



**EUROPEAN COMMISSION
EUROSTAT**

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

Luxembourg, 19 July 2017

FINAL FINDINGS

EDP dialogue visit to the Czech Republic

22 – 23 November 2016

Executive summary

Eurostat undertook an EDP dialogue visit to the Czech Republic on 22-23 November 2016 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, to review the implementation of ESA 2010 methodology, to review the recording of specific government transactions and to assure that provisions from the ESA 2010 Manual on Government Deficit and Debt and recent Eurostat decisions are duly implemented in the Czech EDP tables and national accounts.

Institutional responsibilities in the framework of the reporting of data under the EDP were reviewed. In this respect, the Czech statistical authorities presented recent changes in the CZSO organisational structure. Eurostat reviewed data sources for the compilation of EDP statistics and data quality checks applied at different levels of data collection. A possible extension of the coverage of the Auxiliary Analytical Overview, as regards the local government, was discussed. It was concluded that the Czech statistical authorities will reflect on the possibilities and usefulness of coverage extension.

Progress achieved by the Czech statistical authorities on open action points from the EDP dialogue visit, which took place in November 2014, was discussed. Eurostat took note of the progress made in obtaining the relevant data on specific government operations at the local government level. The remaining two action points, related to the sector classification of public infrastructure companies and recording of emission trading permits, were discussed under the respective points and remain open.

As concerns the delimitation of general government, the discussion largely focused on the sector classification of public infrastructure companies, i.e. the Czech Railways and city transport companies. As regards the sector classification of public infrastructure companies, a final decision could not be reached during the visit, therefore, Eurostat agreed with the Czech statistical authorities to organise a video conference, involving relevant experts from the transport companies and the Ministry of Transport. A general discussion about the application of the market/non-market test took place. The classification of some specific units such as the public units in liquidation was also discussed in more detail.

The discussion continued on the recording of taxes and social contributions, in particular on the time of recording of tax credits and the reporting of tax liabilities in the EDP Questionnaire table 5. Eurostat reviewed the recording of EU flows in national accounts and, in particular, enquired about the use of EU financial instruments. The Czech statistical authorities committed to investigate the existence and recording of EU financial instruments in national accounts.

In relation to specific government operations, it was agreed that the Czech statistical authorities will investigate the recording of foreign claims and, in particular, the recording of accrued interest revenue on claims which are considered non-performing. Concerning the specific claims of the Czech government towards the Republic of Cuba, Eurostat committed to investigate whether the ex-ante advice provided on a similar issue to the Slovak statistical authorities in the past, could be shared with the Czech authorities.

Other issues discussed included the recording of interest, military equipment expenditures, guarantees and capital injections as well as the recording of transactions in financial derivatives. On these matter, the recordings applied seemed to be in line with Eurostat rules.

Further analysis is to be undertaken by the Czech statistical authorities on the application of the super dividend test.

Eurostat took note of the current situation as regards the existing and planned Public Private Partnerships (PPP) and Energy Performance Contracts (EPCs).

Finally, Eurostat concluded that the recording of emission trading permits is still not compliant with the current MGDD guidance. The Czech statistical authorities were asked to send a progress report, pending the introduction of a new data source.

Eurostat appreciated the information provided by the Czech statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Czech statistical authorities for the cooperation during the mission and considered that the discussions were transparent and constructive.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to the Czech Republic on 22-23 November 2016.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Ms Rasa Jurkonienė and Ms Daniela Ilavska. Representatives of the DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers. The Czech authorities were represented by the Czech Statistical Office (CZSO), the Ministry of Finance (MOF), the Czech National Bank (CNB) and the Supreme Audit Office (SAO).

The previous Eurostat EDP dialogue visit to the Czech Republic took place on 19-20 November 2014.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and the availability of the data on government specific operations at the local government level, as well as to review the implementation of the ESA 2010 methodology in the recording of government transactions, the application of the accrual principle and the sector classification of units.

With regard to procedural arrangements, the Main conclusions and action points were sent to the Czech Republic for review. Then, within weeks, the Provisional findings were sent to the Czech Republic for review. After this, Final findings will be sent to the Czech Republic and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

The CZSO is responsible for the compilation of national accounts and the reporting of the EDP notification. The cooperation and delivery of relevant data for GFS/EDP statistics between the national statistical authorities are regulated by specific agreements. Apart from the official agreements of CZSO with the MOF and the CNB, the CZSO has concluded with SAO a Memorandum of Understanding in 2013. There is a bilateral cooperation based on the Law on state statistics service works with some individual government units and ministries, e. g. the Ministry of Defence, Ministry of Labour, Ministry of Education, Ministry of Interior and the Ministry of Health.

Discussion and methodological analysis

Eurostat enquired about any changes in the institutional arrangements and the division of responsibilities among the statistical authorities since the last EDP dialogue visit in 2014. The Czech statistical authorities confirmed no changes in this respect. As regards the CZSO internal organisation, they added that the Government and Financial Accounts Departments underwent some organisational changes in recent years. These mainly resulted from an increasing number of general government units and encompassed the redistribution of responsibilities between divisions. In this context, CZSO also mentioned a problem with human resources.

In 2013, following the recommendations of the Upstream Dialogue Visit of Eurostat, CZSO concluded a formal cooperation agreement with SAO with the objective to exchange information and experience in the field of accounting and auditing. Eurostat recalled the existence of such agreement as an example of best practice and asked the Czech statistical authorities to share the agreement, if possible, with other Member States¹.

In addition, CZSO mentioned a recent methodological audit conducted by external experts (mainly users of CZSO statistics, academics, etc.) in the period of August – November 2015. It was focused on the fulfilling of users' requirements and the consistency between the meeting of Eurostat's and other users' needs. The audit resulted in a set of recommendations mainly aiming at the improvement of communication towards users and reflecting the needs of domestic users. Following the Eurostat's request, CZSO committed to send the audit report for information.

Findings and conclusions

¹ The agreement was sent to Eurostat during the EDP dialogue visit.

- (1) The Czech statistical authorities will send to Eurostat a copy of the recent national audit report on government finance statistics.

Deadline: end of February 2017²

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

Introduction

The main data source providing input data to CZSO for budgetary organisations, semi-budgetary organisations and state funds is the 'Central System of Accounting Information of the State' (CSUIS). The system is under a direct responsibility of the MOF and was implemented in 2010 within the accounting reform of the state. For other government bodies, financial statements are delivered directly by the units or via CZSO regional offices. For non-profit institutions (NPIs) or small units, statistical questionnaires are used.

In 2012, an additional module - the Auxiliary Analytical Overview (AAO) - was launched to adapt the data reporting for statistical purposes. Its coverage is not exhaustive and includes government units over a certain threshold. The CZSO obtains other supplementary data from annual/quarterly statistical questionnaires, money and banking statistics and other information sources.

Discussion and methodological analysis

The Czech statistical authorities described the verification procedure of data coming from the AAO reports. Apart from technical controls, the reports are formally reviewed by regional authorities on behalf of subordinated units. Basic controls of the content are carried out by the Regional Statistical Office in Brno which reviews the soundness of data from an accounting point of view. Further consistency of data and their coherence with other datasets coming from statistical sources is checked by national accounts compilers and, in case of inconsistencies, clarified directly with reporting units.

Eurostat enquired about the AAO and, in particular, about the quality and coverage of data obtained at the local government level. Currently, it collects important data used for statistical purposes from central budgetary and semi-budgetary organisations, state funds, regions, local budgetary organisations with more than 3000 inhabitants and local semi-budgetary organisations with assets over 100 million CZK. The Czech statistical authorities explained that although the reporting is not exhaustive, it captures most significant operations of government units (cca 82-90%). Additional information about municipalities is provided in a specific questionnaire launched by the MOF. In response to a Eurostat question about the future extension of the AAO coverage, the Czech statistical authorities explained that the main responsibility from a legal point of view is with the MOF and any future needs of the

² The copy of the report was sent to Eurostat on 27 February 2017.

