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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

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Ms Elo Parveots
Statistics Estonia
Tatari 51
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Estonia

Subject: Recording of euro coin in Estonia

Ref.: Your letter of 28 June 2016

Dear Ms. Parveots,

Following your letter of 28 June 2016, Eurostat would like to provide you with its opinion on the recording in financial accounts of euro coin in the light of ESA 2010 and the Manuel on Government Deficit and Debt (MGDD).

1. THE ACCOUNTING ISSUE

The issue for which an opinion is being sought relates to the appropriate recording of euro coin in financial accounts and whether the issuance of euro coin should be recorded as liabilities of the central bank only or whether liabilities of the central government should be also recognised and therefore a liability in other deposits (AF.29) of central government with counterpart central bank should be recorded.

1.1 Documentation provided

Background note on the recording of euro coin, including an extensive description of the case as well as an analysis of Statistics Estonia and its proposal on the appropriate recording.

1.2 Description of the case

In Estonia the issuance of euro coin falls under the obligation of the central bank (Eesti Pank), which is responsible for the co-ordination of euro coin issuance with the European Central Bank. The Bank of Estonia operates independently of other government entities. Nevertheless, the Bank of Estonia reports its activities to the Riigikogu (Parliament) and transfers part of its overall profit to the state budget. In case of profits in the business

accounts of the central bank, the Supervisory Board of the Eesti Pank has the right to decide how much of the profit is set aside to various reserves and therefore, in principle, the Board is deciding the amount transferred to the state budget.

According to ESA 2010 and MGDD guidelines, euro coin should be by convention treated in financial accounts as liabilities of the central banks, financial instrument currency (AF.21) with a counterpart liability of central government vis a vis the central bank. During the Government Finance Statistics Task Force meeting on the 25-26 May 2016 (Item 7, Mint and euro coin, reviewed by EDPS WG on 20-22 June 2016) it was further stressed that, if the government sector receives *seigniorage* on coin (which is defined as a difference between the costs of production and the revenue arising from putting the coin into circulation) there should be an AF.29 liability recorded for government sector.

Statistics Estonia considers nevertheless, that the Eurosystem has actual control over the amounts of coin emitted and not the Estonian government and due to the fact that government receives indirect profit from *seigniorage* – the issuance of euro coin should be recorded as liability of the Estonian Central Bank and that recording government sector liability toward central bank is not justified.

2. METHODOLOGICAL ANALYSIS AND CLARIFICATION BY EUROSTAT

2.1 Applicable accounting rules

ESA 2010 Box 5.2 currency issued by the Eurosystem

MGDD (chapter VIII, Box 1 Coin issued by government)

2.2 Eurostat's analysis

As stated in MGDD and ESA 2010, **by convention**, for the Member States of the euro area, euro coin currency are treated as liabilities of the central bank (S.121), financial instrument currency (AF.21), although coin issued are in most cases obligations of central government (S.1311). In turn, **by convention**, the central bank holds an asset, and the central government incurs a liability recorded by convention as another deposit (AF.29).

In other countries (non-euro area), if coin issued by government are recorded in national accounts for some reasons as liabilities of the central bank, then for the consistency with the euro area Member States, it is recommended to record the financial instrument between the central bank and the central government as other deposit (AF.29).

In the euro area, the recording of the issuance of euro coin is treated consistently among the Member States. Almost all the Member States are applying the recording as stipulated by the accounting rules mentioned above.

As described by Statistics Estonia, in Estonia the issuance of euro coin is recorded as liabilities of the central Bank. The reason for this recording is that (1) the Eurosystem has actual control over the amounts of coin emitted and (2) government receives only indirect profit from *seigniorage*.

Regarding the control, Eurostat underlined during the Government Finance Statistics Task Force meeting on the 25-26 May 2016 (Item 7, Mint and euro coin) that control in this case is

not so relevant, as the role of issuing coin or banknotes is a passive one, therefore the fact that the government does not have control over the amounts of coin emitted is not a reason for not respecting the convention of recording stipulated in the regulation.

Due to the fact that the *seigniorage* on a coin is in most of the euro area earned by national governments, the liabilities linked to the issuance of euro coin is to be recorded in central government accounts.

Statistics Estonia explains that the Estonian Central Bank is responsible for the issuance of euro coin. Nevertheless, the Bank is involved also in other activities, so the revenue issued from the activities related to the issuance of euro coin cannot be identified directly from the overall revenue of the bank. Nonetheless, even in cases when the central bank is the main responsible for the issuance of euro coin, it does not explicitly mean that the liabilities should not be recorded in government accounts. As stressed in the document of the GFS Task Force (Item 7, Mint and euro coin), recording no liability for central government would imply that central government does not earn *seigniorage* from the coin. This is not fully the case in Estonia, where the government is indirectly and partially benefitting from the revenues due to *seigniorage* while receiving parts of the profits recorded by the Central Bank.

In order to keep a homogeneous treatment among the Member States as provided by ESA 2010 Box 5.2, Eurostat recommends that Statistics Estonia align to the recording of the euro coin in financial accounts as stipulated in ESA and MGDD and record the financial instrument between the central bank and the central government as other deposit (AF.29). This recording is followed by all the countries in the euro area, except four countries. Eurostat is in discussion with other three Member States in order to align to the same recording as in all the other Member States in order to ensure consistency with the euro area Member States.

The technical details necessary to implement this recording, notably the different transactions affecting the B.9 of government sector, could be further clarified at bilateral basis.

3. CONCLUSIONS

In view of the analysis above, Eurostat considers that Statistics Estonia should align to the recording of the euro coin in financial accounts as stipulated in ESA (Box 5.2 Currency issued by the Eurosystem) and MGDD and record the financial instrument between the central bank and the central government as other deposit (AF.29). This recorded will ensure consistency with thin the euro area Member States.

4. PROCEDURE

Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. The preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat web-site.

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

We would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 26 August 2016.

Yours sincerely,

(e-Signed)
Eduardo Barredo Capelot
Director