



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality
Unit D-2: Excessive deficit procedure (EDP) 1

Luxembourg, 1 September 2016

FINAL FINDINGS

EDP STANDARD DIALOGUE VISIT TO THE SLOVAK REPUBLIC

8–9 December 2015

Executive summary

An EDP standard dialogue visit to Slovakia took place on 8 – 9 December 2015 in order to review the implementation of the ESA 2010 methodology and to ensure that the provisions of the ESA 2010 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and appropriately recorded in the Slovak EDP notifications and Government Finance Statistics (GFS).

Eurostat reviewed the institutional arrangements in the context of EDP reporting and the data sources used for the compilation of Government Finance Statistics. Eurostat took note of the existing institutional arrangements in Slovakia. Eurostat discuss the reporting of data according to Council Directive 2011/85 and some improvements were agreed. It was also agreed that the Slovak Statistical Office and Eurostat will co-operate to finalise the new ESA 2010 EDP inventory.

Eurostat congratulated the Slovak statistical authorities for the timely implementation of the action points agreed during the previous EDP dialogue visit that took place on 28-29 November 2013.

Eurostat required some clarifications from the October 2015 EDP notification. It was agreed that some technical improvements in the reporting of some information (extra-budgetary accounts, foreign claims and interest) will be implemented in future notifications. More detailed information on the revision of the 2014 EU financial corrections was provided by Slovak statistical authorities.

As regards the delimitation of general government, a detailed discussion took place on the nature of the government payments towards ZSSK, the sector classification of the newly established Resolution Council was agreed, a detailed analysis of the activities and management structure of the public financial unit SZRB was made in the light of the new ESA 2010 and a discussion on the implications of the fund (SIH) set up to allocate EFSI repayable financial instruments took place. The discussion continued with the sector classification of the Deposit Protection Fund and there was an agreement that based on the available information its current classification outside government is correct.

The model and procedure used to estimate, before cash data is known, Corporate Income Tax settlements, was reviewed in order to see if there is room for improvement. Revisions in 2014 were higher than usual because of some legislative changes whose impact is not easy to estimate beforehand.

Some other issues were also discussed such as super dividends, capital injections, guarantees, military equipment expenditure, CO2 emission permits and PPPs .

Eurostat welcomed the transparent, well-structured and comprehensive approach by the Slovak statistical authorities to the EDP related work. Eurostat appreciated also the documentation provided by the Slovak statistical authorities prior to and during the EDP dialogue visit.

0. 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 (EDP), Eurostat carried out an EDP dialogue visit to the Slovak Republic on 8-9 December 2015.

The delegation of Eurostat was headed by Ms. Lena Frej Ohlsson, Head of Eurostat Unit D-2 - Excessive Deficit Procedure I. Eurostat was also represented by Mr Luca Ascoli, Ms Madeleine Mahovsky and Mr Luis Biedma. The Directorate General for Economic and Financial Affairs (DG ECFIN) and European Central Bank (ECB) also participated in the meeting as observer. The Slovak authorities were represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Central Bank (CB). Representatives from the Ministry of Transport and Slovenská Zárúčná a Rozvojová Banka, a. s. (SRZB) also participated in some parts of the meeting.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology and to ensure that provisions of the ESA 2010 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Slovak EDP and GFS data.

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

Eurostat welcomed the openness and transparency demonstrated by the Slovak statistical authorities during the meeting and the documentation provided before the EDP standard dialogue visit.

1. STATISTICAL CAPACITY ISSUES

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and GFS compilation

Introduction

During the previous EDP dialogue visit, Eurostat noted the good co-operation among the institutions involved in the compilation of government finance statistics. Eurostat asked about any changes in the existing arrangements.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that there were no changes in the organisation of the co-operation among the institutions – NSI, MoF and NCB since the previous visit. The co-operation is established at three different levels: working level, middle management level and senior management level. A Memorandum of Understanding signed in 2013 between the three institutions clarifies the responsibilities of each institution. The NSI has full access to compile non-financial and financial accounts for the government sector from the source data available. Eurostat enquired about the responsibility for the debt figures in table 1 of the EDP notification, which according to the Slovak EDP Inventory corresponds to the MoF. The Slovak statistical authorities explained that the MoF plays an important role in compiling debt figures but that the validation and full responsibility for debt figures rely in the NSI.

The Council for Budgetary Responsibility (CBR) receives also information from the NSI but it does not have any responsibility for EDP purposes, it only plays an external role. The NSI follows a Total Quality Management approach (ISO 9001) and does not consider necessary to involve the CBR to certify the quality of the process. The NSI has approached in the past the national Court of Auditors to formalise and strengthen the co-operation between the institutions but no concrete steps have been taken. This situation might change once a new president of the CoA is appointed.

