Point 12:*</u> SE and Eurostat will analyse the classification of the Guarantee Fund, which has the nature of an autopilot entity which does not control its resources. *Deadline: Note from SE to be sent to Eurostat by 15 of February 2015*[14]

Estonian Development Fund

Introduction

The Estonian Development Fund (EDF) was created in 2006 as a government supported venture capital investor aiming to contribute to the economic development. The main objective of EDF is to stimulate and support changes in the Estonian economy, ensuring the growth in exports and the creation of new jobs requiring high qualification. The Development Fund supports innovation awareness, the emergence of innovative business ideas and the growth of entrepreneurship, mainly by helping to find financing support for newly created and/or innovative companies. The fund does not provide grants but loans, requiring a minimum rate of return on its investments. The fund has autonomy of decision concerning the selection of companies in which to invest. In 2011, EDF was reorganised so that the activities directly associated with new investments were transferred to a subsidiary of EDF named AS SmartCap. Currently, EDF as well as AS SmartCap are classified in S12.

[14] Action point implemented within the deadline.

Discussion and methodological analysis

In the context of the restructuring of EDF and the creation of SmartCap, Eurostat further questioned the appropriate classification of the Fund. It was stressed that, already during the EDP visit in 2013, a possible reclassification of the unit was discussed. Eurostat pointed out that several aspects stipulated in the Estonian Development Fund Act showed that the autonomy of decision of the fund is very limited. The discussions focussed on the board composition and the financing of the Fund. Eurostat pointed out that the supervisory board is composed by 9 members, out of which 7 members are appointed by the Government of Estonia (2 members) and by the Parliament (5 members). This composition illustrates the government influence on EDF decisions. Eurostat mentioned also that the financing of the fund was mainly done by government through State budget allocation or transfer of assets for specific purposes, as stipulated in the Act § 28. Additionally, EDF shall use its assets only for the purposes stipulated in the Fund Act. Eurostat questioned also why the operating expenses of the Fund are covered by the State budget, and whether the Fund already borrowed money from the markets. SE confirmed that, for the moment, the fund didn't borrow money from the market but receives resources mainly from the State budget.

Eurostat further discussed the situation of the newly created company, SmartCap. The company is investing into early-stage innovative Estonian start-ups with high growth potential. EDF is the main shareholder of the company. In 2011, government undertook a capital injection in SmartCap. The operation was recorded as a financial transaction. In this context, Eurostat asked whether further acquisitions in shares took place since 2011 or were planned to take place, and whether there was a legal act stating the relation between EDF and SmartCap. SE confirmed that there had been no additional acquisition in shares by government since 2011. Regarding the existence of a legal act stating the decision process, SE specified that they were not aware of such an act. EDF is also shareholder of other 16 companies where the Fund is strongly involved in the decision making process, having a veto right on the main important decisions. Taking into account all these aspects, it was agreed that, the Fund was mainly acting in order to fulfil public policy purposes and functions under the rigid framework of the legal statute of the Estonian Development Fund Act. As a result, EDF and SmartCap should be reclassified inside general government sector. The companies where EDF is a shareholder should be considered as public companies controlled by government and classified inside general government just in case they don't fulfil the market criteria.

Findings and conclusions

<u>*Action Point 13:*</u> The Estonian Development Fund will be reclassified inside general government given its nature of a captive financial entity controlled by government. *Deadline: End of March 2015*[15]

<u>*Action Point 14:*</u> The companies where the Estonian Development Fund (EDF) is a shareholder should be considered as public companies controlled by government, independently of the share of ownership by EDF, given the extended veto rights of EDF in such companies. *Deadline: End of March 2015*[16]

15 Action point implemented within the deadline.

16 Action point implemented within the deadline.

Action Point 15: ES Smart Cap will be reclassified inside general government given its nature of ancillary unit. *Deadline: End of March 2015*[17]

Estonian Oil Stockpiling Agency

Introduction

In the context of the publication of the Eurostat Guidance Note on Central Stockholding Entities, SE reanalysed the classification of the Estonian Oil Stockpiling Agency and decided to reclassify the unit inside general government due to the fact that the unit is 100% owned by the Ministry of Economic Affairs and Communication and is thereby controlled by S.13 sector.

