



EUROPEAN COMMISSION
EUROSTAT

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

Luxembourg,

FINAL FINDINGS

EDP DIALOGUE VISIT TO CZECHIA

13-14 May (main visit) and 7 June (by video-conference) 2019

EXECUTIVE SUMMARY

An EDP dialogue visit to Czechia took place on 13-14 May 2019, followed by a video conference on 7 June 2019 in order to complete some outstanding agenda points that could not be covered during the visit. The purpose of the dialogue visit was to review the implementation of the ESA 2010 methodology and to ensure that the provisions of the ESA 2010 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and appropriately recorded in the Czech EDP notifications and Government Finance Statistics (GFS).

Eurostat reviewed and took note of the institutional arrangements in the context of EDP reporting and the data sources used for the compilation of EDP and GFS reports and tables. The Czech Statistical Office (CZSO) undertook to provide updated agreements on the statistical cooperation between the national EDP authorities¹. Eurostat reviewed the reporting of data according to Council Directive 2011/85.

The Czech statistical authorities informed Eurostat about the forthcoming 2020 benchmark revision exercise - this exercise is expected to take place by June 2020. Eurostat thanked the Czech statistical authorities for the timely implementation of most of the action points agreed during the previous EDP dialogue visit that took place on 22-23 November 2016.

The discussion during the visit focused on the sector classification of public transport and infrastructure units (Czech railways, city transport companies). In particular, the recording of the public service obligation payments was analysed, with CZSO currently using a combination of D.31 (subsidy on product) and D.632 (social transfers in kind) recording. The nature of the product train/bus-kilometre vs. passenger-kilometre was also discussed.

Another major topic for discussion was the recording of claims from foreign government loans in dispute and/or in delinquency. Eurostat informed of the contemplated change in the MGDD concerning intergovernmental loans in dispute and loans unlikely to be repaid².

The expected revival of public-private partnership types of financing, specifically for approximately 50 km stretch of the D4 motorway, was also discussed. Representatives of the Czech Ministry of Transport asked clarifying questions with regard to the Guide on the statistical treatment of Public-Private Partnerships (PPPs)³.

Other issues discussed included taxes and social contributions, the delimitation of General Government, the recording of interest and derivatives, the recording of EU flows and EU financial instruments, capital injections, guarantees, dividends and super-dividends, military equipment expenditure, ETS emission allowances, mobile telephone licenses, concessions and energy performance contracts (EPC).

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

¹ Renewed agreements between CZSO and the Czech National Bank were signed in May 2019.

² The updated MGDD was released in August 2019 at <https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-19-007>.

³ <https://ec.europa.eu/eurostat/documents/1015035/7204121/epec-eurostat-statistical-guide-en.pdf>.

INTRODUCTION

In accordance with Article 11 of 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 standard dialogue visit to Czechia on 13-14 May 2019, followed by a video conference on 7 June 2019 in order to complete some outstanding agenda points that could not be covered during the visit.

The delegation of Eurostat was headed by Ms Gita Bergere, Head of Unit D.2 Excessive Deficit Procedure (EDP) 1. Eurostat was also represented by Mr Philippe De Rougemont, Ms Daniela Ilavska and Mr Vassil Georgiev. The video conference on 7 June 2019 was headed by Mr Luca Ascoli, Director of Eurostat Directorate D Government finance statistics (GFS). The representative of the Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the visit as an observer. The Czech statistical authorities were represented by the Czech Statistical Office (CZSO), the Ministry of Finance (MoF) and the Czech National Bank (CNB). Apart from official Memoranda of Understanding (MoUs) among the three main institutions—the CZSO, the MOF and the CNB, the CZSO has an additional MoU with the Supreme Audit Office (SAO).

The previous Eurostat EDP dialogue visit to Czechia took place on 22-23 November 2016.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and notably the availability of the data for local government, 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.

Eurostat explained the procedural arrangements in accordance with article 13 of Regulation No 479/2009, indicating that the Main conclusions and action points (AP or APs) would be sent within days to the Czech statistical authorities, who may provide comments.⁴ Within weeks, the Provisional findings would be sent to the Czech statistical authorities in draft form for their review. After amendments, Final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

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

⁴ The main conclusions and action points were sent to the Czech statistical authorities on 20 June 2019. The Czech statistical authorities sent their comments on the main conclusions and action points on 3 July 2019. These comments have been taken into account in the current document.

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 official Memoranda of Understanding (MoUs) among the three main institutions—the CZSO, the MOF and the CNB, the CZSO has an additional MoU with the Supreme Audit Office (SAO) since 2013. These MoUs stipulate competencies and responsibilities with regard to the preparation of the EDP reports, as well as regulate the data and information exchanges taking place between the institutions. In addition to the MoUs, there is bilateral cooperation, based on the Law on state statistics, with some government units/ministries, e.g. with the Ministry of Defence, of Labour, of Education, of Interior, of Health, etc.

Discussion and methodological analysis

Eurostat made an introduction by a tour-de-table presentation by everyone at the meeting (for details, refer to the annexed list of participants), and also noted that because of the simultaneous interpretation (between English and Czech languages) the dialogue visit may have to be extended in time, by way of an additional video-conference in order to complete the agenda, some days or weeks following the originally scheduled dialogue visit dates—13-14 May 2019 (the video-conference took place on 7 June 2019).

Eurostat opened the discussion by noting that the institutional responsibilities have largely remained unchanged compared to the previous dialogue visit in November 2016⁵ and thanked the Czech statistical authorities for providing a comprehensive list of documents, requested prior to the dialogue visit. The CZSO also informed that new updated MoU annexes with the MoF and the CNB were expected to be signed in May-June 2019. These annexes would contain a clear definition of responsibilities and task distribution within the national EDP working group, which was also discussed during the previous dialogue visit. Such definition of responsibilities and task distribution was missing from the original versions of the MoUs (dating back to 2007).

Eurostat also enquired about the MoU with the Supreme Audit Office. It asked the Czech statistical authorities if cases existed where the SAO discovered reporting deficiencies, and what follow-up actions the CZSO takes in such cases. The CZSO replied that there have been minor cases (although not recently) requiring corrections in reporting. The CZSO receives information from the SAO, and then notifies the relevant unit, as well as usually the other institutions from the national EDP working group. The SAO also informed that it usually receives unit financial statements in May, and reviews them. If the SAO finds an anomaly, it then notifies the CZSO. Eurostat welcomed this practice.