The NSI informed Eurostat that no changes in the number and composition of the human resources devoted to the EDP and GFS processes have taken place since the last visit and that they are considered adequate. Eurostat emphasized the importance of sufficient staffing in the area of EDP and GFS in order to ensure a good quality of the reported data, and in particular in the light of the recent European legislation, imposing new data requirements on Member States.

Findings and conclusions

Eurostat took note of the well-established cooperation between the institutions involved in the reporting of government finance statistics – the NSI, the MoF and the NCB.

Action Point 1. The Slovak statistical authorities will correct in the EDP Inventory the information on which institution is responsible for actual debt of Table 1 of the EDP notification, indicating that the National Statistical Institute is fully responsible and not the Ministry of Finance, as it is currently stated.

Action Point 2. The Slovak statistical authorities will send to Eurostat the Memorandum of Understanding in the field of EDP statistics signed in 2013 between the National

Statistical Institute, the National Central Bank and the Ministry of Finance. Deadline: *End December 2015*¹.

1.2. Data sources and revision policy

Introduction

There have not been significant changes in the data sources used. The State Treasury is the provider of data for central government, social security funds and budgetary organisations of higher territorial units and their subsidised organisations included in local government. The Data Centrum is the source data provider for the local government budgetary and subsidised organisations of municipalities, which are also included in local government.

Discussion and methodological analysis

Eurostat enquired about the sources used for units recently reclassified inside the general government sector and previously classified as non-financial corporations. The Slovak statistical authorities explained that, when a unit is reclassified inside government by the NSI they have to introduce changes in their reporting system in order to comply with budgetary laws. This creates some problems for the units at the beginning, as they have to change their IT systems and understand the budgetary codes, which differ from commercial accounting practices. The MoF provides assistance and guidance to the units. Regarding data for previous periods, the NSI uses the accounting statements available, which are less detailed than the budgetary rules, but they allow calculating the most important national accounts concepts.

Before the visit the Slovak statistical authorities had provided a bridge table between budgetary codes and national accounts variables. The statistical office is in charge of the bridge table. The budgetary codes allow separating between financial and non-financial transactions. In some cases some budgetary codes are split into more than one non-financial transaction (for example, between D.7 and D.9), using estimated keys. While it does not have an impact on B.9 Eurostat recalled that the keys used should be periodically reviewed.

Regarding the revision policy, the Slovak Statistical authorities explained that in the general framework of national accounts, a benchmark revision takes place every five years. For EDP, the revision policy is driven by availability of data sources. Except for methodological changes the data is considered as final for the notification of year T in October T+2. The revision between April T+2 and October T+2 are quite small; while between April T+1 and October T+1 the revision is more substantial. Revisions are mainly due to final cash figures replacing estimates of tax settlements.

1.3. Compliance with Council Directive 2011/85

Introduction

The Council Directive requires the publication of:

¹ A paper version of the Memorandum was handed over to Eurostat at the end of the meeting.

(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:

- monthly for central government, state government and social security sub-sectors, before the end of the following month, and
- quarterly for the local government sub-sector, before the end of the following quarter;
- Information on contingent liabilities including government guarantees, non-performing loans and liabilities stemming from the operation of public corporations as well as information on the participation of general government in the capital of private and public corporations.

Discussion and methodological analysis

Concerning government contingent liabilities Eurostat explained that it started to issue a press release showing the figures for all EU countries in February 2015 and is planning to continue to do it annually. The press release raised a lot of attention from users. Slovakia is the EU country with the lowest contingent liabilities, in percentage of GDP, in the EU. Eurostat raised some questions about the data reported to Eurostat. One issue refers to the reporting of non-performing loans as L. The Slovak statistical authorities informed Eurostat that, albeit involving very small amounts, there are some non-performing loans. Another issue was the difference observed between the information on liabilities of public corporations published nationally and the figures that can be calculated from the Questionnaire on Public corporations, as well as the number of units.

Eurostat also asked for further information on the coverage of the monthly cash data for central government. The Slovak statistical authorities clarified that they included all central government, including public companies classified inside government, but that the coverage was not uniform across all periods, but only whenever the companies started to report monthly budgetary figures. This created some instability on the time series. Eurostat enquired about the availability of the breakdown of expenditure and revenue by main categories.