Discussion and methodological analysis

During the discussion, SE pointed out that the reclassification of the unit requires further analysis in order to ensure consistency with supply-use tables, GFS and Balance of Payments statistics. The Balance of payment statistics was affected due to the fact that a large part of the stockpile was held outside Estonia. According to the co-ordinated national revision policy in Estonia, the revisions should be consistent in national accounts, balance of payments and GFS statistics. In order to keep this consistency, SE reaffirmed that the earliest date for carrying out the reclassification of the unit was the October 2015 EDP notification. Eurostat asked whether SE had already estimated the impact on deficit and debt due to the reclassification of the unit. SE affirmed that there will be no impact on the debt figures due to the fact that the unit didn't take any loan or issued any security. The impact on government deficit should be minor, having a positive impact in some years and negative impact in others. Eurostat agreed therefore with the timetable proposed by SE.

Findings and conclusions

Action Point 16: SE will reclassify the Oil Stockholding Agency inside general government from the October 2015 Notification. Eurostat took note that the impact on deficit and debt figures is negligible. *Deadline: October 2015 Notification*

KredEx

Introduction

KredEx had been reclassified into the general government sector (S13) as a result of the analysis carried out in the EDP dialogue visit in 2013. Nevertheless, there were still some open issues regarding the recording of the grants from the EU budget to KredEx. In its advice letter from July 2014, Eurostat proposed, in accordance with the general principles of recording of EU grants, that the revenue from EU grants to KredEx should be recorded at the point at which the funds were used through the call of guarantees or non-repayment of loans to KredEx. Regarding the cash grants provided from the EU budget to KredEx, Eurostat advised to record them as EU advance payments and to treat them as financial advances (AF. 8) payable.

[17] Action point implemented within the deadline.

Discussion and methodological analysis

During the October 2014 Notification, SE explained that the Eurostat proposed recording of EU grants had a quite large effect on the results of KredEx for the years 2011 and 2012, when KredEx had to return part of the grants received from EU budget. In the financial statements, those amounts were recorded as revenues in the corresponding years, affecting the net-lending /net borrowing positively. After a detailed analysis and the implementation of Eurostat's advice those figures were excluded from the revenue and therefore the effect on B.9 was more negative than it had been estimated previously. Eurostat asked whether these changes were visible in the EDP tables or EDP questionnaire for the October 2014 Notification. SE explained that the changes related to the recording of EU grants could not be observed in the figures provided in the notification tables; nevertheless, SE confirmed that the recording applied was conform to Eurostat's recommendation provided in the ex-ante advice letter.

Findings and conclusions

Eurostat took note on the implementation of the recording of EU grants to KredEx in accordance with the recommendation provided by Eurostat.

Estonian Air

Introduction

In 2010, the Estonian government became the majority shareholder of Estonian Air (90% of the shares). Due to the fact that the company is loss-making since 2006, a restructuring process was put in place in 2011. After the acquisition of the majority of the shares, the government made a capital injection into the company for an amount of 17.9 MEUR in 2010 and 30 MEUR in 2011 in order to restore the stock capital of the company. Both injections were recorded as capital transfers (D.9) in government sector accounts. In 2012, it was agreed, that government will provide a rescue loan to the company in order to support restructuring.

Discussion and methodological analysis

The discussion mainly focussed on the recording of the loans provided by government to the company in 2013. Eurostat was pointing out that, after analysing the accounts of the company for the last two years, the company was still recording losses and therefore the probability that the loans provided by government to the company would be repaid back remained low. In this context, Eurostat questioned whether these loans provided by government should still remain recorded as financial transactions. SE explained that Estonian Air had been paying interest on the loans to government but indeed there had been no repayments of the principal. SE also informed Eurostat that the government was trying to privatise the company and that, in the context of a potential future privatisation, discussions were taken place on the possible provision of an additional loan or an equity injection into the company. Eurostat asked for more information about the restructuring plan of the company, as well as on the future plans of privatisation of the company. It was agreed that, due to the uncertainty of such plans, SE will inform Eurostat about a possible privatisation or capital injection when such information would be available. In addition, SE communicated to Eurostat that there had been official discussions at the end of 2014 about a possible write off of the loan provided to the Estonian Air by government. After further investigations in January 2015, SE confirmed that a debt cancellation towards Estonian Air was decided by the government in December 2014.

Findings and conclusions

Action Point 17: A debt cancellation from government will be recorded in the context of the loans provided by government to Estonian Air in 2013. The debt cancellation will be recorded in the fourth quarter of 2014. *Deadline: End of March 2015*

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

Introduction

The EDP Inventory provides extensive information on the recording of taxes and the methods used for calculating taxes and social contributions.