CZSO, as regards the units and data coverage, will be considered after an official CZSO request. As further explained by the CZSO, current data coverage is satisfactory, covering almost 90% of total assets, although there might be a room for improvement, e. g. in the case of super dividends and data on profitability of public corporations. The Czech statistical authorities committed to investigate possibilities of extending the AAO coverage.

The Czech statistical authorities informed about five recent cooperation agreements which were concluded in order to obtain relevant information about specific issues such as health insurance contributions and energy performance contracts. Eurostat enquired whether the use of statistical surveys in the data compilation might be replaced by administrative data in the future. According to the Czech statistical authorities, some improvement occurred after the AAO introduction, however, statistical surveys still played an important role since they covered minor units not included in administrative reports and/or complemented administrative data with the details necessary for national accounts such as the structure of non-financial assets, gross fixed capital formation, etc.

Findings and conclusions

- (2) The Czech statistical authorities will investigate the usefulness and the possibilities of extending the coverage of the AAO as regards the local government units.

Deadline: Progress report end of June 2017³

1.2.2. Compliance with Council Directive 2011/85

Introduction

As concerns the fiscal data, monthly data are published only for the State Budget and state funds, whereas for the other central government bodies, data are available only on a quarterly basis. Apart from three compulsory indicators (total revenue, total expenditure and overall balance), also details on main categories of revenues and expenditures are available. Data for local government are complete and estimations are used for other local government bodies. The reconciliation table published together with fiscal data is a descriptive explanation of the primary data sources and their transition to ESA-based data reported to Eurostat.

By the end of October and the beginning of November 2016, the MOF published on a dedicated website data in % of GDP on government guarantees for 2012-2015, data on non-performing loans (NPLs) for 2013-2015 and data on off-balance PPPs for 2011-2015, as requested by the Council Directive 2011/85.

Discussion and methodological analysis

Referring to the coverage of monthly data for central government, Eurostat asked whether there is any progress on the full data coverage. The MOF, as a provider of data published

³ The note was sent on 30 June 2017.

under the Directive, explained that the unavailability of monthly fiscal data for certain units was mainly related to the delayed legislation which would have allowed collecting relevant data. However, recent draft laws on the rules of budgetary responsibility and on the collection of selected data were finally expected to be approved and published by the beginning of 2017⁴. Both laws together with the implementing Decree (expected to enter into force in August 2017) are aimed at specifying the structure of the monthly data and categories of reporting units, depending on a 'level of cost' criterion. Apart from the central government units above a certain threshold that would report on a monthly basis, there would be a category of small units, below the threshold, reporting quarterly data used as a basis for monthly estimates. As further explained, the first data would be available in mid-July 2017, covering the first half of the year 2017⁵.

Concerning the data on contingent liabilities, Eurostat asked the Czech statistical authorities to explain an inconsistency between the figures published by the MOF on a dedicated website and the figures reported by the CZSO to Eurostat in a specific questionnaire. In case of both the NPLs of general government and liabilities of public corporations classified outside general government, figures reported by CZSO were almost twice as high as the figures published by the MOF. Concerning the NPLs, the MOF confirmed that both institutions use the same data source, i.e. the AAO, and that the majority of NPLs relate to the loans of national development banks classified inside general government. As regards the inconsistency between two datasets, the Czech authorities committed to investigate the issue and inform Eurostat. In case of the liabilities of government controlled entities, the discrepancy between published data could be partly explained by applying different concepts. The MOF data cover the "*stock of liabilities stemming from issued debt securities (AF.3) and received loans (AF.4)*", while the data reported by CZSO to Eurostat include "*sum of items on the liability side other than own resources*". The Czech statistical authorities will investigate inconsistencies and report to Eurostat.

Findings and conclusions

- (3) The Czech statistical authorities will check current inconsistencies in data for the *non-performing loans* as well as for the *liabilities of government controlled entities classified outside general government*, as they are published by the MOF on its website and those sent to Eurostat by the CZSO.

Deadline: end of February 2017⁶

1.2.3. EDP Inventory

Introduction

⁴ The law on the collection of selected data for the monitoring and management of public finance was approved in January 2017.

⁵ It was clarified by the MOF later on that first data will available in 2018 for the reference period starting from 1 January 2018.

⁶ The note explaining the differences was sent to Eurostat on 27 February 2017.

The latest updated version of the EDP Inventory compliant with ESA 2010 was sent to Eurostat in May 2016. After incorporating some comments, it was published on the Eurostat website in August 2016. The Czech version of the EDP Inventory is published on the CZSO website.

Discussion and methodological analysis

Eurostat thanked to the Czech statistical authorities for providing a comprehensive and detailed EDP Inventory. Furthermore, an effective and prompt cooperation in the process of updating the EDP Inventory and related questionnaires was also highlighted. Eurostat recalled that the document should be regularly updated⁷.

Findings and conclusions

Eurostat did not have any further questions.

2. Follow-up of the previous EDP dialogue visit of 19-20 November 2014

Introduction

The previous EDP dialogue visit to the Czech Republic took place on 19-20 November 2014. There are still three open action points. One action point was discussed under this point of the agenda while the remaining ones, related to the sector classification of infrastructure companies and recording of emission trading permits, were dealt with under the relevant agenda items during the meeting.

Discussion and methodological analysis

Eurostat enquired about the progress in obtaining data on specific government operations at the local government level and asked, in particular, about the availability of data on guarantees granted by local authorities which was not covered in the note sent prior to the visit. It was explained that the data on guarantees are currently collected by the means of the Decree 410/2009 on accounting of selected units or by ad-hoc questionnaires. In the future, the data collection will be fully ensured by the draft law which was mentioned in the context of the data published under Directive 2011/85. Concerning other specific operations such as debt cancellations, swap restructuring/cancellations, off-market swaps, capital injections, super dividends, PPPs, EPCs and sale and lease back operations, Eurostat took note that the availability of relevant data is fully ensured by the AAO.

Findings and conclusions

Eurostat took note of the explanations.

⁷ The Czech statistical authorities sent an updated version to Eurostat on 27 April 2017.

3. Analysis of EDP tables – follow up of the October 2016 EDP notification

Introduction

The Czech statistical authorities sent the October 2016 EDP notification within the legal deadline. Alongside the EDP notification, the Czech statistical authorities provided an excel table with some details on non-financial transactions not included in working balance (WB), other accounts receivable/payable and other adjustments in the EDP tables 2A-2D.

Prior to the EDP dialogue visit, the Czech statistical authorities sent the table reconciling other accounts receivable/payable (F.8) of government subsectors between the EDP tables 2 and 3, the EDP table 3B1 compiled for the State Budget (main entity) and the EDP table 3B2 for other central government bodies.

Discussion and methodological analysis

First, Eurostat reminded the Czech statistical authorities that although the complementary information currently sent with the EDP tables is useful, an **explanatory note** would be welcome, as requested in the Eurostat letter of 17 August 2016 sent to Member States. This explanatory note should briefly clarify the main changes from the previous EDP notification and should explain significant movements in the (T-1) figures, compared to the previous EDP notification or compared to (T-2), and the impact (if any) of the revisions/changes in the classification of units inside/outside government sector. The Czech statistical authorities committed to send such note and appreciated the Eurostat proposal to send some best practice examples of other Member States provided that those agree.

Referring to the data reported in the Questionnaire related to EDP tables, Eurostat asked about the development of **B.9 of public hospitals (corporations)** at the local government level, which was quite stable in absolute terms in the reporting period 2012-2015, however, it changed between surpluses and deficits. Eurostat further enquired whether it could be related to the government policy to cover irregularly losses of hospitals. According to the Czech statistical authorities, the system of automatic compensation of losses was not in place, however, there might be cases of government subsidies earmarked to settle certain payables. The Czech statistical authorities needed detailed data to analyse the issue and committed to send a note to Eurostat.