⁵ The final findings from the 22-23 November 2016 dialogue visit to Czechia were published at <https://ec.europa.eu/eurostat/documents/1015035/7756561/Final-findings-EDP-dialogue-visit-CZ-22-23-Nov-2016.pdf/8d9fe9d3-2b12-4e2c-8697-953e24f4117b>.

Findings, follow-up and conclusions

AP 1: The CZSO office will provide to Eurostat the updated agreements on the statistical cooperation recently concluded with both the MoF and the CNB covering EDP/GFS.

Deadline: end of June 2019⁶

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

Introduction

The Czech statistical authorities use a 2-prong system of data sources—main source and auxiliary (or secondary) data sources. The main data source is the 'Central System of Accounting Information of the State' (CSUIS). The CSUIS provides input data to CZSO for budgetary organisations, semi-budgetary organisations and state funds. The system is under the 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.

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. About 1700 government units report detailed data via the AAO. These units' assets/ liabilities represent about 85% of the total assets/ liabilities reported in Central System of Accounting Information of State (CSUIS). The CZSO obtains other supplementary data from annual/quarterly statistical questionnaires, money and banking statistics and other information sources. For non-profit institutions (NPIs) or small units, statistical questionnaires are used.

Discussion and methodological analysis

Eurostat recalled the previous dialogue visit's discussion on the AAO. In November 2016, its coverage was not exhaustive and included government units only over a certain threshold. The CZSO informed that coverage has been somewhat extended, stating that a filled AAO questionnaire is regularly being submitted by the ~1700 units mentioned above (~85% asset/liability coverage), with the rest, the smaller units, filling out a simplified shortened version of the AAO (a statistical questionnaire). In addition, the CZSO confirmed that the small-unit-AAO (SUAAO) is adequate to provide all the necessary information, e.g. investment expenditure on both cash and accrual basis can be derived from the SUAAO (as well as from other adapted statistical questionnaires) in combination with the main unit reports. The SUAAO comes mainly in 2 forms: annual statistical questionnaire (national code VI-01) and quarterly statistical questionnaire (national code VI-04).

The CZSO clarified that the main data source for many of the units are their financial statements (P&L/ balance sheet) with the AAO designed to supplement these financial statements, in order to transform them into GFS-compliant data coverage. The Czech statistical authorities confirmed that the AAO is well designed to serve this purpose. Eurostat also recalled the distinction

⁶ The updated annexes were received on 28 June 2019.

between accounting data (chart of accounts, financial statements, P&L/ balance sheet/ cash flow statements, general ledger) and government finance statistics data (based on the ESA 2010 classifications, budgetary reporting + the various accrual time adjustments).

Eurostat also enquired about the level of access that the CZSO has to the CSUIS. The CZSO replied that they have full viewing access to the financial statements and the budgetary reports contained in the CSUIS. Some of the data from the auxiliary overview is also imported into the CSUIS, which is also visible to the CZSO. In terms of viewing rights, the CZSO has the same access to the system as the MoF.

Eurostat enquired about the approximately 281 spending units within central government, and the CZSO replied that they can see all the information per unit and per line items. Eurostat enquired about the number of (per unit) line items that exist in the CSUIS, and the CZSO and the MoF replied that this was approximately 300 lines. These lines have a budgetary presentation format (sources and uses, based on budgetary codes), but for units producing financial statements, their financial statements could also be accessed (where data is based on accounting conventions, e.g. debit/ credit, chart of accounts). The charts of account differed among units depending on their nature and legal forms (e.g. financial institutions, non-profit organisations, etc.).

The financial statements (the P&L) primarily provides aggregated non-financial transactions data (no full access to the general ledger of each unit). Some financial data is provided in the balance sheet. The accounting data is supplemented by AAO-generated data (including many cash-based line items, e.g. clarification on investment, bonds sold at a discount, capital injections, super dividends, etc.), which allows the transformation into GFS data. The financial statements by themselves do not contain a cash flow statement. The AAO also contains detailed information on all transactions with debt securities. Eurostat also requested to see the chart of accounts currently applicable for government controlled units classified outside general government. The CZSO clarified that institutions which are not part of the budgetary data coverage prepare something called para-cash reports.

The CZSO informed that the CSUIS produces an aggregated state final account. Eurostat enquired if this final account has the same coverage as the working balance of EDP table 2A. The CZSO replied that the working balance of EDP table 2A includes the state final account plus the state extra-budgetary funds (6 such funds: State Fund for Support and Development of Cinematography; State Culture Fund; State Housing Development Fund; State Transport Infrastructure Fund; State Agricultural Intervention Fund; State Environmental Fund). Eurostat enquired about the difference between the State Agricultural Intervention Fund and the Support and Guarantee Agricultural and Forestry Fund (the latter included in the list of the other central government organisations). The CZSO replied that the SAIF is responsible for EU flows related to agriculture, while the latter fund is financed nationally and is incorporated as a joint-stock company.

With regard to the social security funds subsector, Eurostat noted the existence of 6 health insurance units, plus a significant number of health insurers' associations and wondered how these 6 units could justify having so many associations amongst them. The CZSO replied that, during the 1990s, there were more than 20 health insurance units, and that actually all but one of the associations are largely dormant. The one active health insurers' association includes all the 6 health insurance units classified in sub-sector S.1314. All of these units collect obligatory health insurance contributions (split among different industries and sectors). Eurostat also noted that

sub-sector S.1314 was lacking units related to the pension contributions and management. The CZSO explained that, while the mandatory social security contribution scheme certainly exists, it has not been separated into units, and functions as a part of the central government's activities. Voluntary pension management schemes exist as well, but the units dealing with such management are classified outside of general government, typically in the sector S.12. The mandatory pension system is based on the 'pay-as-you-go' concept. Eurostat recommended that the Czech statistical authorities consider statistically separating mandatory pension scheme activities in a separate unit, only in the future (given the smooth current functioning of the 'pay-as-you-go' system in Czechia).

Eurostat commended the Czech statistical authorities on their comprehensive data coverage and quality controls. Eurostat noted that some ambiguity exists, when reading the 2019 Czech EDP Inventory⁷, with the use of the terms 'budgetary reports' and 'financial statements'. The CZSO undertook to rectify this confusion with the next update to the EDP Inventory.