Findings and conclusions

Action Point 3. The Slovak statistical authorities will confirm the reasons for the differences for the values of liabilities and the number of units of government controlled entities classified outside government between the data reported in the public corporations questionnaire sent to Eurostat by the National Statistical Institute and the national publication of the Ministry of Finance. *Deadline: 15 January 2016*².

Action Point 4. The Slovak statistical authorities will improve the metadata associated to the national publication of central government monthly cash data, by indicating the changes in coverage for specific units and in which month the change took place. *Deadline: End February 2016*³.

² Some explanations were provided by e-mail on 12 January 2016. The MoF figures use a wider definition of liabilities than the Maastricht debt used by the NSI and the MoF figures include liabilities of private companies in which the government holds a participation in the capital, according to its share in the capital.

³ Completed.

Action Point 5. Eurostat invited the Slovak statistical authorities to publish, in addition to total revenue and expenditure, the breakdown by major category of the quarterly cash data for Local government. *Deadline: February 2016⁴.*

Action Point 6. The Slovak statistical authorities will confirm the amounts of government non-performing loans for 2013 and 2014 currently reported as L in the contingent liabilities questionnaire. *Deadline: 31 December 2015⁵.*

1.4. EDP Inventory

Introduction

Slovakia provided on first of December a draft version of the EDP Inventory according to the new template agreed for ESA 2010. Eurostat did not have time to review it before the visit.

Findings and conclusions

Action Point 7. Eurostat will provide its comments to the Slovak statistical authorities on the draft EDP Inventory provided on 1 December 2015. *Deadline: Eurostat comments by the end of February 2016 with the objective of publishing the EDP inventory before April 2016⁶.*

Action Point 8. The Slovak statistical authorities will send an updated version of the Questionnaire on hospitals to Eurostat, which is part of the EDP Inventory, reflecting the recent changes on the sector classification of public hospitals. *Deadline: End March 2016⁷.*

2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT (28-29 NOVEMBER 2013)

Introduction

All the action points agreed in the previous EDP dialogue visit on 28-29 November 2013 have been implemented by the Slovak statistical authorities. The Action Point 10⁸ is not closed as the Slovak statistical authorities assessed that they still need more time to analyse some problems with the data and IT system.

⁴ Completed.

⁵ Not completed.

⁶ Eurostat provided its comments on 07/03/2016. The EDP Inventory could not be finalised before the April 2016 notification.

⁷ Provided on 04/04/2016.

⁸ The Slovak statistical authorities will propose whether to change the present recording of VAT refunds to a new system based on its assessment of the accuracy and quality of the figures from January 2012 to June 2014. The SOSR and the Council for Budget Responsibility (CBR) should be involved in the assessment. The Slovak statistical authorities will communicate its proposal to Eurostat before a final decision is taken. *Deadline: 31 August 2014.*

Findings and conclusions

Eurostat congratulated the Slovak statistical authorities for implementing all the action points agreed during the previous Standard Dialogue Visit on 3-4 May 2012.

Action Point 9. The Slovak statistical authorities will keep Eurostat informed on the progress made to calculate VAT refunds based on VAT tax returns instead of the current methodology based on time adjusted VAT cash data.

3. ANALYSIS OF THE EDP TABLES – FOLLOW-UP OF THE OCTOBER 2015 EDP NOTIFICATION

Introduction

Under this point of the agenda, Eurostat asked for some improvements that could be implemented in future notifications. The revision for the year 2014 that took place in the October 2015 EDP notification in connection with more updated information on EU financial corrections was discussed in detail

Discussion and methodological analysis

Eurostat started by indicating that Slovakia is one of the countries that do not provide with the EDP notifications an explanatory note on significant changes implemented (like changes in sector classification) or providing some information on the revisions to previously reported figures. Eurostat explained how useful it is to have this information that avoids the inclusion of many questions in the EDP requests for clarification during the short period available for assessing the data.

Eurostat continued asking for more detailed information of the items included in the line of table 2A Extra budgetary accounts and state financial assets of the EDP notifications. They include some significant amounts and, while for the expenditure items they are reasonably detailed in the EDP inventory, this was not the case for revenue items. The Slovak statistical authorities explained that there were many transactions included in this account involving tax revenue (special levy on regulated industries), transactions of ARDAL and the privatisation fund, etc.

Eurostat required some clarifications on the reporting in EDP tables of foreign claims, accrued interest on them and debt forgiveness. The amounts of debt cancellation in Table 8 of the EDP related Questionnaire are not included in the lines of Table 2A of the EDP notification "Bad foreign claims" or "debt forgiveness" but are instead included in the line "Other adjustments". Before the visit, the Slovak Statistical authorities provided a comprehensive list of foreign claims and the amounts were reconciled with the figures included in the EDP tables. Eurostat questioned the practice to accrue interest on loans for which no repayment has been made in several years.