Further discussion continued on the differences between face and market **values of debt instruments**, as they are reported to Eurostat in ESA and EDP tables. In case of debt securities, the face value is unexpectedly higher than the market value. It was explained that treasury bonds are issued at discount and it is the purchase price, lower than face value, which is reported as market price in ESA tables.

Eurostat commented on the **statistical discrepancy** reported for local government in the EDP tables. In the reporting period 2012-2015, amounts of the statistical discrepancy were negative in each year, although not significant on a single year basis. The Czech statistical

authorities claimed that statistical discrepancies were regularly monitored and analysed on a quarterly and annual basis. The development and accumulation of negative amounts in this particular case will be analysed and reported to Eurostat.

In the EDP Questionnaire table 13 on rerouting, the Czech statistical authorities report transactions in loans, impacting government debt, which result from the **cash-pooling system**. Following Eurostat's question, the Czech statistical authorities explained that since 2013, a majority of government units classified in S.13 and certain public corporations and non-profit institutions classified outside general government are obliged by legislation to keep their deposits in the State Treasury. Within the liquidity management system, these funds are deposited in the CNB and used by the MOF to finance operations in the financial market, e.g. debt repayments or repo operations with banks. It was also explained that it is the MOF, which bears risk (liquidity of the system) and rewards (income from investing these resources) of the cash-pooling system and, therefore, related operations in financial assets and liabilities are to be rerouted via government accounts. Due to consolidation, impact on the government debt constitutes only the deposits of units classified outside general government.

Eurostat enquired about the payment of interest on deposits of the units involved in the cash-pooling system. According to the explanation of the Czech statistical authorities, there is currently a zero interest rate set by the CNB. In the past, when the interest revenue was accrued, it was distributed among the respective accounts (thus not assigned to the MOF). The perimeter of units obliged to participate in the system was stipulated by the Law on budgetary rules, provided that they comply with specific criteria, however, it foresees also a voluntary participation. The criteria mainly relate to the existence of government financing and government ownership. A number of participating units is gradually extending, encompassing also health insurance companies which joined recently. Within the perimeter of participating units, the Law defined a group that could have deposits in commercial banks in parallel to the State Treasury (e.g. public universities, Railways Infrastructure Administration, regions and municipalities, etc.). By signing agreement with the CNB, units involved in the cash-pooling system agreed that the MOF could dispose of their deposits. As regards the recording in public accounts, the CNB clarified that deposits are booked as a liability in the central bank's balance sheet for the difference between the amounts of deposits and invested funds. Eurostat took note of the explanations.

Prior to the visit, the Czech statistical authorities provided the **EDP tables 3B1 for the main entity and 3B2 for other central government bodies** for 2014-2015. It was also mentioned that compilation of the tables was quite demanding mainly as concerns the allocation of certain methodological adjustments. Eurostat asked for clarification of the valuation and interest adjustments in the table 3B2. The Czech statistical authorities assumed that it was related to debt securities of the Czech Export Bank and committed to investigate it. Eurostat appreciated providing of the tables and encouraged the Czech statistical authorities to send them on a regular basis.

Findings and conclusions

- (4) The Czech statistical authorities were encouraged to provide an explanatory note and the EDP tables 3B1 and 3B2 together with the EDP notification on a regular basis. Eurostat will investigate the possibility of providing some examples of such explanatory notes of the other Member States.

Deadline for Eurostat: end of January 2017⁸

Deadline: April 2017 EDP notification⁹

- (5) The Czech statistical authorities will investigate the changing dynamics in B.9 of *public hospitals (corporations)* classified in local government over the EDP reporting period (2012-2016).

Deadline: April 2017 EDP notification¹⁰

- (6) In spite of reasonably low statistical discrepancies at general and central government levels, Eurostat encouraged the Czech statistical authorities to investigate further the accumulating negative statistical discrepancy for local government.

Deadline: April 2017 EDP notification¹¹

- (7) The Czech statistical authorities will examine the reporting of an adjustment included under the *Difference between interest (D.41) accrued and paid* in the EDP table 3B2.

Deadline: April 2017 EDP notification¹²

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of the 50% rule in national accounts

4.1.1. Application of the market/non-market test

Introduction

The institution responsible for the sector classification of units and the ‘Register of Economic Entities’ is the CZSO and its regional subsidiaries. When taking a decision on the sector classification of a unit, the CZSO uses basic data from the Economic Entity Declaration completed by the unit, including information from the Commercial Register and other official registers, mainly from ministries.

⁸ Two examples of such notes were provided to the Czech statistical authorities on 14 December 2016.

⁹ The explanatory note and the EDP tables 3B1 and 3B2 were provided together with the April 2017 EDP notification.

¹⁰ The note was sent on 31 March 2017.

¹¹ The note was sent on 31 March 2017.

¹² The note was sent on 31 March 2017.

Discussion and methodological analysis

Prior to the visit, the Czech statistical authorities sent a note accompanying the updated list of **non-financial corporations and non-profit institutions (NPIs) controlled by government** which identified 17 units to be reclassified to general government on the basis of the 50% test results. In the meeting, it was explained that a further investigation was needed for the entities in question and for other entities identified in addition by Eurostat in the meeting. The Czech statistical authorities will focus on the completeness and accuracy of data for those units in order to decide on their correct sector classification. Furthermore, they stressed that reclassifications could only be implemented from 1 January of a calendar year which means in this case from 1 January 2018.

Eurostat enquired about the classification of NPIs and the assessment of government control. The Czech statistical authorities explained that there are numerous NPIs with a negligible impact, of which the biggest entities (with more than 10 employees) are included in statistical surveys. The remaining ones are surveyed on a less frequent basis.

The Czech statistical authorities provided to Eurostat a list of new general government units and units removed from this sector. The list mainly comprised semi-budgetary organisations, public development banks and other financial institutions controlled by government which were reclassified to general government, following the previous discussions with Eurostat. No entity has been reclassified from general government to other sectors.

Referring to the follow-up note sent by the Czech statistical authorities in September 2015, Eurostat asked about the newly introduced survey on the control of units in which the budgetary and semi-budgetary organisations have capital interest. It was explained in the meeting that an original purpose of the survey launched by the MOF was the consolidation for accounting purposes. Results from the first exercise of this type are, first, to be verified and afterwards will be shared with the CZSO.

The Czech statistical authorities provided to Eurostat a list of the **public units in liquidation** together with an accompanying note. As a result of their investigation, several entities were identified to be reclassified to general government, with a negligible impact on deficit but not on the debt (3.9 billion CZK, i.e. 0.1% of GDP). About 85% of this amount was assigned to two institutions (Mototechna, s. p. v likvidaci and Tesla, s. p. v likvidaci). It was also stressed that obtaining data for these units might be difficult, as they are not included in common surveys due to the inactive status, and that the only source of information is usually a tax declaration which does not satisfy the CZSO data requirements for compilation of EDP/GFS statistics. Eurostat recommended to focus the analysis on the units having a significant impact and further enquired about the list of public units in liquidation. While comparing the list sent by the CZSO prior to the visit with a list published by the MOF on its website, several differences were observed. The Czech statistical authorities confirmed that they were aware of this problem and committed to investigate it.

Furthermore, Eurostat enquired about the practical aspects of the market/non-market test, in particular the composition of the formula. The Czech statistical authorities confirmed that the concept of sales corresponds to the market output (P.11) and for the non-market output (P.131), only the payments actually received are included. The output produced for own final use (P.12) is excluded from the sales. The item 'other sales' is included in the nominator, however, the content is usually examined and revenue such as a rent is excluded. Concerning the production cost side of the formula, the Czech statistical authorities use the depreciation from business accounts as a proxy of the consumption of fixed capital (P.51c), following the results of the analysis carried out in the past. Comparing the depreciation from business accounts and calculation of P.51c based on the PIM (Perpetual Inventory Method), differences observed for hospitals were insignificant. The analysis did not cover infrastructure such as roads and motorways.