Revision policy

The CZSO explained that two major revision types exist: (i) routine (current) revisions related to the availability of final data (e.g. due to preliminary-final data differences) and (ii) ad-hoc (major) revisions related to specific events or new conceptual requirements. As part of the latter, the CZSO performs benchmark revisions, which should in principle be (aimed at) every 5 years. Previously, major revisions were done in 2004 (when Czechia joined the EU), in 2011 and in 2014 (the latter related to the implementation of ESA 2010). The latest benchmark revision was the one from 2014. The next benchmark revision was delayed from 2019 to 2020, due to desire to resolve some cross-domain consistency issued (between GFS and national accounts), related to the compilation of GNI/ GDP. The CZSO also informed that they keep historical data since 1993 (from the time of the dissolution of the former Czechoslovakia) plus for the period 1990-1992, on a derived voluntary basis.

The CZSO also informed that in 2017 there was a revision to time series, related to the Eurostat guidance note (from March 2017) on the treatment of the revenue due to mobile (e.g. 3G/4G) license sales⁸, requiring that revenue from mobile license sales be spread over all the years of a mobile license contract. Eurostat enquired how this guidance note was implemented, and the CZSO replied that the sale of mobile licenses has been amortised in the form of D.45 rent-type revenue since 2013, while before 2013 the sales were booked as one-off (lump sum) revenues. Eurostat noted that this represents a break in time series and asked the Czech statistical authorities to correct this with the next major revision.

⁷ <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>.

⁸ <https://ec.europa.eu/eurostat/documents/1015035/7959867/Mobile-phone-licences-exploration-rights-and-other-licences.pdf>.

Findings, follow-up and conclusions

AP 2: The Czech statistical authorities will reflect on the opportunity to recognise the social security pension schemes currently recorded within central government as social security pension funds, implying rearranging the flows currently recorded in the central government subsector (EDP table 2A and 3B) to the social security funds subsector (EDP table 2D and 3E), in line with the practice of a number of Member States.

Deadline: October 2019 EDP notification⁹

With regard to the *revision policy* discussion:

AP 3: The Czech statistical authorities will correct the recording of the sale of radio spectrum frequencies in the years concerned (2012 and before) in the next benchmark revision in 2020.

Deadline: next benchmark revision (expected in mid-2020)

AP 3 has also been transposed to agenda point 4.3.8 (Others: privatizations, sale-leaseback operations, mobile (3G/4G) licenses, securitisation) below.

The EDP Inventory should also be updated following the benchmark revision, concerning mobile license revenue (lump-sums) received prior to 2013.

AP 4: The Czech statistical authorities will review the terminology used in the EDP Inventory, notably to ensure that a clear distinction between budgetary reports and financial statements, as well as an adequate description regarding the use of ‘general ledger’ source data (if any), is made.

Deadline: next update of the EDP Inventory [expected in mid-2020]

AP 5: The Czech statistical authorities will provide to Eurostat the chart of accounts currently applicable for government units and for public corporations classified outside general government (or the website where those chart of accounts are published), and will cross-reference them in the EDP Inventory.

Deadline: end of June 2019¹⁰

1.2.2. Compliance with Council Directive 2011/85

Introduction

Monthly fiscal data are published¹¹ for the State Budget and the state funds, while for other central government bodies, data are available on a quarterly basis. In addition, monthly data for

⁹ The answer to this action point was received on 31 October 2019.

¹⁰ The charts of accounts were received on 28 June 2019. EDP Inventory cross references will be checked, and if needed, clarified with the next update to the EDP Inventory expected in mid-2020.

¹¹ <https://www.mfcr.cz/en/statistics/budgetary-frameworks-statistical-information/fiscal-data>.

major central semi-budgetary organizations, public research institutions, public universities and other major central government units are also available (for the smaller units, monthly estimates are derived from quarterly data). Details on main categories of revenues and expenditures are available in addition to the three compulsory indicators (total revenue, total expenditure and overall balance). 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 GFS data, as reported to Eurostat. The MoF also publishes on a dedicated website data on contingent liabilities¹²—government guarantees, non-performing loans (NPLs), liabilities of government controlled entities and off-balance PPPs, as required under Council Directive 2011/85.

Discussion and methodological analysis

Eurostat recalled that, during the previous dialogue visit in November 2016, some data coverage deficiencies were noted, with regard to the requirements of Council Directive 2011/85. The CZSO informed that it aims at full data coverage according to the Directive, but for some very small units an exception is made. This coverage deficiency is difficult to estimate, but it could be considered that it is immaterially small. With the progressive development of the AAO, and the SUAAO questionnaires, such coverage deficiencies have become smaller and smaller. In fact the CZSO considers that in 2018 the data coverage is near complete.

Aside from that, the discussion focused on the liabilities of the government controlled entities classified outside of the general government (public corporations). Eurostat noted that there is a T+ 2 year delay in reporting the data by the Czech statistical authorities. Even though there were a few other EU member states which also delayed their public corporations reporting, Eurostat urged the Czech statistical authorities to try to shorten the delay (the majority of the EU member states report at T+1year).

The CZSO informed that final data for the concerned public corporations is usually available at T+14 months, i.e. in February of the year subsequent to the normal year of reporting (T+2y). The CZSO also implied that some preliminary data may be available at T+8 months, but later clarified that this primarily concerned the units classified within general government. It also informed that data submitted at T+8 months is rarely revised, when final data becomes available at T+14 months.

The following parts are also relevant to point 4.1. Delimitation of general government sector, application of 50% rule in national accounts of the agenda.

Eurostat enquired also about the calculation of the market/non-market test (MNM test) with regard to government controlled entities classified outside of the general government, and namely if the test were being performed on the basis of the information used within the context of Council Directive 2011/85. The CZSO replied affirmatively. Eurostat then enquired about the delay with which a unit would be reclassified into general government, in the hypothetical case that the unit would fail the MNM test in 2015 for the first time. The reply was that such unit will be reclassified at T+4 (i.e. in 2019), without revisions to the preceding 4 years in the EDP notification (i.e. no revisions due to the reclassification occurred in the years 2015-2018). The

¹² <https://www.mfcr.cz/en/statistics/budgetary-frameworks-statistical-information/contingent-liabilities-and-other-information>.

CZSO added that, if the unit is a larger one, then the preceding 4 years will also be revised, but there has not been such a reclassification case since years. Eurostat stated that this is not acceptable and urged the Czech statistical authorities to change their practices, in view of the large time lag before the necessity to reclassify is established.

Eurostat also enquired what threshold is being applied to decide if a public corporation is large or small, and the CZSO replied that the threshold is approximately 0.01% of GDP effect over the general government B.9 net borrowing/ lending (or approximately CZK 500 million). Eurostat replied that an appropriate threshold could be almost 20 times lower.