Discussion and methodological analysis

Eurostat pointed out that, despite the detailed information provided in the EDP Inventory on taxes, availability of data sources and methods used, there were still some issues which were not fully clear. Regarding the simple time adjustment with one month time lag used for the most significant taxes, it was explained in the EDP Inventory that, under the current method of recording, the total amount of the tax receipts contains both the tax revenues and the reimbursements made in the same period. However, if reimbursement exceeds the average share of the tax receipts, then, the tax is recorded by estimation on the basis of the average reimbursement share. Eurostat proposed to revise this explanation and provide more comprehensive details regarding the calculation of estimates. SE agreed to extend the current explanation which was too synthetic and agreed also to provide more details on how the adjustments were done. Eurostat also pointed out that there was some inconsistency in the information provided in the EDP Inventory regarding non-payable tax credits. Although, The EDP inventory mentions the existence of tax credits, in the questionnaire on taxes and social contribution[18] there were no such schemes mentioned. SE confirmed that the information provided in the questionnaire was correct and therefore the EDP inventory would be modified accordingly. Regarding tax amnesties, it was also confirmed by SE that there had been no tax amnesties in Estonia. Regarding possible changes in taxes and social contributions recording due to the ESA 2010 implementation, SE confirmed that there were no such changes undertaken or foreseen.

Findings and conclusions

Eurostat took note that the part of the EDP Inventory related to taxes and social contribution will be updated.

4.2.2. Accrued interest, consolidation

Introduction

Prior to the mission, SE sent to Eurostat a table on the recording of general government interest expenditure. In the past, there had been some recording issues due to the fact that the amounts recorded in EDP table 2 for accrual adjustments and the amounts recorded in ESA table 2 were not fully in line with those recorded in EDP tables 3.

[18] The questionnaire on taxes and social contribution is a questionnaire provided to Eurostat each year by all Member States including extended information on taxes and social contribution.

Discussion and methodological analysis

Eurostat discussed with SE some technical issues related to the figures provided in the table, sent prior to the mission, on the recording of general government interest expenditure. As explained by SE, information on interest expenditure is provided in PSFS and interest expenditure is recorded.

Eurostat raised questions on some inconsistencies between the figures in EDP table 2 and the figures provided in the table prior to the mission, namely referring to the sign convention. Eurostat asked also for further explanations on how interest paid–accrued for local government is calculated, taking into account that, in the documentation sent prior to the mission, it was mentioned that no information on the cash amounts for local government was available due to the fact that the budget execution report had been changed. In this context, Eurostat asked also for some information related to the adjustments done in EDP table 3 regarding interest, notably for local government.

In the past, there had been a problem with distinguishing between interest revenue and revaluations for the social security sector, SE confirmed that these issues had been solved in the meantime and currently there is no problem to distinguish between interest revenue and revaluations for general government sector.

Findings and conclusions

Eurostat took note of the explanations provided by SE.

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

SE confirmed that in Estonia there have been no operations relating to the financial crisis and no such operations were foreseen for the next future. Estonia participates in the European Financial Stability Facility since 2012.

4.3.2. Capital injections in public corporations, dividends, privatisations

Discussion and methodological analysis

SE confirmed that, apart from Estonian Air possible capital injections, there were no other such operations undertaken or planned to take place.

Regarding dividends, SE provided, prior to the visit, the results of the super dividend test performed for all public companies for the year 2013. The super dividend test is carried out for all dividends paid, once per year in September. Nevertheless, due to the work-load linked to the ESA 2010 implementation for the October 2014 EDP notification, the super-dividend test was carried out only for large dividends (exceeding 5 MEUR). However, the test covering all public companies was carried out again at the end of 2014. Since the amounts recorded as super dividends were marginal, SE proposed to implement the correction into GFS figures just for the April 2015 notification. SE reconfirmed that if dividends exceed the operating profit of the corporation a financial transaction is recorded but, as seen in the super dividend test, such cases are rare and, when existing, concern very small amounts. SE also confirmed that the super dividend test is always performed in September and that, for the October notification the amounts of dividends paid to government as well as the super-dividend test were considered to be final. The super-dividend test was also performed for the dividends received by government from the National Central Bank.

4.3.3. Public Private Partnerships

Introduction

There are currently two on-going PPP projects in Estonia related to the renovation of Tallinn schools. Both PPPs are classified off government balance sheet. The main reason for this is off balance is that the private partner takes the majority of the risks, mainly the construction and availability risks. SE confirmed, prior to the mission, that there have been no changes in the contracts and in the conditions of these projects.

Discussion and methodological analysis

SE explained that, in case of new PPP projects, SE is normally consulted already in the planning phase. Nevertheless, information about the planning of local government PPP projects is not so easily accessible for SE. Eurostat further questioned possible ways to improve SE access to information regarding new PPPs at local governmental level, pointing out that there are press articles mentioning the existence of some PPP's projects at local level. SE explained, that in the press, the terminology used is not very precise, therefore some concessions projects are considered as PPP's.

