



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

Luxembourg
ESTAT/D-2/EBC/LFO/LA/CJ/pb/D(2016) 4469853

Ms Elo Parveots
Statistics Estonia
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10134 Tallinn
Estonia

Subject: Recording of intra-governmental deposits

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 regarding the recording of intra-governmental deposits between the social security funds and the Estonian State Treasury in the light of ESA 2010.

1. THE ACCOUNTING ISSUE

The issue for which an opinion is being sought relates to the appropriate recording of intra-governmental deposits in national accounts of the social security funds with the Estonian State Treasury.

1.1 Documentation provided

Background note on the recording of intra-governmental deposits, including a description of the case, the recording of such operations in the public sector financial statements and its current recording in government accounts as well as an analysis of the issue.

1.2 Description of the case

Starting from the end of 2011, new rules are applying in Estonia regarding the management of cash reserves owned by various government sector units. According to these new changes, the amount of currency and deposits owned by government sector entities, including social security funds, should be transferred and deposited on the group accounts of a bank and managed by the State Treasury. The State Treasury, which is part of the Ministry of Finance,

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is holding and investing this cash reserves, taking into account some constraints and obligations which are decreed by legislative acts. These new rules affected the way in which the cash reserves of social security funds (SSF), in particular of Estonian Health Insurance Fund and of Estonian Unemployment Insurance Fund were handled in Estonia. Until 2011, Estonian Health Insurance Fund (EHIF) and Estonian Unemployment Insurance Fund (EUIF) – both units classified in social security sector (S.1314) managed their own reserves investing them in securities and/or deposits. Since 2011, the cash reserves of the two funds were deposited on the group accounts of the Estonian State Treasury and made available to them by the Treasury only on pre-notice (except limited amounts which are defined by a permanent limit of use). Additionally, the overdraft facilities of the deposits placed by the social security fund entities on the group account can be used by the Treasury to finance the expenditure made by other group accounts, resulting in the situation where the State Treasury is essentially borrowing money from the overdraft facilities of these entities instead of borrowing directly from financial markets.

Since the introduction of these rules in 2011, up until the end of 2015, the cash reserves of the social security entities deposited in the State Treasury were recorded as AF.22 (Transferable deposits) with counterpart S.122 'deposit taking corporations except the central bank' on the basis of that the units themselves recording these operations as such in their financial statements.

Nevertheless, at the end of 2015, due to the extensive practice of using the overdraft of the social security deposits by the State Treasury, the central government accounts recorded negative deposits. Statistics Estonia investigated this issue and concluded that the current recording was inappropriate due to the existence of negative stocks in currency and deposits in financial accounts. In this context, Statistics Estonia proposed to record these cash reserves as AF.89 (other accounts receivable/payable) between central government (S.1311) and SSFs (S.1314) for the amount of cash used as overdraft. Nevertheless, AF.89 transactions refer to transactions, where there is a timing difference between distributive transactions or financial transactions on the secondary market and the corresponding payments, characteristics which do not apply to the transactions described above. In the short-term, this recording was used in the financial accounts and transmitted to Eurostat in the framework of the April 2016 Notification. In the context of the clarification rounds of the April 2016 Notification, discussions on the appropriate recording of such transactions took place between Eurostat and Statistics Estonia and Statistics Estonia transmitted a detailed overview of the issue as well as an analysis.

2. METHODOLOGICAL ANALYSIS AND CLARIFICATION BY EUROSTAT

2.1 Applicable accounting rules

ESA 2010, Chapter 5, Financial transactions, in particular §5.79-§5.88, § 5.136, § 5.113.

2.2 Availability of national accounting analysis

Statistics Estonia proposed two different options of recording with regard the intra-governmental deposits in national accounts of the social security funds with the Estonian State Treasury.

The first option proposed by Statistics Estonia is to record the cash reserves of social security funds (S.1314) as deposits (AF.22) placed in central government accounts (S.1311). This view is supported by the facts that, *firstly*, the S.1314 units have to co-ordinate the use of the funds on deposits with S.1311, *secondly*, the S.1311 is paying interest to SSFs for the whole amount of deposits and, *thirdly*, the SSFs have the right to withdraw the principal amount (in most cases after an agreed period of notice). However, the existence of the notice period would indicate that a recording of the deposits as AF.29 may be more appropriate (ESA 2010 §5.85).

The second option proposed by Statistics Estonia would be to record the cash reserves of social security funds (SSFs) still as deposits (AF.22 – or AF.29, see above) but with counterpart S.122, with the exception of the amount of deposits used by the state Treasury (S.1311) as overdraft. This amount of cash used by the Treasury to finance the expenditure of other governmental units should be recorded as short-term loan (AF.41) from SSFs towards S.1311. The reasoning for recording this overdraft as loans would be that the cash placed in banks are managed by the S.1311, nevertheless, the economic owners of the money are still the SSFs. This option raised some questions with regard the recording of the interest accruing to S.1314 on the whole amount S.1314 deposits in group accounts. The Treasury (S.1311) is paying interest for the total stock deposited by SSFs in the group accounts. There are no additional interests paid for the amounts used as overdraft.

Statistics Estonia would privilege the first option due to the fact that this better reflects the economic reality and because it would be easier to implement it since in the source data follows the same recording.

2.3 Eurostat's analysis

Eurostat analysed the options proposed by Statistics Estonia and considers that the cash reserves of social security funds (SSFs) should be recorded as deposits (AF.29) held in central government accounts (S.1311), due to the fact that amounts deposited by S.1314 cannot be readily withdrawn (provisions of ESA 2010 §5.85).

The cash reserves deposited in the central government group accounts (S.1311) can be considered as other deposits (AF.29) as defined in ESA 2010 for their gross amount, § 5.79 "deposits are standardised, non-negotiable contracts with the public at large, offered by deposit-taking corporations and, in some cases, by central government as debtors, and allowing the placement and the later withdrawal of the principal amount by the creditor". The concept "public at large" could be understood in the broad sense, and would here involve central government as the debtor. Due to the fact that the State Treasury (S.1311) is paying interest on the stock of cash deposited in the group accounts by the SSFs, S.1311 should be considered as the debtor of the AF.29 credit given by S.1314. As a consequence, the interest paid for the amount deposited by the SSFs in the State Treasury should be recorded as revenue of the S.1314 from S.1311.

The fact that the overdraft is used by the State Treasury to finance other expenditures, goes in line with the definition of transferable deposits: "transferable deposit accounts may have overdraft facilities" (see ESA 2010 §5.82) that are to be recorded as loans (ESA 2010 §5.82, §5.136).

Eurostat understands that it occurs that the accounts held by S.1314 show a negative balance with the counterpart being units in S.122. In this case, S.1311 is taking an overdraft on the accounts of S.1314. This should be recorded as a short-term loan AF.41 (see ESA 2010 §5.115) of S.1314 with counterpart S.122. The consolidating AF.29 amounts between S.1311 and S.1314 are unchanged by such operations, as the amount of deposits S.1314 puts at the disposal of the S.1311 as the corresponding interest accrued remains unchanged.

3. CONCLUSIONS

In view of the analysis provided by Statistics Estonia, Eurostat concludes that the cash reserves of social security funds (SSFs) should be recorded as deposits (AF.29) held in central government accounts (S.1311) for their gross amount, that is irrespective of the further use of the amounts deposited by S.1314 by S.1311. The interest paid to the SSFs for the amount of cash deposited in the State Treasury should be recorded as revenue of S.1314 from S.1311.

Overdrafts taken by S.1311 on deposit accounts of S.1314 should be recorded as short-term loans (AF.41) with counterpart financial corporations (S.122).

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