Findings, follow-up and conclusions

Eurostat took note that the fiscal data published by the MoF according to Council Directive 2011/85 now benefit from a complete coverage since the year 2018, when a new Law on collection of data for all government units was implemented. Eurostat appreciated very much the significant detail of those monthly data, both in terms of vertical comprehensiveness (e.g. including transactions in assets and liabilities) and of information by groupings of units.

Eurostat noted the general good timeliness of the accounting source data covering units included in general government, used in EDP/GFS compilation. In contrast, Eurostat thought that the preliminary data for public corporations, collected through the annual statistical survey, are available with significant delay, at T+8M for some preliminary data and final data at T+14M. Such late reporting of final data on public corporations to the 'Government Accounts Unit' de facto significantly delays the provision to Eurostat of data regarding the 50% test in the 'Questionnaire on government controlled entities' (each December), covering currently T-2 years, against a common practice in the EU of T-1. Tax declarations are insufficiently detailed to compile the 50% test.

AP 6: The Czech statistical authorities will reflect on ways to shorten the current delay regarding the collection and processing of the statistical annual surveys covering public corporations, for instance by envisaging an earlier submission by these units, by examining a possible priority processing of public units, or by more systematically using the preliminary data available already in T+8 months – at least for the largest units.

Deadline: end of October 2019¹³

AP 7: Until a significant shortening of the lag for the availability of the annual survey for public corporations is achieved, the Czech statistical authorities will provide to Eurostat an update of the latest 'Questionnaire on government controlled entities' in March of each year (i.e. at T+15M) encompassing T-2 data. This transmission would be accompanied by a note, listing and describing the units that are being considered for re-classification.

Deadline: continuous, by end of March each year; for accounting year 2017, the deadline is the end of June 2019¹⁴

¹³ The answer to this action point was received on 31 October 2019.

¹⁴ An updated questionnaire on government controlled entities was received on 30 June 2019.

1.2.3. EDP Inventory

Introduction

The CZSO has regularly been sending updates to the EDP inventory (of the methods, procedures and sources used to compile actual deficit and debt data). The latest update was received in April 2019, just before the dialogue visit.

Availability of detailed and comprehensive EDP Inventories is of vital importance for the quality assessment of the EDP statistics and the GFS data and for identifying possible risks in their reliability and thus of the government deficit and debt data. The ESA 2010 based EDP Inventory was developed following the provisions of Article 9 of the Council Regulation (EC) No 479/2009, as amended, in 2014. It includes as an annex a list of units, which are classified within general government.

Discussion and methodological analysis

The discussion on this point was brief. Eurostat thanked the Czech statistical authorities for the regular (annual) and timely updates of the EDP Inventory, which Eurostat considers an excellent practice.

2. FOLLOW-UP TO THE PREVIOUS EDP DIALOGUE VISIT OF 22-23 NOVEMBER 2016

Introduction

The findings from the previous EDP dialogue visit were published on the Eurostat website in July 2017¹⁵. The various action points (APs) from this dialogue visit have been followed-up continuously since 2016—during EDP notifications, as well as in bilateral correspondence. The action points, most recently discussed in this process are listed below:

AP8_from_DV2016: “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.”

This AP8 was merged into agenda point 4.1 below.

AP14_from_DV2016: “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.”

This AP14 was merged into agenda point 4.2.1 below.

AP17_from_DV2016: “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.”

¹⁵ Final findings from the 22-23 November 2016 dialogue visit to Czechia: <https://ec.europa.eu/eurostat/documents/1015035/7756561/Final-findings-EDP-dialogue-visit-CZ-22-23-Nov-2016.pdf/8d9fe9d3-2b12-4e2c-8697-953e24f4117b>.

AP18_from_DV2016: “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.”

These AP17 and AP18 were merged into agenda point 4.3.2 below.

AP21_from_DV2016: “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.”

This AP21 was merged into agenda point 4.3.7 below.

Discussion and methodological analysis

The discussion on these action points from the previous dialogue visit in November 2016 was brief. They are of a methodological nature and were therefore merged in Section 4 (Methodological issues) of the agenda.

3. ANALYSIS OF EDP TABLES – FOLLOW-UP TO THE LATEST EDP NOTIFICATIONS

Introduction

The closing remarks of the April 2019 notifications identified several points to address, many of which were discussed under section 4 (Methodological issues and recording of specific government transactions) of the agenda—e.g. taxes and social contributions, capital injections, recording of interest and derivatives, EU flows, military expenditure, emission trading system (ETS) allowances, etc. Among the other points mentioned during the April 2019 requests for clarification were:

- the 2018 increase in GFCF (investment), and subsequent decrease in B.9;
- higher-than-usual 2018 ‘Other adjustments (+/-)’ in EDP Table 2A;
- revisions in ‘Other financial assets (F.1, F.6)’ in 2017 and ‘Net incurrence (-) of other liabilities (F.1, F.5, F.6 and F.72)’ from EDP Table 3B;
- statistical discrepancies in 2017;
- AF.81L data coverage in EDP Table 4 and compliance with the July 2012 ESTAT decision;
- the B.9 of certain S.1311 units included in EDP Questionnaire table 3;
- Breakdown and the intra-EDP-table (2-3) reconciliation of other accounts receivable/payable (F.8);
- Transactions re-routed through government accounts impacting government deficit and debt in EDP Questionnaire table 13.

3.a. The 2018 decrease in S.13 B.9/ increase in investment (GFCF) spending

The CZSO explained that the increase in gross fixed capital formation (GFCF) was in part due to higher appropriation of EU funds in 2018, where the final beneficiaries were within the general government sector. Eurostat enquired if there was a corresponding increase in capital transfer revenues. In 2018, the GFCF increase exceeded the increase in capital revenue by approximately CZK 5 billion. Eurostat also recalled the rules for recording of EU flows, in that capital revenue should generally be booked at the same time as the capital expenditure (benefiting from EU financing). In 2018, there were also local elections in Czechia, which was accompanied by an increase in current government expenditure. The CZSO replied that not all of the 2018 decrease in general government B.9 net borrowing/ lending was due to an increase in GFCF spending.

The discussion also focused on the data sources used for the compilation of the GFCF, with references to agenda point 1.2.1 above and the distinction between budgetary (mostly cash-based) data and data from financial statements (mostly accrual based). Eurostat concluded that GFCF is compiled on an accrual basis and that the CZSO has sufficiently detailed information for the compilation. There were also increases in the compensation of the employees in the general government sector.