Findings and conclusions

- (8) The Czech statistical authorities will review the application of the market/non-market test for government controlled entities classified outside general government, including those for which "L" or only one year is reported.

Deadline: end of February 2017¹³

- (9) The Czech statistical authorities will investigate the implementation of the market/non-market test in case of the public units in liquidation and inactive units.

Deadline: October 2017 EDP notification

- (10) The Czech statistical authorities will update the EDP Inventory with detailed information about the application of the market/non-market test, in particular the composition of sales and production cost.

Deadline: April 2017 EDP notification¹⁴

4.1.2. Sector classification of public infrastructure companies (Czech Railways, city transportation companies)

Introduction

The sector classification of the Czech Railways and city transport companies was discussed in the previous EDP dialogue visit in 2014 and followed up in an exchange of clarifications in the period February-October 2015. Due to uncertainty on some issues, the sector classification of the Czech Railways was concluded as a borderline case with a need to be further followed up in the forthcoming visit.

¹³ The note and the list of government controlled entities classified outside general government with results of the market/non-market test were sent to Eurostat on 27 February 2017.

¹⁴ The relevant chapter of the EDP Inventory on the sector delimitation was sent on 31 March 2017.

Discussion and methodological analysis

The Czech Railways

The Czech Railways (České dráhy, a. s.) was established in 2002 after the state enterprise Czech Railways discontinued its activities and it was split into the Czech Railways Group (classified in S.11) and the Railways Infrastructure Administration (S.13). The Czech Railways Group operates passenger transport (the Czech Railways – České dráhy, a. s.), freight transport (ČD Cargo, a. s.) and some smaller companies. The Czech Railways are 100% owned by government (the Ministry of Transport) and classified in S.11.

The note provided by the Czech statistical authorities explained that the Ministry of Transport (MOT) had concluded with the Czech Railways **three types of contracts on public service obligations** in accordance with Regulation (EC) No 1370/2007 and Act no. 194/2010 Coll., on public passenger transport services:

- 'Large contract' - concerns the traffic which is carried out across the regions of the Czech Republic (long-distance transport). This contract will mature at the end of the validity of timetable for the season 2018-2019. In case that a new competitor would enter the market and provide the service on a given railway line, this line will be removed from the contract and considered as assured on the market basis, i.e. not provided within the public service obligation. As an example is the line between the city of Prague and the city of Ostrava.
- 'Small contract' - covers the long-distance lines between the cities Pilsen-Most and Pardubice-Liberec.
- Contracts with all regions (15 contracts) and one contract with a municipality which is an exceptional case.

Public service obligation in the rail passenger transport on a **local level is ensured by regions and municipalities**. These local authorities conclude contracts with transport companies (Czech Railways or regional railway companies) on public passenger transport rail services.

During the meeting, the Czech statistical authorities clarified that the **large and small contracts were concluded directly with the company**, i.e. not on the basis of a competitive tendering procedure. In the past, small contracts were tendered in the public competition procedure, however for years 2015 and 2016 they are awarded directly. The contracts with regions are negotiated on an individual basis and the scope (number of train kilometers) and prices are negotiated on an annual basis.

Eurostat asked about the development of **company's debt and losses** in the last few years and, in particular, about the relation between the higher loss for 2015 and reduction in debt in the same year. It was explained that the loss resulted from the lost case in the arbitrage with the Skoda Transportation. The majority of the company's debt encompassed the issued bonds and the movement in the 2015 figure actually related to the reclassification of part of the debt due to be paid to short term liability. It was also mentioned that government provided a guarantee on part of the company's liabilities. As regards the public service obligations, the Czech Railways keep these accounts separately in compliance with the legislation.

Following the Eurostat question on the scope of services included in the **contract on public service obligations**, the Czech statistical authorities explained that the MOT orders a certain number of kilometres in the context of the public service under specific quality requirements. The final compensation paid by government is, therefore, based on a number of ordered train-kilometres and the average price for a train kilometre. As further explained, currently there are two transport companies operating under the public service obligations contract. Apart from the Czech Railways, there is a private company, receiving the compensation from government at the same conditions. No other funding is provided by government in addition to those companies.

Furthermore, government compensates public service operators for the loss incurred when granting regulated maximum tariffs for certain groups of passengers (e.g. students, pensioners, etc.). This subsidy is paid to all providers of public transport services in the Czech Republic.

In the note provided prior to the visit, the Czech statistical authorities clarified that a given price for a train-kilometre (including the total amount of compensation) and a range of services ordered for the next period is negotiated well in advance. First, the MOT, regions and municipalities specify their needs in terms of the quantity and quality of the public service. Subsequently, the company prepares a calculation of expected costs and the total price which is to be paid by government. In the meeting, Eurostat asked about the **importance of costs** incurred by the company in the price calculation and it was explained that the company obviously tries to reduce actually incurred costs to maximise the profit, which is considered a relevant part of the compensation in accordance with the Regulation 1370/2007.

In this context, Eurostat further enquired about the calculation of the government compensation and the payment of a final settlement at the end of the relevant period. Accordingly, the Czech statistical authorities described that about 35% of the government compensation is linked to variable costs and the remaining part covers fixed costs. The compensation is usually paid on a monthly basis as advance payments. At the end of the period, when a **final settlement** is to be paid by government, two situations might occur:

First, when the Czech Railways incur higher loss than foreseen, no additional funding is provided by the government in addition to the compensation fixed in the agreement. Unexpected costs above the agreed amount are born by the railway company itself. However, there might be a few **exceptions** when the government provides an additional compensation. These relate to the following:

- changes in the tax legislation,
- changes in the fee for the use of railways infrastructure,
- case of an exceptional fluctuation in the company's costs (i.e. higher than 10%).

In all cases mentioned above, a change in the contract would be negotiated.

Second, if the incurred loss of the Czech Railways is lower than foreseen in the agreement, government (or region respectively) might not ask the company to pay back the respective part. Instead, the company can keep this part of the compensation for a future settlement under the condition that the upper threshold¹⁵ set for the profit by Law is not exceeded.

Referring to one of the exceptions mentioned above, i.e. the case of 'exceptional fluctuation in the company's costs, Eurostat asked for more details about this case and whether this is related to a deliberate action of government. According to the Czech statistical authorities, the company would in this situation be compensated for the loss incurred by an unexpected increase of more than 10% in prices of electricity or fuel. The Czech statistical authorities assumed that a similar clause might be included in the contracts with other private rail operators.

Eurostat admitted some elements of variability in the compensation mechanism, however, it pointed, first, to the existence of the cap on the company's profit and, second, to the obligation of government to cover exceptional company's costs exceeding a certain threshold (10%). Afterwards, Eurostat briefly outlined possible scenarios. In the situation when the company asks for a final settlement, no additional costs are covered by the government, unless they rise to a certain level. If the company incurs less costs than agreed, a part of the compensation might be kept, however, only up to a certain level. In case the company is too efficient, government intervenes and might ask the company to refund part of the compensation. After taking these facts into consideration, Eurostat wondered whether, by the setting of an upper limit to the profit and a lower limit to the variation of the costs incurred, the government subsidy could still be considered as volume-based. In addition, Eurostat stressed that the soundness of the 10% threshold should be examined because too narrow limits might indicate the cost-based government subsidy.

It was concluded that due to absence of the company's and the MOT representatives, a number of specific issues had not been clarified. Therefore, the Czech statistical authorities agreed to have another meeting where relevant experts from both the Czech Railways and the MOT could respond all Eurostat questions.