Eurostat also asked about two other projects which were discussed in depth during the EDP dialogue visit to Estonia in 2011, associated with the construction of Tallinn prison and the construction of a stretch of the E263 motorway. These two planned PPP projects were discussed at length during the February 2013 EDP visit. At that time, SE sent to Eurostat amended versions of the PPP contracts concerning the Tallinn prison and the construction of the E263 motorway for which Eurostat provided its view, advising a classification off government balance sheet. SE confirmed that none of those projects has moved further from the planning phase, nevertheless SE agreed to inform Eurostat in case new information on PPPs is available.

Findings and conclusions

Action point 18: SE will improve the monitoring of PPP projects at the level of local government. *Deadline: Progress report by October 2015 Notification*

4.3.4. Derivatives: Swap cancellations, Off-market swaps, Options

In Estonia there are no such operations.

4.3.5. Guarantees

Introduction

The major unit providing guarantees in Estonia is the Ministry of Finance (MoF), which is issuing one-off guarantees for other central government units and public sector enterprises as well as standardised guarantees for student loans. The majority of one-off loans were provided to units which are classified inside the general government sector. In addition to the standardised guarantees provided by MoF, one State foundation classified in the central government sector is providing standardised guarantees for housing loans and for specific loans for enterprises.

Discussion and methodological analysis

Eurostat pointed out that, as shown in EDP questionnaire table 9.3, the impact of guarantees on B9 is very small. Eurostat further asked what exactly was included under the standardised guarantees in EDP questionnaire table 9.4. SE confirmed that the standardised guarantees included here refer to student loan guarantees and to guarantees provided by KredEx such as housing loans and/or special loans for enterprises.

Regarding the estimation of the AF.66 liability, SE explained that provisions from public accounts are used.

4.3.6. Debt assumptions, debt cancellations, debt write-offs and foreign claims

SE confirmed that there had been no debt assumptions or debt write-offs.

As described under point 4.1.4 regarding Estonian Air, a debt cancellation from government should be recorded in the context of the loans provided by government to Estonian Air in 2013.

4.3.7. UMTS

No issue.

4.3.8. Disposal of non-financial assets by general government

Prior to the mission, SE sent to Eurostat a table offering a clear overview on the disposal of non-financial assets by general government. Eurostat further questioned to what exactly relate the disposal of land to households. SE explained that this operation relates to some housing projects.

4.3.9. Re-routing of transactions, assets and liabilities through government accounts

No issue.

4.3.10. Carbon trading rights

Introduction

The revenue recorded from the sale of carbon trading rights (AAUs) represented around 1% of GDP in 2010 and 2011. The related expenditure was recorded in 2012. As explained by SE, the proceeds of the sales of the AAUs should be used in the coming years for environmentally friendly investments such as the renovation of buildings and electric vehicles.

Discussion and methodological analysis

In the note sent prior to the mission, SE explained that a time lag of one year is used in the recording of revenues issued from the sale of carbon trading rights, so although the trading started in 2013 Q1, the revenues were reported starting from first quarter of 2014. Eurostat questioned during the discussions whether the recording described by SE was in accordance with the chapter VI.5.2 from the MGDD, which provides guidance for the calculation of tax revenue from emission permits as well as on the time of recording. SE explained that data on revenues from the sales of carbon trading rights is provided to

Statistics Estonia by the Ministry of Environment on a quarterly basis. These figures are not public at the time Statistics Estonia receives it. The data received by SE are aggregated, so that no individual transactions can be identified. It was therefore difficult to estimate the correct amount of surrendered permits, notably in the case of the permits of domestic origin. As regarding the recording, it was agreed that the revenue received from sales of permits should be classified as D.29 and recorded in the year of surrender of the permits.

Action point 19: Eurostat takes note that the current recording of emission trading permits is not in line with the treatment set in the MGDD. The recording should be revised accordingly. *Deadline: End of March 2015*[19]

4.3.11. Others: EU flows, military expenditure, securitisation and pension issues

No issue

5. OTHER ISSUES

5.1. ESA2010 Transmission Programme relating to the GFS tables

Discussion and methodological analysis

Eurostat welcomed the efforts of SE in order to implement in time ESA2010. Nevertheless, Eurostat also pointed out that further efforts are needed in order to provide the historical EDP data according to ESA 2010.