3.b. Higher 2018 ‘Other adjustments (+/-)’ (detail) in EDP Table 2A

Eurostat noted the higher ‘Other adjustment (+/-)’ due to the Former National Property Fund (FNPF). For 2018, this adjustment was CZK 8.5 billion vs 2.6 billion in 2017. The CZSO explained that during the previous years the fund had realised high operating surplus (profit) and these amounts had been transferred to the state budget, to which Eurostat noted that these amounts should be included in the line ‘Non-financial transactions not included in the working balance’. The CZSO also informed that since the National Property Fund is being dissolved (hence the ‘Former’ in the name), it is expected that in future its operations will be merged into the working balance of the central government.

Eurostat also noted the large negative adjustment due to the FNPF forecast for 2019, and wondered if a reciprocal adjustment had been forecast in the working balance for 2019. The CZSO explained that FNPF forecasts are affected by the expected transfer to the state budget. This transfer amount is consequently a part of the forecasted working balance. The CZSO also informed that the 2019 forecast is usually prepared by the MoF, and some decline in economic activity in 2019 vs. 2018 had also affected the working balance forecast figures shown in the EDP tables for 2019.

Findings, follow-up and conclusions

AP 8: The Czech statistical authorities will change the reporting of the operations of the former National Property Fund in the EDP table 2A, from ‘Other adjustments (+/-)’ to ‘Non-financial transactions not included in the working balance’.

*Deadline: October 2019 EDP notification*¹⁶

¹⁶ The answer to this action point was received on 31 October 2019.

3.c. 2017 revisions in F.1/ F.6 assets and F.1/ F.5/ F.6/ F.72 liabilities

The discussion focused on the 2017 revisions in ‘Other financial assets (F.1, F.6)’ and ‘Net incurrence (-) of other liabilities (F.1, F.5, F.6 and F.72)’ in EDP Table 3B. During the April 2017 EDP notification, the CZSO explained that these revisions were largely due to EGAP (the Czech export guarantee insurance agency, classified within general government), and the non-market insurance technical reserve item in particular.

Since the movements in the non-market insurance technical reserve item were largely linked to insurance provided on loans extended by the Czech Export Bank (CEB, also classified within S.1311), Eurostat wondered if the symmetrical revisions in F.1/ F.6 assets and F.1/ F.5/ F.6/ F.72 liabilities were somehow linked to consolidation adjustments. The CEB is a major client to the EGAP. Eurostat also wondered about the nature of the insurance policies provided on financial instruments (loans) by EGAP to CEB—when provided on a high volume basis such insurance policies have indeed the nature of actuarial activity, because they help to achieve better financial risk diversification. If, however, such policies are provided to cover for a small number of large financial instruments, they bear more the nature of standardized guarantees.

Eurostat also noted that, if it understood well, in case a guarantee is called, there will not be an immediate B.9 effect on the guarantee underwriter (in this case EGAP). In such a case, the underwriter will incur a financial obligation (a payable) to the beneficiary (CEB), but will also at the same time receive a financial claim (F.4 asset) against the beneficiary of the loan provided by CEB, which may have defaulted on their obligations to CEB. A negative B.9 effect will only occur at the time of a future (partial) write-off of the latter claim. The Czech statistical authorities recalled the exceptional claim treatment foreseen in ESA 4.115(3) and 4.165k (by recording D.9 transfer), but Eurostat doubted that such approach should be used for every claim and enquired on the resulting B.9 impact at time of claim/call.

In relation to the EGAP, Eurostat took note that the recording of the export insurance operations currently follows, in national accounts, that of nonlife insurance recording (AF.61). Given that a significant part of EGAP business is carried out with the CEB aside from other commercial banks, and that EGAP and CEB are classified inside government, significant intragovernmental AF.6 and F.6 links exist and are consolidated (unconsolidated data are also reported in ESA table 27). The Czech statistical authorities explained further that a change in the estimated other change in volume in AF.6 explained revisions in F.6 in both assets and liabilities in EDP table 3B in the April 2019 notification, which Eurostat found not very intuitive and in need of further explanations.

Recognising the intellectual merit of booking insurance technical reserves as AF.6, Eurostat thought that the distinction between insurance policies and standard guarantees is an interesting methodological area, which is under constant development, and invited the Czech statistical authorities to consider delivering a presentation on the topic during one of the regular meetings of the EDPS working group chaired by Eurostat. This description should distinguish cases where the counterpart is a government unit (e.g. CEB) vs. private companies (e.g. commercial banks). Eurostat requested a detailed description (incl. T-account entries, notably concerning D.71/ D.72/ D.9 amounts) of the recording of the sale/ grant of guarantees, as well as the creation of associated insurance technical reserves, guarantee calls and the eventual effects on B.9.

Findings, follow-up and conclusions

AP 9: Recalling the heterogeneity of recording for export insurance schemes existing in Europe (some treating those schemes as nonfinancial, others as purely financial), Eurostat thought that recognising insurance technical reserves (AF.6), as in the Czech data, had probably intellectual merits. Eurostat nonetheless invited the Czech statistical authorities to reflect on whether the recording of those operations should not instead follow that of standardised guarantees (AF.66) rather than that of non-life insurance (AF.61). In addition, Eurostat doubted whether it was legitimate to apply for each claim the exceptional claim treatment foreseen in ESA 4.115(3) and 4.165k (with recording a D.9) and enquired on the resulting B.9 impact at time of claim/call.

Deadline: September 2019¹⁷

AP 10: The Czech statistical authorities will describe the recording of export insurance operations in the business accounts of EGAP, in particular whether a claim is acquired (against the defaulting party). As concerns the recording in national accounts, the Czech statistical authorities will provide to Eurostat a detailed description, with appropriate T-accounts, of the recording of the sale/grant of guarantees, of the creation of associated insurance technical reserves, and of the recording applicable in case of guarantee call/claim, in particular with respect the acquisition of a claim against the defaulting party, and the eventual recording later on of claim write-offs/cancellations (if any). The recording will distinguish, if relevant, cases where the counterpart is a government unit (CEB) and where it is a private entity (e.g. banks). The description will report the measurement of output, the recording of D.71 and D.72 and the exceptional claim recording (D.9).

Deadline: September 2019¹⁸

Action points 9 and 10 have also been transposed to agenda point 4.3.1. Guarantees (incl. CZ Export Bank and EGAP) below.