City transport companies

Prior to the visit, the Czech statistical authorities sent a note explaining the main features of contracts concluded on the provision of public transport services by city transport companies. Currently, there are 19 city transport companies controlled by local government authorities and classified in S.11. Referring to the previous case of the Czech Railways, Eurostat enquired about similarities in the system of **contracting and financing of public transport**. The representative of the biggest city transport company, the Prague Public Transit Company (DPP)¹⁶, clarified that, similarly to the railway transportation, contracts between the government and transport companies on the provision of service in public transportation are

¹⁵ The maximum value of net profit is derived from the value of assets used to carry out the public transport services. In accordance with legislation, it cannot exceed 7.5% of the assets' value.

¹⁶ The DPP is a joint-stock company owned by the City of Prague and it operates metro, tram and bus lines.

based on the Regulation 1370/2007, which also defines the government compensation for losses incurred due to regulated tariffs. The DPP added that the contract with the City of Prague was concluded in 2010 as a direct order, not resulting from a tender procedure, which might change in 2019 with the end of the transition period. With the introduction of open competition, partial tenders might occur on some lines.

Following the Eurostat question, the DPP described a mechanism of **setting the government compensation**. Before concluding the contract in 2010, the company completed an audit which defined a list of costs, eligible for the compensation. Accordingly, a unit price per vehicle-kilometre under certain qualitative conditions was calculated. The basic unit price was fixed in the contract and indexed by the HICP¹⁷ on a yearly basis. Subsequently, the compensation foreseen for each period is a sum of costs incurred, measured as a sum of vehicle-kilometres and indexed unit price, minus planned market revenue from the sale of tickets. The amount of vehicle-kilometres ordered by a public authority can be adjusted according to public demand. In case that a private company operates the service, subsidies are provided at the same conditions.

With regard to the presented formula, Eurostat assumed that the costs incurred are linked to the volume of transport so that final government compensation could decrease in case of a lower demand for transport services. The DPP confirmed and added that the contract includes an element of risk sharing, as regards the **unexpected costs beyond the control of the operator** so these are finally shared between both parties.

The discussion focused further on the **final settlement of government compensation** on the basis of actually incurred costs and volume of provided services. The DPP stated that both situations have already occurred in the past, i.e. the government covering additional costs and, on the contrary, the DPP refunding a part of the compensation.

Similarly to the case of Czech Railways, the agreement foresees exceptions where the final government compensation might be higher. These are the following:

- a change in tax legislation,
- a significant change in oil prices or in traction energy,
- an increase in price due to new or renewed vehicles (with the approval of the client),
- a rise in costs due to investments carried out at the request of client,
- a substantial change in sales,
- a change in timetable at the request of the client and with an impact on sales.

Eurostat enquired about the **rate of profit** fixed in the contract and existence of any threshold, as it was observed for the railway company. According to the DPP, the negotiations over the level of profit occur every year and follow the rules stipulated by the Regulation. In fact, the rate follows a return on capital so that the company is able to cover expenditure related to a fleet renewal. Decision on the use of any profit resulting from the

¹⁷ Harmonised Index of Consumer Prices

provision of services on a commercial basis or in public interest, is taken by the general assembly. In the case of the DPP, it is used to cover previous losses caused by floods in 2002. It was also said that no dividends are paid.

Eurostat concluded that due to considerable similarities in both cases, the sector classification of the Czech Railways and city transport companies were to be treated in parallel.

Findings and conclusions

- (11) In relation to the classification of the Czech Railways, a number of relevant technical details could not be fully clarified due to the fact that the company representatives were finally not able to attend the meeting. As a consequence, Eurostat proposed to organise a separate meeting in Luxembourg or a video conference with the Czech Statistical Office and representatives from the Ministry of Transport and the Czech Railways, to receive complementary information and to be able to take a final decision on the sector classification of the railway company.

Deadline for the meeting: spring 2017¹⁸

- (12) The Czech statistical authorities will analyze the current classification of the Prague Public Transit Company and, in particular, the nature of the subsidies received from government, in parallel with the case of the Czech Railways, also under discussion.

Deadline: end of June 2017 (indicative)¹⁹

4.1.3. Government controlled entities classified outside general government (public corporations)

Introduction

The Czech statistical authorities sent the Questionnaire on government controlled entities classified outside general government in February 2016, reporting updated data for 2014. The list included over 900 units, of which 6 units is classified in S.12. The total amount of liabilities of the units exceeding the threshold of 0.01% of GDP amounted to 12% of GDP.

Discussion and methodological analysis

In the notes to the Questionnaire, the Czech statistical authorities specify that the total value of liabilities is compiled as a sum of liabilities other than own resources from financial statements. Data on the part of liabilities owed to government is not complete. In response to the Eurostat question, the Czech statistical authorities clarified that it is currently not possible

¹⁸ The video conference with representatives of the CZSO, MOT, MOF, the Czech Railways and the DPP took place on 26 June 2017. Based on the documentation and clarifications provided by the Czech authorities before and during the meeting, it was concluded that the Czech Railways remain to be classified in S.11.

¹⁹ The sector classification of public (city) transport companies was treated in parallel with the classification of the Czech Railways (action point 11). Therefore, the issue was discussed in the video conference on 26 June 2017 and it was concluded that the city transport companies considered as market producers remain classified in S.11.

to obtain the data from corporations, however, the counterpart information from government units could be used. It was stressed that a majority of data is captured in this case.

Eurostat further enquired about the sector classification of the OTE, a. s. Praha which seemed to be the Czech electricity market operator. The Czech statistical authorities confirmed that the unit collects contributions and receives government subsidies which are further distributed to renewable energy sources. The entity will be reclassified to general government from the year 2017.

Eurostat reviewed the sector classification of national protection funds. In 2016, in the context of the BRRD legislation, the former Deposit Insurance Fund (DIF, classified in S.13) was transformed to the Financial Market Guarantee System. Currently, it includes both the DIF and the National Resolution Fund. The Czech statistical authorities confirmed that in 2015, no contributions were collected in this regard. For the year 2016, the CNB fixed the amount of contributions to 2959 million CZK. In national accounts, revenue is to be recorded as taxes (D.29). It was also confirmed that the Financial Market Guarantee System is classified in the general government sector (S.1311).

Findings and conclusions

- (13) Eurostat took note that OTE, a. s. Praha, an electricity market operator, will be reclassified to general government from the year 2017.²⁰

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

The basic data sources are cash financial statements reported by the State Budget and local budgets and the time adjusted data collected by the MOF through tax administrations. The MOF is responsible for the compilation of accrual data on taxes. The accrual social contributions are compiled by the CZSO. For the taxes recorded on an accrual basis, the method of time adjusted cash is used, applying a time lag depending on the type of tax. For remaining taxes, cash is considered equal to accrual revenue. Final settlement, interest on late payments, fines and penalties are recorded together with taxes.

A payable tax credit (so-called tax bonus on children) can be applied to the personal income tax (PIT) by employees and self-employed persons at certain conditions.

Discussion and methodological analysis

Eurostat enquired about the recording of the tax credit in national accounts. The EDP Inventory specifies that the tax bonus on children can be paid to an employee or a self-

²⁰ The OTE, a. s. Praha was reclassified to general government from 2017.

employed person only if the difference between the tax credit and tax liability (after deduction of non-payable tax credits) is positive. In case of a self-employed person, a full amount of tax credit is recorded in the year (T+1) so that cash equals accrual. The recording is different with regard to employees. In this case, the tax credit is paid as advance payments on a monthly basis in the year (T) and final settlement of the PIT, including the tax credit, is moved back to the year (T).

Eurostat recalled the MGDD Part II.2.2 provisions on the recording of payable tax credits which read that "*the time of recording is when the liability is recognized by the tax authorities*" and asked the Czech statistical authorities to distinguish the relevant part of the final settlement for employees which should not be shifted to the previous year. According to the Czech statistical authorities, the tax administration does not dispose of this kind of information nor of the estimated magnitude of the amount not to be shifted. However, they were of the opinion that a potential impact would be small, taking into account constant amounts over years. As further clarified, details might be available in the future with more data obtained for groups of employees.