Eurostat required an explanation on how "Redemptions/repurchase of debt above (+) / below (-) nominal value" in Table 3B of the EDP notification are reported, as zeroes are currently reported. The Slovak statistical authorities could not provide an answer during the meeting.

Eurostat commented that the reporting of the new table 10.1A of the EDP related questionnaire did not seem very robust. Figures were changed substantially between

different deliveries in the 2015 EDP notification and some problems on its consistency with ESA tables had been discovered.

A lengthy discussion took place with representatives from the MoF dealing with EU funds in relation to the revision during the October 2015 EDP notification of the amounts of EU financial corrections that had been previously reported in April. While the financial corrections had been decided in 2014 (programmes to which it applied, rate of the correction, etc.), by April 2015, the MoF did not have the necessary information to know with certainty which will be the final financial impact and they have made a first calculation based on the available information. Further information was gathered after April from the Audit and management authorities dealing with EU flows that allowed a final calculation for the October EDP notification. There were special circumstances at the beginning of 2015 that created an unusual high amount of documentation to be processed due to the need to prepare reimbursement requests to be sent to the Commission which partly explain the difference between the initial and the final calculations. Eurostat confirmed that this practice was sound according to the accrual principle, that is to record first the estimated impact and revise later when the exact amounts are known.

Findings and conclusions

Action Point 10. Eurostat invites the Slovak statistical authorities to start providing, together with the EDP notification tables, an explanatory note highlighting the most important features and revisions of the notification tables and other relevant information. *Deadline: April 2016 EDP notification*⁹.

Action Point 11. The Slovak statistical authorities will include, in the explanatory note to be sent with the notification, the breakdown by main categories of the line extra budgetary accounts and state financial assets, as reported in EDP table 2A. *Deadline: April 2016 EDP notification*¹⁰.

Action Point 12. Eurostat recalls to the Slovak statistical authorities that, as regards interest accrued by government in the context of foreign loans to third countries, only the interest expected to be received should be included as government revenue. *Deadline: April 2016 EDP notification*¹¹.

Action Point 13. The Slovak statistical authorities will make additional efforts to improve the quality of Table 10.1A of the EDP related Questionnaire, ensuring its consistency with the figures reported in the financial accounts tables of the ESA 2010 transmission programme. *Deadline: April 2016 notification*¹².

Action Point 14. The Slovak statistical authorities will provide Eurostat with an explanation on how redemptions/repurchase of debt above (+) / below (-) nominal value

⁹ Implemented.

¹⁰ Implemented.

¹¹ Not implemented but the amounts are negligible (below 0.01% of GDP).

¹² Implemented.

in table 3B of the EDP notification are reported, as zeroes are currently reported in this line of table 3B. *Deadline: end March 2016*¹³.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government

4.1.1. Sector classification of specific units

Introduction

Under this agenda item the sector classification of the following units was discussed: Železničná spoločnosť Slovensko, a.s. (ZSSK), The Resolution Council, Slovenská záručná a rozvojová banka, a. s. (SZRB) and the Slovak Investment Holding (SIH).

Discussion and methodological analysis

ZSSK

ZSSK was established in 2005; it is fully owned by the Slovak government and it is a provider of public passenger transport railway services. The company receives from government regular capital injections and the main revenue is government payments under the concept "Compensation from Contract on Passenger Rail Transport Services". The payments are in line with the formula stipulated in Regulation (EC) No 1370/2007 of 23 October 2007. The payments are also received by a private unit also providing passenger transport railway services. During the visit, the technical details of the payment were discussed with representatives of the Ministry of Transport and ZSSK in order to decide if they should be considered a subsidy on products (D.31) or a subsidy on production (D.39). If they are considered as D.39, they should not be included for the calculation of market/non-market test and the unit will not meet the 50% threshold. The payment is calculated using the following mechanism:

Planned compensation = (planned services * payment parameters) – planned revenues + adequate profit

Planned services are mutually agreed between government and ZSSK and are linked to different parameters like coaches/wagons used, number of services on the lines etc. multiplied by the payment parameters agreed for particular planned services. In order to calculate the value of the final compensation, the value of the planned revenues is deducted. The formula includes also a reasonable profit for the company. At the beginning of the year the planned figures are used and subsequently the final settlement is reached after the end of the period (when every variable used in the formula is known).