3.d. Statistical discrepancies (in 2017)

Eurostat noted that in 2017 the S.1313 discrepancy represented more than 0.1% of GDP (CZK 5.6 billion). Prior to the dialogue visit, the CZSO sent a detailed B.9-B.9f table with data for 2018 and 2017 across the different subsectors of general government. Eurostat thanked the CZSO for providing good quality and granular data on sub-sector accounts.

The CZSO explained that the 2017 discrepancy was mainly due to discrepancies in the accounts of the semi-budgetary organizations (CZK 4.5 billion), and arose from time-adjustment differences in transfers, since data was being booked on an accrual basis in non-financial accounts, but on a cash basis in financial accounts. The CZSO clarified that some of the semi-budgetary organizations may have booked receivables for subsidies, based on expectations,

¹⁷ Deadline extended as per the 3 July 2019 request by the CZSO. The reason for the extension was the need for an additional methodological discussion between the CZSO and the CNB regarding the clarity of the procedures and in order to methodologically harmonise classifications between the two institutions. An answer to this action point was received on 30 September 2019.

¹⁸ Deadline extended as per the 3 July 2019 request by the CZSO. The reason for the extension was the absence of detailed data and some accounting explanations, which necessitated a special meeting with EGAP. An answer to this action point was received on 30 September 2019.

however the actual cash transfer on such subsidies depends on the discretion of the Ministry of Finance, and sometimes the amounts actually transferred could be different. Eurostat took note that source data on transfers received by central and local semi-budgetary organisations (SBOs) are routinely adjusted, in the compilation process, in order to ensure consistency with transfers declared paid to them by the State Budget (in order to consolidate identical amounts afterwards). The Czech statistical authorities noted that this adjustment concerned small amounts overall. Eurostat suggested that the amounts imputed in the financial accounts could be identified in EDP Questionnaire table 4.

Eurostat also enquired on the accrual vs cash data on different revenue and expenditure items. It transpired that a certain asymmetry exists in recording the tax expenditure of units classified inside government. Following the public accounts, tax expenditure is recorded on an accrual basis, while tax revenue is recorded according to the time-adjusted-cash method, which can lead to discrepancies.

Findings, follow-up and conclusions

AP 11: Eurostat took note that source data on transfers received by central and local semi-budgetary organisations (SBOs) are routinely adjusted, in the compilation process, in order to ensure consistency with transfers declared paid to them by the State Budget (in order to consolidate identical amounts afterwards). The Czech statistical authorities noted that this adjustment concerned small amounts overall. The Czech statistical authorities will provide to Eurostat the amounts of transfers declared paid by the State Budget to SBOs, transfers declared received by central and local SBOs from the State Budget, as booked in public accounts, and the amounts of corrections imputed in non-financial accounts to ensure consistency. The amounts imputed in the financial accounts could usefully be identified in table 4 of the Questionnaire related to EDP tables.

Deadline: end of August 2019¹⁹

AP 12: The Czech statistical authorities will re-examine the current recording of tax expenditure of units classified inside government in national accounts, so to eliminate the current asymmetry (with a B.9 impact) implied by the current practice of recording tax expenditure on an accrual basis while tax revenue is recorded on a time-adjusted-cash basis.

Deadline: October 2019²⁰

¹⁹ Deadline changed/ set as per the 3 July 2019 comments by the CZSO. Comments to this action point, along with a table detailing the transfers to the SBOs, were received on 28 August 2019.

²⁰ The answer to this action point was received on 31 October 2019.

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 and government-controlled entities classified outside general government (PCs)*

Introduction

Prior to the dialogue visit, the Czech authorities provided a list of public units with results of the market/ non-market test. The institution responsible for the sector classification of units and the 'Register of Economic Entities' is the CZSO, helped by its regional subsidiaries.

Discussion and methodological analysis

The discussion on this point continued from the discussion on point 1.2.2 ('Compliance with Council Directive 2011/85') above.

Eurostat took note of the Czech current practice concerning the reclassifications of units resulting from the quantitative (50% test) as well as from the qualitative criteria: the unit to be reclassified is effectively reclassified from the year where the change is observed and not retroactively from the year when the criteria is first deemed not to be met, as required. The long delay that is implicit with such a policy is compounded by the late availability of annual statistical surveys discussed above (AP 6). As a result, a unit that falls persistently below the 50% test in Czechia for the first time in 2015 would typically be reclassified from the April 2020 notification onwards but only from year 2019 onwards, rather than from year 2015, as required.

The Czech statistical authorities follow this practice in order to keep statistical classification and source data classification aligned (which is certainly convenient for compilation purposes), because national accounts are open for revision only for two years (2015 and 2016 are closed), and because this concerns generally small units, taking into account the cost for adjusting the data. Eurostat thought that, while flexibility could be accepted for units that are not material (in the order of a few CZK million in revenue or in assets, individually, or of a few dozen CZK million cumulatively), there was no justification for avoiding revising years 2017-2018, even for relatively small units, including through the use of a macro adjustment to B.9/debt. In addition, above a certain threshold, to be defined, a revision in all notified years of deficit would be required, although with flexibility, e.g. by making an adjustment to GFS (to avoid for instance revising the production accounts, pending the next major revision).

Findings, follow-up and conclusions

AP 13: The Czech statistical authorities will review the current policy concerning the sector reclassification of units, which currently delays the reclassification of units inside government by 4 years. Taking into account the materiality of the revision, the Czech statistical authorities will reclassify the unit for the periods T-1 and T-2 for units below a certain threshold, and for T-1 to T-4 above such a threshold. An appropriate threshold will be proposed by the Czech statistical authorities.

Deadline: October 2019²¹

AP 14: The Czech statistical authorities will follow up on the action point 8 from the previous EDP dialogue visit in 2016. They will find ways for obtaining data (e.g. tax declarations) on the units for which the accounting results are missing (and the results of the market/non-market test are therefore reported as 'L'). The Czech statistical authorities mentioned that the annual survey is compulsory to all public corporations, and that non-respondents concern only very small entities.

Deadline: October 2019²²

AP 15: The Czech statistical authorities will provide to Eurostat the detailed formula of the market/non-market test carried out, referring to the items of the chart of accounts/ annual survey used for this purpose.