Eurostat reviewed the reporting of other accounts receivable/payable (F.89) related to taxes and social contributions in the Questionnaire table 5 and asked about zeros reported for tax liabilities. The Czech statistical authorities explained that F.89 related to taxes and social contributions is reported on a net basis due to the non-availability of separate source data on receivables and payables, mainly the value added tax. Possibilities to tackle the problem will be investigated in cooperation with Eurostat.

Findings and conclusions

- (14) The Czech statistical authorities and Eurostat will reflect on the time of recording of the tax credit paid to employees, as well as the reporting of tax liabilities in the Questionnaire table 5.

Deadline for the CZSO note: end of June 2017²¹

4.2.2. Interest and consolidated interest

Introduction

In the central government, interest is recorded on an accrual basis. Data for entities included in the working balance are collected from budgetary classification and adjusted to accrual figures using the MOF information. For the other central government bodies, accrual interest is obtained from accrual-based financial statements.

The accrual adjustment for interest of local government entities is reported since 2012 in a quite negligible amount. Other adjustments to interest flows are mainly related to FISIM, financial leasing (including the interest relating to Gripen) and interest related to church restitutions.

Discussion and methodological analysis

²¹ The note was sent on 30 June 2017.

Eurostat enquired about the recording of interest on the tax arrears. The Czech statistical authorities confirmed that the interest is charged. In national accounts, it is recorded on a cash basis.

Findings and conclusions

Eurostat took note of the explanations.

4.2.3. EU flows

Introduction

Cash-based financial statements provide data on the amounts of revenue and expenditure included in the working balance, including the information on source, i.e. national funds/EU flows/pre-financing on behalf of EU. In the EDP tables, impact of EU flows is offset through an adjustment in other accounts receivable/payable (F.89) which is calculated as a difference between total revenue from EU minus total expenditure made on behalf of EU. EU grants provided to final beneficiaries outside general government are excluded from government revenue and expenditure. Apart from the State Budget, another entity, classified as other central government body, distributes EU grants which are not included in the working balance.

Discussion and methodological analysis

Eurostat enquired about the cases of government entities which distribute EU funds and about the recording of these flows in national accounts. The Czech statistical authorities confirmed that, apart from the ministries, there is a former National Fund, currently integrated in the MOF, and the State Agricultural Intervention Fund (SAIF) which are involved in the distribution of EU grants. In both cases, revenue and expenditure is included in the working balance and their impact is neutralised in F.8. As concerns the other government bodies not included in the working balance, a central semi-budgetary organisation – the Centre for International Cooperation – directly receives and distributes funds from the EU budget that are recorded as financial transactions in national accounts, having no impact on B.9. The Czech statistical authorities informed Eurostat that they are not aware of other government bodies involved in EU grants distribution, however, admitted that complete information is not available. As regards the local government level, no information is available if any direct EU grants are received by other local government bodies, which are not included in the working balance.

Eurostat referred to the table sent prior to the visit which sought information about cash flows of EU grants included both in and outside the working balance and about the recording of EU flows in the ESA tables 2 and 8. The Czech statistical authorities could not clarify inconsistencies in data with the EDP Questionnaire table 6 and asked for clear instructions to complete the table.

Afterwards, Eurostat enquired about the use of financial instruments in the context of EU structural funds and its recording in national accounts. According to the Czech statistical authorities, a current government strategy foresees involvement of the Czech-Moravian Guarantee and Development Bank (CMZRB, classified in S.13) in the distribution of funds related to EU financial instruments. As the information on the respective amounts was not available to the CZSO, the Czech statistical authorities committed to investigate the issue and report back to Eurostat.

Findings and conclusions

- (15) The Czech statistical authorities will work in cooperation with Eurostat on the reporting of EU flows in the table provided before the EDP dialogue visit.

Deadline: end of February 2017²²

- (16) The Czech statistical authorities will monitor how the Czech-Moravian Guarantee and Development Bank will record the amounts received from the EU, related to the use of financial instruments in the context of EU structural and investment funds.

Deadline to report to Eurostat: when applicable

4.2.4. Military expenditure

Introduction

Data on acquisition of military equipment are provided by the Ministry of Defence (MOD). According to the Czech statistical authorities, there is usually no delay between the delivery of military equipment and the related payment. In 2015, a long-term contract on the acquisition of Gripen fighter aircrafts was prolonged by another 10 years for the period 2015-2025. The acquisition was recorded as a financial lease, impacting deficit and debt in 2015.

Discussion and methodological analysis

Eurostat asked about any planned acquisitions of military equipment in the future. The CZSO explained that no such information is available to them apart from those which are publicly available. The information on already realised acquisitions is obtained from the MOD and the MOF, based on the cooperation agreement.

Findings and conclusions

Eurostat took note of the explanations.

4.3. Recording of specific government transactions

²² The work on the action point is in progress.

4.3.1. Guarantees

Introduction

Government provides one-off guarantees on debt instruments, in particular on railway or road construction projects, liquidation of flood damages or to public corporations, e.g. the Czech Railways, the Railway Infrastructure Administration and to Prague Congress Centre (guarantee was called in 2012). Some of the provided guarantees related only to interest payment. Apart from the MOF, the Support and Guarantee, Agricultural and Forestry Fund (classified in S.13) also provides guarantees, however, amounts of guarantee calls are negligible. Since 2014, data on guarantees provided by local government entities are reported in public accounts according to the Decree No. 410/2009 Coll, as amended. Health insurance companies cannot provide guarantees. Standardised guarantees are not applicable.

Discussion and methodological analysis

Within the EDP notification, the Czech statistical authorities regularly provide a list of guarantees by beneficiary, consistent with the information reported in the EDP Questionnaire table 9.1. Prior to the visit, the Czech statistical authorities sent in addition a table on cash calls for 2012-2015. The guarantee calls are related to the debt previously assumed by government. Part of the debt and cash calls are consolidated since it covers the guarantees provided to the CMZRB.

Referring to the EDP Questionnaire table 9.1, Eurostat enquired about the existence of specific types of guarantees (i.e. statutory guarantees, ESM, fall back credit facilities) which are collected as memorandum items in the table since October 2016. The Czech statistical authorities explained that guarantees provided to the Czech Export Bank (CEB) and the Export Guarantee and Insurance Corporation (EGAP), both classified inside S.13, might have features of a blanket (statutory) guarantee. In 2012, government provided to the Czech Railways a specific guarantee on the principal and related interest of the loan which aimed at the financing of rail vehicles acquisition. Detailed information about the guarantee was not available to the Czech statistical authorities.

Findings and conclusions

Eurostat took note of the explanations.

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

Introduction

In the EDP Questionnaire table 8, the Czech statistical authorities report data on government claims (F.4) provided to third countries and other non-residents, claims against other government subsectors and other claims, mostly covering domestic loans of national

development banks classified in general government. Majority of debt cancellations for the period 2012-2015 concerned foreign claims.

Discussion and methodological analysis

Eurostat commented on the table sent prior to the visit, which presented the stocks and flows of foreign claims and claims against mediators, split by debtor country, for the period 2012-2015. In particular, Eurostat pointed to certain claims where no settlement was observed in several recent years and, therefore, questioned the recording of accrual interest on the claims which seem unlikely to be repaid. The majority of foreign claims towards third countries originated in 1970-80s, as a result of trade relations within the Council of Mutual Economic Assistance. The Czech statistical authorities argued that all foreign claims are considered at least partially recoverable and are not intended to be cancelled. Each year, the amount of interest accrued on foreign claims reaches app. 500 million CZK, having a positive impact on B.9. In this context, the case of claims against Sudan was mentioned, where the Czech government had stopped accruing interest revenue, following an official bilateral agreement. Eurostat recalled that government claims against third countries are specific claims considered as non-performing loans for which a future recovery is expected to be low. This fact could be evidenced by irregular or no settlements by debtor countries in any form (cash or commodities). In this respect, Eurostat pointed to the analogy with a specific treatment of taxes and social contributions unlikely to be paid. The Czech statistical authorities committed to investigate the recording of accrued interest revenue on the government foreign claims which are unlikely to be repaid.