Findings and conclusions

Action point 20: SE will send to Eurostat historical EDP tables in line with ESA2010. *Deadline: End of March 2015*

5.2. Any other business.

Introduction

Eurostat raised the issue of the renewable Energy Support Scheme. The renewable Energy Support Scheme is set up in § 59 of the Electricity Market Act in order to promote the use of renewable energy sources, make the energy sector more efficient, and to ensure the security of domestic supply and capacity. A financial support is paid for the electricity generated from renewable sources. The cost of financing is passed on to consumers in the form of a renewable energy charge.

In addition to the discussion on renewable Energy Support Scheme, SE informed Eurostat about a forthcoming cross border project in relation to Rail Baltic, involving Estonia, Latvia and Lithuania.

[19] The implementation of action point 19 was further discussed during the April 2015 notification. Eurostat agreed on the current recording of carbon trading rights.

Discussion and methodological analysis

Eurostat pointed out, after analysing the answers provided by SE in the questionnaire on energy schemes[20], that there are still some open questions related to the appropriate classification of these fees. It seems that the renewable energy charge is a fee through which electricity consumers finance support for renewable energy. The renewable energy charge is paid by all consumers in Estonia in proportion to their consumption of network services. The renewable energy charge is listed separately on electricity bills, so that electricity consumers can see exactly how much is paid to support renewable energy. The VAT is additionally added to the renewable energy charge. Eurostat questioned whether these fees should not be recorded as taxes (and be rerouted) rather than as fees. Due to the fact that this fee is imposed (charged) to customers as a legal obligation and determined by government, Eurostat considered that it had more the nature of a tax. SE considered that despite the fact that this charged is imposed, the whole scheme had the character of a support measure in order to lead the market in the desired direction. SE showed that similar measures exist for other markets too: medical supplies, heating, water supply etc. and none of these revenues are rerouted through the government sector. Therefore the scheme affecting the pricing of electricity shouldn't be treated differently.

Additionally, SE presented some details on the forthcoming cross border project Rail Baltic, the rail infrastructure project which is supposed to link Finland, the Baltic States and Poland and also improve the connection between Central and Northern Europe and Germany.

The project should be financed by the Member States concerned and by the European Union TEN-T budget (approximatively 124 million euro) as well as by the Structural and Cohesion Funds. The total cost is just roughly estimated and the financial contribution of Estonia to this project was still not determined. Therefore, SE agreed to inform Eurostat on the development of this project and to discuss further the possible impact on the Estonian government public finances, when more details would become available.

Findings and conclusions

Action point 21: Eurostat took note of the forthcoming cross border project in relation to Rail Baltic involving Estonia, Latvia and Lithuania. SE will prepare a descriptive note on the project and keep Eurostat informed about its future development. *Deadline: End of June 2015*

[20] The questionnaire on energy schemes was sent by Eurostat to all Member States in order to have an overview of the implementation of such scheme in the EU.

Draft Agenda

(1) Statistical capacity issues

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

1.2. Data sources and revision policy

1.2.1. Calculation and recent improvements of the new cash working balance

1.2.2. Changes in data sources and revision policy

1.2.3. EDP inventory

(2) Follow-up of the EDP dialogue visit of 27-28 February 2013

(3) Follow-up of the October 2014 EDP reporting – analysis of EDP tables

3.1. EDP tables

3.2. B9 of other central government units

3.3. Calculation of B9 at sub-sector level

3.4. Other accounts receivable and payable

(4) Methodological issues and recording of specific government transactions

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

4.1.1. Practical implementation of the market/non-market test in the context of ESA 2010

4.1.2. Changes in sector classification resulting from the introduction of ESA 2010

4.1.3. Questionnaire on government controlled entities classified outside the general government sector and Questionnaire on implementation of ESA 2010 general government delimitation

4.1.4. Discussion of specific cases

- Financial Supervision Authority (*Finantsinspektsioon*)
- Deposit Guarantee Fund
- Estonian Development Fund
- Stock Oil Agency
- KredEx
- Estonian Air

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest

4.3. Recording of specific government transactions

4.3.1. Government transactions in the context of the financial crisis

4.3.2. Capital injections in public corporations, dividends, privatization

4.3.3. Public Private Partnerships and concessions

4.3.4. Financial derivatives

4.3.5. Guarantees

4.3.6. Debt assumptions, debt cancellations and debt write-offs

4.3.7. UMTS

4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations

4.3.9. Re-routing of transactions, assets and liabilities through government accounts

4.3.10. Carbon trading rights

4.3.11. Others: EU flows, military expenditure, securitisation and pension issues

4.4. Important issues for year 2014 relevant for the April 2015 EDP Notification

(5) <u>Other issues</u>

5.1. ESA2010 Transmission Programme relating to the GFS tables

5.2. Any other business

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