Deadline: June 2019²³

4.1.2. Sector classification of public transport operators

Introduction

The classification of public transport operators (railways, municipal transport companies) has been under continuous discussion for a number of years. During the previous dialogue visit on 22-23 November 2016, a few follow-up actions were put in place in this regard. One of them called for clarification of relevant technical details for the Czech Railways, which are split into 3 companies: Správa železniční dopravní cesty (RIA) - infrastructure company classified within general government; České Dráhy a.s.—the passenger service operator; and ČD Cargo a.s., a wholly owned subsidiary of České Dráhy a.s.—the latter being the cargo service operator. Both operators are classified in S.11 as market producers. Another follow-up called for an analysis for the classification of the Prague Public Transit Company, which was completed in 2017, and the classification confirmed in bilateral correspondence.

In 2018, with regard to the Czech railways, the CZSO partially changed the recording of D.31 subsidy on product paid to České Dráhy a.s. according to the Public Service Obligation (PSO) contract between České Dráhy and the Ministry of Transport²⁴. This change affected the part of

²¹ The answer to this action point was received on 31 October 2019.

²² The answer to this action point was received on 31 October 2019.

²³ The answer to this action point was received on 31 July 2019.

²⁴ <https://www.mdcr.cz/getattachment/Dokumenty/Verejna-doprava/Zverejneni-smluv-na-vlaky-dalkove-dopravy-v-obdobi/Velka-smlouva-o-ZVS-na-obdobi-2010-2019/SmlouvaMDCDvelkaDlouhodobada.doc.aspx>

the PSO payment which aimed to compensate České Dráhy for providing discounts in selling annual and monthly subscription cards to special social groups (e.g. the students, the retired, the disabled, etc.). Such discounts were confirmed as ‘individualised’ payments to customers (accounted for on a per card/ per ticket basis), and were consequently switched from D.31 to D.632 social transfers paid in kind, in 2018.

Discussion and methodological analysis

The discussion during the meeting primarily focused on the government finance statistics treatment of the PSO payments to České Dráhy, for EDP purposes, and notably in order to confirm the sector classifications of the railway three main companies involved (infrastructure company classified within general government, České Dráhy a.s.—the passenger service operator and CD Cargo a.s., a wholly owned subsidiary of České Dráhy a.s.—the latter being the cargo service operator, with both operators classified in S.11, as market producers).

In relation to government railway transport operators, Eurostat noted that the Czech statistical authorities record PSO payments as subsidies on products (D.31, i.e. within sales) and some other specific payments as social transfers in kind, resulting in the main Czech passenger transporter (Czech Railways) to be classified outside government (its ratio being much above 50%). Eurostat raised doubts on whether such PSO payments can be considered as sales of transporters since they are paid per 'train-kilometre' and not per ‘passenger-km’ actually transported. Eurostat thus enquired on the ‘product’ produced actually deemed to be purchased through these PSO, most notably its collective or individual nature. In particular, Eurostat wondered what the volume of the ‘product’ in question was, e.g. how GDP in volume would behave if passenger traffic would steeply fall by say 50%.

To circumvent these problems, Eurostat wondered whether these PSO payments could not be viewed (rearranged) as revenue of the Railway Infrastructure Manager (Railway Infrastructure Administration, already reclassified into S.13), given the nature of such payments (aiming at reducing the cost of the use of tracks and thus only indirectly reducing the price per ticket), which would result in most railway operators to be clearly above the 50% test. In addition, this rearranging of PSO would ensure that the classification of the unit is independent from the way the PSO support scheme is structured.

The Czech statistical authorities thought that their recording was appropriate given that PSO payments are volume-related, but promised to reflect on all the implications of the proposed rerouting solution, which was new to them. Eurostat offered to provide a short note by June 2019 on the merit of this rerouting to assist in this reflection.

The CZSO also clarified that all train operators are compensated for providing discounts in selling tickets for children, students and pensioners. Discounts are provided automatically to those social groups no railway card is needed. It is sufficient to present an ID card or a student ID in order to claim the discount.

Findings, follow-up and conclusions

As a follow-up, Eurostat requested CZSO to confirm the split between D.31 subsidy on product and D.632 social transfers, for the years since D.632 started to be accrued for discounted railway cards (as explained above). Eurostat also asked the CZSO to confirm if the D.632 booked in

relation to railway discounts is included as part of the PSO payment to České Dráhy, as shown in their financial report²⁵.

AP 16: Eurostat invited the Czech statistical authorities to reflect on whether train-kilometre PSO payments can realistically be recorded as a subsidy on the product sold by the transporter in national accounts. They will in particular reflect on whether it would not be more appropriate to route these payments to the infrastructure company (RIA), on the basis of a note to be provided by Eurostat.²⁶

Deadline: October 2019²⁷

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

The basic data sources for taxes and social contributions are cash financial statements reported by the State Budget and local budgets and the time adjusted data collected by the MoF from tax administrations. In Czechia, the sector S.1314 comprises only health insurance companies. Stocks and flows related to social contributions are recorded as part of the central government sub-sector (S.1311).

The MoF is responsible for the compilation of accrual data on taxes. The accrual social contributions are compiled by the CZSO. For 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 based 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 opened the discussion by recalling that the time adjustments for the corporate income taxes (CIT) and personal income taxes (PIT) were agreed a long time ago. It was also recalled that, due to these time adjustments, for the April notification an estimate/forecast is usually being used to compile income tax amounts, while more-final data is available only in time for the October EDP notification. The estimates used in April are based on specific indicators: primarily

²⁵ <http://www.ceskedrahy.cz/assets/pro-investory/financni-zpravy/vyrocní-zpravy/annual-report-of-the-ceske-drahy-group-2018.pdf>.

²⁶ On 31 July 2019, CZSO sent comments, which stated that “a major part of PSO payments serves to cover other costs than costs of the use of tracks”. In September 2019, Eurostat confirmed that this rerouting proposal “exposed in Prague (and explained in the annex to the EDPSWG document of the June 2019 meeting) to consider that PSO should be subsidies on the product of the inputs of CZ Railways (its purchases from infrastructure), is not applicable”

²⁷ An answer to this action point was received on 31 July 2019. The topic has continued to be discussed extensively throughout the October 2019 EDP notification.

monthly cash payments for PIT, changes in gross value added for non-financial corporations, and accounting profit for financial corporations.

Eurostat enquired if the CZSO has performed a study on the ‘error of forecast’ by comparing the April-to-October income tax revisions, and where the most significant part(s) of the revisions could be observed (PIT/ CIT_{non-financial}/ CIT_{financial}). The CZSO replied that they will consider such a study in the future (for a period of at least 6 years). The CZSO also clarified that during the October EDP notifications, estimates are replaced with actual data for CIT and PIT, whereby the final settlement is time adjusted with an 8-month lag. The remaining 4 months are included in the tax revenues of year T in order to avoid further revisions.