Eurostat continued with the issue of foreign claims recording and asked, by referring to the recent ex-ante advice provided to the Slovak statistical authorities, about the treatment of the Czech government claim against the Republic of Cuba. The Czech statistical authorities confirmed ongoing negotiations with the Cuban government. In order to clarify the issue, they explained that the original claim of the former Czechoslovak Socialist Republic against the Republic of Cuba was split between the Slovak and Czech Republics in 1993, so the Czech Republic became the owner of two thirds of those claims. In response to the request of the Slovak authorities in 2014, Eurostat provided an ex-ante advice on the valuation and recording of government claims against Cuba. Due to confidentiality reasons, the Slovak statistical authorities did not agree with publication of the advice on Eurostat's website. Therefore, during the EDP dialogue visit, the Czech statistical authorities asked Eurostat to share the Slovak advice with a view of its possible application in the Czech national accounts.

As regards the debt cancellations, Eurostat asked about information sources and in particular, whether these data are captured for the other government bodies. As further explained, main data sources are the AAO which provides direct information from reporting units or specific information from the MOF. Data on debt cancellations of the CEB are provided directly by the Bank to the CZSO.

Findings and conclusions

- (17) The Czech statistical authorities will investigate the recording of foreign claims and claims against mediators and in particular the accumulation of accrued interest unlikely to be received.

Deadline: end of February 2017²³

- (18) Eurostat will investigate whether the unpublished ex-ante advice to Slovakia in relation to the recording of government claims against Cuba, can be shared with the Czech authorities.

Deadline: end of December 2016²⁴

4.3.3. Capital injections in public corporations

Introduction

The main data sources providing information about capital injections and their beneficiaries (i.e. public or private corporation, expected rate of return, etc.) is the AAO. Based on this information, all capital injections are treated as capital transfers. In the EDP Questionnaire table 10, the Czech statistical authorities report a detailed list of capital injections split by a beneficiary which were undertaken at central and local levels.

Discussion and methodological analysis

The Czech statistical authorities confirmed that information on capital injections provided as an equity transaction are collected through the AAO or, if relevant, by other information sources (e.g. publicly available information in press). Eurostat enquired about the capital injections provided by both central and local government in the form of debt securities or loans. The Czech statistical authorities admitted that this kind of government operations might exist, however, they are not captured by existing data collection. According to the CNB, some information might be obtained from a specific register of provided loans, including those potentially provided to loss-making entities. The Czech statistical authorities committed to investigate the issue and to report back to Eurostat.

Findings and conclusions

- (19) The Czech statistical authorities will investigate the cases of the capital injections provided to public corporations in the form of debt securities and loans and their recording in national accounts.

Deadline: April 2017 EDP notification²⁵

²³ The note was sent on 27 February 2017. Eurostat included the issue in the agenda of the Task Force on methodological issues.

²⁴ Upon the disapproval of the Slovak authorities to share the ex-ante advice, the Czech statistical authorities sent to Eurostat an official request for ex-ante advice on the recording of government claims against Cuba and in addition, the recording of government claims against the former Yugoslavia. Eurostat included the issue in the agenda of the Task Force on methodological issues.

4.3.4. Dividends, super dividends

Introduction

Prior to the visit, the Czech statistical authorities provided a note on the recording of dividends in national accounts and the super dividend test applied for the local public corporation Prazska teplarenska, a. s. for 2015.

Discussion and methodological analysis

As concerns the application of the super dividend test, the Czech statistical authorities confirmed that sales of fixed assets and revaluations are excluded from the calculation but that net interest, on the contrary, is included. Eurostat noted that in the Questionnaire table 10.2, dividends paid by the Cesky Aeroholding in 2015 were recorded as revenue, while the company reported losses in 2014. The Czech statistical authorities claimed that despite the total loss reported by the company, there could be a positive operating profit considered for the super dividend calculation, and committed to investigate the issue.

Findings and conclusions

- (20) The Czech statistical authorities will analyse the dividend paid in 2015 by the company Czech Aeroholding to decide whether there is a super dividend element.

Deadline: April 2017 EDP notification²⁶

4.3.5. Financial derivatives

Introduction

Financial derivatives were mostly used by central government in the past, in particular the MOF used interest rate swaps, cross currency swaps, swaptions, FX-forwards, forward outright, FX-swaps, caps, range accrual. The MOF currently uses only FX-swaps for the purposes of CZK and EUR single treasury accounts liquidity management. Other central government bodies use only swaps and FRAs (mainly the Railway Infrastructure Administration and the Support and Guarantee Agricultural and Forestry Fund). Financial derivatives are also used in bigger municipalities, e. g. Prague, Brno and Ostrava. Social security funds (health insurance companies) do not use financial derivatives.

Discussion and methodological analysis

Eurostat enquired about the valuation of financial derivatives in national accounts. It was clarified by the Czech statistical authorities that liabilities denominated in foreign currencies

²⁵ The note was sent on 31 March 2017.

²⁶ The note was sent on 31 March 2017.

are converted to CZK using the representative spot market exchange rate, prevailing on the last working day of each year. In case of liabilities denominated in foreign currency and exchanged through contractual agreements, a contractual exchange rate is used.

Furthermore, Eurostat asked about the proportion of government debt issued in foreign currencies and hedged government debt. The Czech statistical authorities clarified that recent developments showed a decreasing share of issuances of foreign currency debt as well as decreasing number of derivative operations. It was assumed that, at the central government level, 17% of the state debt and 50% of the CEB debt is issued in foreign currency. At the local government, the ratio is approximately 50% and it concerns the Capital City of Prague. As further explained, 10% of the foreign currency debt is hedged in financial derivatives.²⁷

Finally, the Czech statistical authorities clarified that the debt is compiled by the CZSO. As concerns the swap rates, these are provided by the MOF.

Findings and conclusions

Eurostat took note of the explanations.

4.3.6. PPPs, concessions and energy performance contracts (EPC)

Introduction

In the EDP Questionnaire table 11, no PPPs are currently reported. The MOF monitors potential projects via the Information System on Public Contracts, budgetary documentation and obligatory notices of regional and local authorities requesting the official position of the MOF on each project. The issue of EPCs was also discussed in the meeting.

Discussion and methodological analysis

The Czech statistical authorities confirmed that, due to the legal obligation of government units, they have a complete availability of information about long-term concession contracts, including those which could be classified as PPPs in national accounts. Up to now, all identified concession contracts involved provision of services and mostly concerned the local authorities. According to the law, respective government entities provide relevant information to the MOF, thus not the draft contract itself, in order to obtain the MOF position before the contract is concluded. In response to Eurostat's question, the Czech statistical authorities confirmed that existing data sources allow detecting payments with concessionaires, including those which are made upfront.

²⁷ It was clarified by the MOF later on that at the central government level, approximately 13% of the state debt, instead of 17%, is issued in foreign currency and approximately 10% of the foreign currency debt is hedged in financial derivatives.

As concerns planned projects, the Czech statistical authorities explained that a number of projects were cancelled or frozen in the past from various reasons, including unfavourable conditions for government resulting from contracts or low government support for PPPs. In the meeting, they informed Eurostat about the motorway construction project which is being prepared by the MOT, however, still in initial stages. At the local government level, a contract having features of a PPP was concluded by the town Telc on the construction and operation of an ice pool. The capital value and related payments are negligible.