After a lengthy exchange of views a common understanding between ZSSK representatives and Eurostat was not reached. ZSSK representatives stressed that they follow Regulation (EC) No 1370/2007 and considered that government paid exclusively

¹³ On 04/04/2016 the Slovak Statistical authorities explained that currently the amounts are included in the line Issuances above/below nominal value. The amounts will be reported in the line redemptions/repurchase of debt above (+) / below (-) nominal value from the October 2016 EDP notification.

on the basis of the services they provided. Eurostat explained that its role was not judging if Regulation (EC) No 1370/2007 was being respected. Eurostat role was to analyse the payments from the perspective of national accounts and considered that the payments are based on the costs incurred by the company independently of the number of passengers using the services provided by the company.

Resolution Council

The Resolution Council was established on 1 January 2015 as the national resolution authority in the Slovak Republic. The institutions that fall within the competence of the Council are credit institutions and those investment firms with a share capital of at least € 730.000. The Resolution Council is composed of nine members (4 from the NCB, 4 from the MoF and 1 from ARDAL (Debt and Liquidity Management Agency). The Chair of the Council is the State Secretary of the Ministry. The fund's financial means are held in an account within the NCB and do not constitute part of the government budget and the administrative tasks are performed by employees of the NCB on its premises. The fund is administered by the Deposit Protection Fund. The Slovak statistical authorities informed that, due to the clear control of the unit by government, it had been decided to classify it inside the government sector. The Slovak statistical authorities will obtain information from the NCB on the human and physical resources devoted to the Resolution Council in order to impute the amounts in the government accounts. Eurostat agreed with this decision.

SZRB

The Slovak statistical authorities had provided to Eurostat a note on the sector classification of SZRB. SZRB is a public financial unit that specialises in lending to small and medium enterprises. According to the analysis provided, SZRB cannot be considered a captive financial institution as it takes risks on its assets and liabilities. SZRB does not have limitation on the management of its assets and liabilities, does not need government approval to provide loans (they are decided following internal business procedures) or incur in liabilities, they do not have a government guarantee. It can enter new business areas and generally competes with its products with commercial banks. The management of the company is selected by the only shareholder, but members are independent from government with previous relevant experience in the banking sector. The amount of deposits from private customers is rather small as only clients with a loan can open a deposit account. The unit prefers to finance itself on the market (loans from commercial banks and international financial institutions). The unit is slightly profitable. Eurostat shared the view that the unit could be classified in sector S.12 but will investigate in detail the statutes of the unit before taking a final decision.

Slovak Investment Holding (SIH)

The unit was created on 2013 and it is a subsidiary of SZRB and their funds are managed by SZRB Asset Management (SZRB AM). According to EU Regulation No. 1303/2013, appropriations from the European Structural and Investment Fund (EFSI) can be used, using financial repayable instruments. In that framework, SIH will be allocated 3% of the EFSI funds from the operational programs of 5 five different government ministries. The task of SZRB AM is to create conditions for the implementation of financial instruments in relation to financial institutions and managing bodies. The SZRB AM receives a fee to cover the costs for provided services as well as profit. At the end of the implementation period after the closing of positions of the SIH (individual funds and programs), the liquidation balance will probably be the revenue of the state budget. While SIH is clearly

controlled by government which would lead to its classification in the government sector, the fact that it manages EU flows which should be neutralised in government accounts will mean that all transactions of SIH will have to be excluded from government accounts and the Slovak statistical authorities proposed to classify the unit in sector S.12.

An issue identified during the analysis to be further investigated is how to treat the flows for the remaining assets in SIH at the end of the period at which the assets would not be constrained to be used according to EU programmes, something that is expected to happen in 2031. The remaining SIH funds could possibly be transferred to the state budget and recorded as government revenue. Eurostat agreed that, repayable financial instruments should not have any impact on government accounts, when used in EU programs.

Findings and conclusions

Action Point 15. The Slovak authorities will provide to Eurostat a detailed description on the methodology and numbers underlying the calculations of the subsidies paid by government to Železničná spoločnosť Slovensko, a.s. *Deadline: 31 January 2016*¹⁴.

Action Point 16. Based on the information provided by the Ministry of Transport and the conclusions derived for national accounts purposes, the Slovak statistical authorities will analyse the accounts of Železničná spoločnosť Slovensko, a.s. and make a new calculation of the market/non-market test in order to decide on the sector classification of the unit. *Deadline: 15 February 2016*¹⁵.

Action Point 17. The Slovak statistical authorities will provide to Eurostat a note on the proposed statistical recording of the Resolution Council and the amounts involved. *Deadline: End February 2016*¹⁶.