Eurostat enquired about the existence of EPCs and their recording in national accounts. Since 2015, the Czech statistical authorities identified several tenths of EPCs concluded by semi-budgetary organisations. Other government entities are forbidden from entering into these types of contracts due to legal restrictions on their indebtedness and due to applicable Eurostat rules on the EPC recording, which result in an increase of debt in national accounts. In this respect, the Czech statistical authorities mentioned a common initiative of a few Member States, including the Czech Republic, which requested a re-consideration of the existing guidance on the EPC recording and pointed to certain barriers in realisation of projects aimed at increasing energy efficiency in countries. In turn, Eurostat took note of their concern and ensured the Czech statistical authorities that existing guidance on the EPC recording is consistent with ESA 2010 methodology which is a binding EU legislation for Member States. As regards the long-term contracts for provision of public assets, ESA 2010 applies the economic ownership principle which, in case of EPCs, leads to the recording of new installed energy system equipment on the government balance sheet in a majority of cases, i.e. where the total value of capital expenditure incurred in EPC, is less than 50% of the asset value after renovation. Eurostat further explained that it is the government which bears the risks and rewards and controls the asset, including the installed energy system equipment which is an integral part of the building.

Concerning the data availability, the MOF monitors all EPCs and some information is obtained directly from the Czech Association of Energy Service Providers (APES). Based on this information, the Czech statistical authorities informed Eurostat that all EPCs are finally transferred by original suppliers to financial institutions, using the factoring without recourse. In this respect, Eurostat recalled existing rules on the recording of trade credits related to factoring without recourse which will result, in this particular case, in the reclassification of liabilities stemming from EPCs to loans and in impacting the government debt.

Findings and conclusions

Eurostat took note of the explanations.

4.3.7. Emission trading permits

Introduction

The recording of emission trading permits in national accounts and, in particular, the availability of information was discussed in previous EDP dialogue visits. Eurostat followed up on the progress.

Discussion and methodological analysis

Eurostat enquired about the current situation as regards the recording of emission trading permits and mainly the progress in obtaining relevant data sources. The Czech statistical authorities explained that the situation still persists and due to incomplete data, recording in national accounts is not fully compliant with the MGDD guidance. In particular, emission permits sold by the central government to residents are recorded as other taxes on production (D.29), while the emission permits sold on a foreign stock exchange to non-resident units are recorded as acquisitions less disposals of non-produced assets (NP). The liability of government (AF.89) resulting from the permits auction is not recorded in national accounts. In the meeting, the Czech statistical authorities informed Eurostat that relevant data should be obtained from future statistical surveys which will collect information from non-financial corporations. First data providing information on the surrendered emission permits purchased by resident units in auction and on the amount of government liability should be available in 2017.

Findings and conclusions

- (21) The Czech statistical authorities will report to Eurostat on the progress in relation to the emission permits and, in particular, a progress on data sources and the recording in line with the MGDD.

Deadline: end of August 2017

4.3.8. Others: privatization, sale and leaseback operations, UMTS, securitisation

Introduction

The recording of UMTS licences was discussed under this point.

Discussion and methodological analysis

The Czech statistical authorities provided a note prior to the visit which reported a sale of frequency bands in 2016 for the amount of 2.6 billion CZK. Eurostat asked about the recording of the operation in national accounts.

The Czech statistical authorities explained that frequency bands were sold by government in the third quarter of 2016 and were, presumably, recorded as revenue of government in quarterly GFS tables. The Czech statistical authorities committed to analyse the recording and to inform Eurostat.

Findings and conclusions

- (22) The Czech statistical authorities will inform Eurostat on the recording in national accounts of the sale of frequency bands which occurred in 2016.

Deadline: end of February 2017²⁸

5. Any other business

No issues

²⁸ The note was sent on 27 February 2017.

EDP dialogue visit to the Czech Republic, 22-23 November 2016

Agenda

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.2. Data sources and revision policy, EDP inventory

1.2.1 Availability and use of data sources, revision policy

1.2.3 Compliance with Council Directive 2011/85

1.1.1 EDP Inventory

2. Follow-up of the previous EDP dialogue visit of 19-20 November 2014

3. Analysis of EDP tables – follow up of the October 2016 EDP notification

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of 50% rule in national accounts

4.1.1 Application of the market/non-market test

4.1.2 Sector classification of public infrastructure companies (Czech Railways, city transportation companies)

4.1.3 Government controlled entities classified outside general government (public corporations)

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest and consolidated interest

4.2.3. EU flows

4.2.4. Military expenditure

4.3. Recording of specific government transactions

4.3.1. Guarantees

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

4.3.3. Capital injections in public corporations

4.3.4. Dividends, super dividends

4.3.5. Financial derivatives

4.3.6. PPPs, concessions and energy performance contracts (EPC)

4.3.7. Emission trading permits

4.3.8. Others: privatization, sale and leaseback operations, UMTS, securitisation

5. Any other business

EDP dialogue visit to the Czech Republic, 22-23 November 2016

List of participants

Eurostat

Lena Frej Ohlsson
Luca Ascoli
Daniela Ilavská
Rasa Jurkonienė

DG ECFIN

Michal Havlát

ECB

Dagmar Hartwig Lojsch

The Czech statistical authorities:

Czech Statistical Office (CZSO)

Marek Rojíček	Vicepresident
Jaroslav Sixta	Director of Macroeconomic Branch
Vladimír Kermiet	Director of National Accounts Department
Václav Rybáček	Director of Government and Financial Accounts Department
Helena Houžvičková	Head of Financial Accounts Unit
Šárka Chaloupková	Head of Non-market Economy Unit
Jaroslav Kahoun	Head of Government Accounts Unit (GAU)
Lucie Beranová	GAU
Marie Laštovková	GAU
Lucie Smejkalová	GAU
Marie Trejbalová	GAU
Iveta Licková	GAU
Antonín Buš	Non-market Economy Unit
Ludmila Vebrová	GFA Department
Juraj Lojka	Director of Business Statistics Coord. and Business Cycle Surveys
Marie Boušková	Director of Services Statistics Department
Jana Gotvaldová	Head of Trade Statistics, Transport and Information Activities Unit

Ministry of Finance (MOF)

Marie Frýdmanová	Head of Government Financial Statistics and Analyses Unit
Vojtěch Čížík	Government Financial Statistics and Analyses Unit
Havelková Tereza	Government Financial Statistics and Analyses Unit
Petr Hovorka	Government Financial Statistics and Analyses Unit
Tomáš Joch	Government Financial Statistics and Analyses Unit
Kateřina Helikarová	Targeted Budgeting Unit
Irena Válková	General Budgetary Relations Unit
Martin Cícha	Head of Portfolio Risk Management and Strategy Unit
Vojtěch Kašpar	Portfolio Risk Management and Strategy Unit

Michael Rech	Financial Operations Administration and Settlement Unit
Petr Kusý	Head of Tax Policy Strategy and Analysis Unit
Petr Plášil	Head of Foreign receivables and related assets of the CR Unit
Michala Davídková	Foreign receivables and related assets of the CR Unit
Jan Hloušek	Financial Management and Payments Unit
Michal Týfa	Financial Management and Payments Unit
Jakub Bažant	Head of Public Sector Accounting Method. and CSOIS Admin.Unit
Tomáš Sluka	Head of Public Sector Accounting Regulation Unit
Nikola Kortanová	Public Sector Accounting Regulation Unit
Nikolaj Terziev	Director of Ministry Accounting and State Financial Reporting Dep.

Czech National Bank (CNB)

Ivan Matalík	Department Director - CNB
Milan Belloň	CNB
Jaroslav Kochaniček	CNB
Lenka Marková	CNB

Supreme Audit Office

Jan Prosecký
Luboš Rokos

Other participants

Ivo Slavotinek	Czech Association of Energy Services Providers (APES)
Vladimir Sochor	Ministry of Industry and Trade (for EPC)
Miroslav Choutka	Transportation Company of the City of Prague