Action Point 18. Eurostat provisionally agrees with the Slovak statistical authorities that Slovenská Záručná a Rozvojová Banka, a. s. (SRZB) can be classified as a public financial corporation in sector S.12, pending the future analysis by Eurostat of the statute of the unit, which will be provided to Eurostat by the Slovak statistical authorities. *Deadline: December 2015*¹⁷.

Action Point 19. Eurostat will investigate the accounting consequences of the new system of EU funds allocated to repayable financial instruments and whether they should be neutralised in government expenditure and revenue¹⁸.

¹⁴ The information was provided on 29/01/2016. The NSI concluded that payments from government should be treated as subsidies on production (D.39).

¹⁵ The information was provided on 19/02/2016. The NSI reclassified in the government sector ZSSK in the April 2016 EDP notification.

¹⁶ Information was provided on 04/04/2016. Amounts collected from banks are recorded according to Eurostat guidance note on the statistical implications of the new resolution legislation from 31 March 2016..

¹⁷ Provided on 23/12/2015.

¹⁸ The accounting treatment of Financial Instruments used in the context of EFSI was discussed during the 20-22 June 2016 Excessive Deficit Procedure Statistics Working Group.

4.1.2. *Sector classification of the Deposit Protection Fund*

Introduction

The sector classification of Deposit Protection Funds have been discussed with several countries, Eurostat discussed in detail the features of the Slovak case during the visit.

Discussion and methodological analysis

The Deposit Protection Fund is currently classified in S.12 and the contributions by banks re-routed as taxes. The Fund has not been engaged in situations involving significant amounts. It had only to pay compensations for two bankruptcies that took place in 2000 and 2001 which were not very significant. Compensations were paid using the Fund's own funds and loans provided by other banks. The fund has only 6 employees. Government does not have a majority in the controlling bodies of the unit or veto power while the consent of the Central Bank is necessary to:

- Decrease the regular contribution to a minimum of 0.2% instead of 0.35% in the case the Fund is repaying a loan used for compensation payments for inaccessible deposits (Art 6.2.a of the Deposit Protection Act).
- To approach a bank of foreign origin for a loan (Art 13.2)
- Extend the limit of 20 working days to pay the compensation (Art 10.2), approve the Fund general conditions for the payment of compensation (art 12.3).

Eurostat asked the Slovak statistical authorities if the contributions to the Investment Guarantee Fund by securities traders should not be also re-routed as taxes in government accounts.

Findings and conclusions

Eurostat provisionally agrees with the decision of the Slovak statistical authorities to classify the Deposit Protection Fund outside the General Government sector.

Action Point 20. The Slovak statistical authorities will investigate the need to re-route the contributions paid to the Investment Guarantee Fund as government taxes. *Deadline: April 2016 EDP notification*¹⁹.

4.1.3. *Government controlled entities classified outside general government*

Eurostat reviewed the Questionnaire on government controlled units classified outside general government provided in December 2014.

All public corporations in Slovakia are regularly tested for the 50% criterion, and this has been discussed in previous visits. Only two public corporations displayed values of the test close to 50% (but slightly above) while for the remaining units for which the results of the market test is provided in the Questionnaire (those with liabilities above 0.01% of GDP), the results were close to 100%.

¹⁹ Not implemented. It will be implemented in the October 2016 EDP notification.

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

Eurostat has expressed in the past some concerns on the size of revisions for accrual taxes between the April and October notifications.

Discussion and methodological analysis

Slovakia uses the time adjusted cash method to record most of the taxes (90%). For the remaining taxes pure cash is used as they involve small amounts and very irregular payment schedules. Eurostat have observed relatively important revisions (0.2% of GDP) between the April and October notifications. Most of the revisions are due to the Corporate Income Tax (CIT) and to a lesser extent to the Personal Income Tax (PIT) for self-employed persons and the Special levy on enterprises in the regulated sector.

For the April notification, the cash data on advances (which are based on the tax liability of the previous year) and the amendments and other payments for the whole year are known but very little information is available on the settlements (1 month of data and some preliminary data for the second month). Information is better for the October notification (8 months are known comprising around 90% of all tax settlements) and figures become final in the April notification of the following year.

The Slovak statistical authorities provided a detailed explanation of how unknown tax settlements are forecasted and approved by the independent members of the tax committee (in February, June and September).

- 1) First, the final CIT revenues are adjusted for legislative changes which can develop in other manner than the economic cycle (one-off measures, changes in depreciation of assets, changes in tax losses carry forward)
- 2) Last known adjusted accrual tax revenue is forecasted in line with the officially published information on profit development of corporations by the NSI. There is obviously high correlation between the growth of the profits and the financial results from the tax returns in economic literature as well as confirmed by the observed figures for Slovakia in recent years. Therefore we assume profits as the best proxy to forecast accrual CIT.
- 3) For the rest of the budgeted horizon, GDP minus the compensation of employees is used as the best proxy for profits (as the profits are not forecasted by official the Macro committee)
- 4) Old previously adjusted legislative changes are added back to nominal tax figures
- 5) In case there are adopted new legislative changes, they are of course additionally summed up

Findings and conclusions

Eurostat concluded that the forecasted model seems to be reasonably elaborated, taking into account legislative changes, and approved by independent experts.

4.2.2. *Accrued interest*

Introduction

The reporting of the difference between interest paid and accrued in tables 2A and 3B of the EDP notification was discussed.

Discussion and methodological analysis

Eurostat noted that up to the year 2013, the sum of the lines in table 2A "Difference between interest paid (+) and accrued (-)" and "Interest, premium, discount" was equal to the line in table 3B "Difference between interest accrued (-) and paid (+)" but that relationship did not hold for the year 2014.

The Slovak statistical authorities were not able to provide an explanation during the visit. However they later explained that there has been a change in the reporting of the information and starting from the year 2014 some flows related to the "Difference between interest paid (+) and accrued (-)" and "Interest, premium, discount" are reported in a different line of EDP table 2A ("Extra budgetary accounts and state financial assets").

Findings and conclusions

Eurostat asked to be informed about such important changes in the reporting in the future.

4.2.3. *EU flows*

Introduction

There have not been any recording issues in the past for the recording of EU flows in Slovakia.

Discussion and methodological analysis

According to the note provided before the visit and the EDP inventory, the budgetary classification allows distinguishing EU flows by individual operational programme. The sources are:

- For the revenues from the EU and the expenditure to be financed from EU funds, statement Fin 1-12 for central budgetary organizations; data are from the State Treasury information system.
- For receivables and liabilities towards the EU, information system ISUF, used by a section of European and International Affairs in accounting on EU funds.
- For the data on financial corrections data from information system ISUF.

- For the data of agricultural payments unit its own information system.

Findings and conclusions

Eurostat took note of this information.

4.2.4. Military equipment expenditures

Introduction

The Slovak statistical authorities confirmed that the Ministry of Defence (MoD) returns regularly to the NSI a Questionnaire on purchases of military equipment and that they do not find problems for recording military expenditure properly.

Discussion and methodological analysis

Eurostat asked if the questionnaire filled by the Ministry of Defence would allow knowing when the delivery of the planned acquisition of helicopters and jet fighters, which have been commented in the press, takes place. The NSI showed the content of the Questionnaire and gave assurance that the questionnaire would provide enough information for accruing the transactions to the right period.

Findings and conclusions

Eurostat took note of this information.

4.3. Recording of specific government transactions

4.3.1. Guarantees

Introduction

Prior to the visit, the Slovak statistical authorities provided a detailed list of one-off government guarantees, including stocks, guarantee calls and repayments.

Discussion and methodological analysis

It is very unusual the government provides guarantees; most of them were provided before 2004. Currently there are only government guarantees towards SZRB in the framework of a government programme which provides loans to SMEs, experiencing transitory difficulties to finance their social contributions. The scheme was subject to a public procurement to which all financial institutions could tender.

Findings and conclusions

Eurostat took note of the new guarantee scheme.

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

Introduction

The Slovak statistical authorities informed Eurostat before the visit that there were no debt assumptions, debt cancellations or debt write-offs during the years 2011-2014.

Findings and conclusions

Eurostat took note of the information, which was confirmed in the meeting.

4.3.3. Capital injections in public corporations

Introduction

The data on capital injections by government for years 2009-2014, submitted by the Slovak statistical authorities before the visit, was reviewed. Eurostat took note that for some small amounts mainly related to local government (Higher Territorial Units) the counterpart information has not been made available. The Slovak statistical authorities commented that the information is available, but that it would be too cumbersome to identify the counterparts for all transactions.

Findings and conclusions

Eurostat took note of the explanation.

4.3.4. Dividends, super dividends

Introduction

Dividends received from publicly controlled companies have been an important source of government revenue in Slovakia and the complex restructuring of the company SPP and its daughter companies that took place between 2013 and 2014 posed some statistical challenges.

Discussion and methodological analysis

The Slovak statistical authorities had provided before the visit the analytic table used to perform the super dividend test and the results of the test. The Slovak statistical authorities explained that the source data are accounting statements and notes to the financial statements. Eurostat asked at which company level the test is applied (consolidated/non-consolidated) and the Slovak statistical authorities replied that the test is not applied to daughter companies.

Findings and conclusions

Action Point 21. The Slovak statistical authorities will investigate the need to perform the super dividend test to daughter companies in case they observe unusual levels of dividends paid by them to mother companies. Eurostat furthermore recalled that daughter companies should be included in the list of government controlled entities classified outside government.

4.3.5. Financial derivatives

Introduction

The Slovak statistical authorities provided before the visit a list of swaps signed from 2012.

Discussion and methodological analysis

The Slovak statistical authorities explained that the only type of derivative used are long-term cross currency interest rate swaps to avoid interest and exchange rate risks resulting from foreign currency issuances in CZK, USD, CHF and JPY.

Eurostat recalled that, during the April 2014 EDP notification, a mistake in the recording of some amounts related to collateral transactions linked to swaps was identified. The Slovak statistical authorities explained that an internal process has been set up in order to avoid repeating this kind of mistakes.

Findings and conclusions

Eurostat took note of the explanations.

4.3.6. Public Private Partnerships

Introduction

Slovakia is in the final stages of concluding a PPP contract for the construction of a highway and expressway (D4/R7).

Discussion and methodological analysis

Slovakia had sent a request for ex-ante advice for the project on 19/08/2015. Eurostat provided his preliminary advice on 30/09/2015. On 5/11/2015 Slovakia provided a revised version of the contract which included some changes compared to the original version. The main changes introduced in the revised contract were discussed during the visit and Eurostat took note of them. Eurostat clarified that for its analysis, it will apply the guidance provided in the 2014 version of the MGGD, but if the contract is signed after the 2015 version of the MGGD is officially released; the new guidance should be applied.

Findings and conclusions

Action Point 22. The Slovak statistical authorities will send to Eurostat a detailed explanation on the circumstances in which exempt refinancing will apply in the D4/R7 Public Private Partnership. *Deadline: December 2015*²⁰.

Action Point 23. Eurostat will provide the ex-ante advice on the sector classification of the assets in the D4/R7 Public Private Partnership according to the agreed deadline²¹.

²⁰ Provided on 17/12/2015.

²¹ Eurostat provided the ex-ante advice on 08/01/2016, which was not published at the request of the Slovak statistical authorities.

4.3.7. Others: privatizations, sale and leaseback operations, UMTS, Emission permits and Court decisions

Introduction

Eurostat enquired on privatizations, sale and leaseback operations, UMTS, Emission permits and Court decisions

Discussion and methodological analysis

As regards privatizations, in 2015 the government of Slovakia sold its stake in Slovak Telekom. A small part of the amount paid by the private buyer will be deposited in a special account during 8 years, in case the funds are needed for the settlement of potential lawsuits.

The Slovak statistical authorities confirmed that the government has not entered any sale and leaseback operation.

As regards UMTS, four licenses to use electromagnetic spectrum were allocated through a tendering process in 2014, and recorded as a sale of assets as the licence were considered transferable. The issue had been discussed with Eurostat during the April 2015 EDP notification.

At the request of Eurostat in April 2015 the NSI had agreed to implement a new methodology for recording the amounts received from auctions of CO2 emission permits. After consultation with Eurostat, the new methodology, in line with the recommendations for the MGDD, was implemented in the October 2015 EDP notification. The Slovak statistical authorities provided an overview of the sources used and confirmed that the information is available shortly after the end of the year, to be incorporated in April EDP notifications.

A Court decision involving a cartel of construction companies was briefly discussed. The Supreme Court took a decision to impose a fine at the end of 2013 (30th December 2013) which only came into force as of 20th March 2014, and consequently the revenue for government was recorded in 2014. However the Constitutional Court annulled the decision in 2015 but no expenditure has been recorded. The Slovak statistical authorities explained that they consider that the decision of the Constitutional Court is not considered final and can be reversed and that this explains why there are no flows associated to the decision in 2015.

Findings and conclusions

Eurostat took note of the explanations provided.

Annex

List of participants

Statistical Office of the Slovak Republic (SOSR):

František Bernadič
Albert Antolik
Jaroslav Dolinič
Michal Čepela

Ministry of Finance of the Slovak Republic (MoF SR):

Katarína Kaszasová
Miriam Majorová
Dana Czikoová

National Bank of Slovakia (NBS):

Marcela Duffeková
Marian Labaj

Eurostat:

Lena Frej Ohlsson
Luca Ascoli
Madeleine Mahovsky
Luis Biedma

DG ECFIN:

Vladimir Solanic

European Central Bank (ECB):

Dagmar Hartwig Lojsch