The discussion continued to focus on the payable child tax credit to self-employed persons and to employees. It was previously discussed that such tax credit amounts were included as a netting item in PIT. The Eurostat recalled the ESA 2010 rules (paragraph 20.168) requiring expenditure flows (e.g. for social security) not to be netted with tax payments. The CZSO informed that they do not have sufficient data to enable such gross tax (D.5) vs. social security (D.62) payment reporting, which was noted by Eurostat as a deficiency in need of rectification. It is estimated that such netting amounts to approximately CZK 30 billion annually. Given the extended time period that this problem refers to, it was suggested that the correction is effected in one go, during the planned June 2020 benchmark revision. Eurostat suggested that statistical modelling could be applied (similar to best practices in other EU countries) in order to implement the required net-to-gross adjustment, involving a split between D.5 revenue and D.62 expenditure.

Findings, follow-up and conclusions

The Czech statistical authorities informed Eurostat that estimates are typically being used for the time adjusted personal and corporate income taxes (“PIT” and “CIT” respectively) for year (T-1) during the April EDP notifications. Such estimates are based on specific indicators (monthly cash payments for PIT, changes in gross value added for non-financial corporations, and profit for financial corporations). During the October EDP notifications, estimates are replaced with actual data for CIT and PIT, whereby the final settlement is time adjusted with an 8-month lag. The remaining 4 months are included in the tax revenues of year T in order to avoid further revisions.

AP 17: The Czech statistical authorities will describe the forecasting methodology (recalling briefly its evolution across time, if necessary) prepare a simple estimate-deviation table for a sufficient number of years, showing the difference between the April estimate and the final October numbers for PIT and CIT, in absolute amounts, and will provide comments in an accompanying note.

*Deadline: October 2019 Notification*²⁸

AP 18: Eurostat took note that the personal payable tax credits paid to parents for children are currently not grossed up in government accounts, i.e. once parental benefits start to be paid, such benefits are recorded as a deduction from the amount of tax paid in cash. A benefit is currently recognised in national accounts only when a net payment is refunded by the Treasury and for that amount. In order to align with ESA 20.168, the Czech statistical authorities will separate the

²⁸ An answer to this action point was received on 1 October 2019.

recording of such benefits into a gross amount of benefits recorded as D.62 (currently estimated at CZK 30 billion annually) and matching accrual tax (D.5). In implementing this split, statistical modelling could be applied, where appropriate.

Deadline: April 2020 Notification

4.2.2. Interest and consolidated interest

Introduction

Prior to the dialogue visit, the CZSO provided an updated template-table on the recording of interest, according to the latest updated template. In general, interest data for entities included in the working balance are collected from budgetary classification and adjusted to accrual figures using information supplied by the MoF. For the other central government bodies, accrual interest is obtained from accrual-based financial statements. Other adjustments to interest flows are mainly related to FISIM (financial intermediation services indirectly measured: charges and fees included with interest), financial leasing (including the interest relating to Gripen aircrafts) and interest related to church restitutions.

Discussion and methodological analysis

Eurostat enquired about the reason for the higher negative coupon sold for 2018. The CZSO explained this with the change in the structure of issued bonds as well as the higher issuance activity. Approx. 30% of the gross issue of medium-term and long-term government bonds in 2017 consisted of zero-coupon government bonds (thus zero amount of coupon sold). In 2018, these types of bonds were issued only marginally. In addition to this, the gross issuance of medium-term and long-term government bonds in 2018 was approximately CZK 50 bn higher (+20%) compared to 2017. Due to redemptions of government bonds in 2017, the coupon paid (on cash basis) decreased by CZK almost 2 billion in 2018 compared to 2017.

Eurostat also enquired about the compliance with the MGDD chapter on the face value concerning certain financial instruments²⁹.

Eurostat enquired on a number of items related to the ad-hoc *table on interest recording* filled prior to the EDP dialogue visit, notably the origin of significant other economic flows in the stocks of coupon accrued (item 2). This item notably currently reflects foreign exchange effects on the stock of coupons accrued on foreign exchange debts and the 'step-up' on some savings bonds. These savings bonds are classified within Debt securities (AF.3), and both accrued interest expenditure (D.41) and the face value include, in the Czech statistics, the step-up, linearly spread over the expected life of the instrument.

²⁹ The new revised MGDD was published in August 2019: <https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-19-007>

*Findings, follow-up and conclusions*³⁰

AP 19: The Czech statistical authorities will provide to Eurostat further detail on other economic flows in the stocks of coupon accrued, notably splitting this item 2, separating the influence of foreign currency debt from that of savings bonds.

*Deadline: July 2019*³¹

4.2.3. EU flows

Introduction

Prior to the dialogue visit, the CZSO provided a detailed explanatory note on EU flows. In the EDP tables, the impact of EU flows is generally offset through an adjustment in other accounts receivable/ payable (F.89), which is calculated as the difference between total proceeds received from the EU minus total expenditure made on behalf of EU. Cash-based financial statements provide data on the amounts of receipts and expenditure included in the working balance, including the information on source, i.e. national funds/EU flows/pre-financing on behalf of EU. At the same time, EU grants provided to final beneficiaries outside general government are excluded from ESA government revenue and expenditure.

During the April 2019 EDP notification, Eurostat noted a notable 2018 increase in EU outflows, and inquired if this increase was related to increased investment. The CZSO explained that the reason for the increase was an increase in the flows related to a few EU operating programs (OP for Support of Business and Innovation for Competitiveness, and Integrated Regional Operational Program). There was also notable increase in investment grants paid to public universities recorded under program Research, Development and Education.

Discussion and methodological analysis

Eurostat asked for clarification of the recording of EU financial instruments, in particular related to the financial/ non-financial nature of flow recording (e.g. losses on EU financial instruments).

Concerning the use of EU financial instruments, the Czech statistical authorities indicated that detailed information on EU financial instruments was lacking for the period up to 2017, but this should be without any impact on B.9, because the usual rules for EU flows were applied. Eurostat took note that the amounts concerning the previous programming period were relatively small (CZK 1 to 2 billion overall, to be spread over 7 years). As a result, Eurostat did not insist on a full retroactive data interpolation. However, given the renewed activity regarding these EU financial instruments and the fact that the accounting rules had been recently clarified, an appropriate recording should be put in place for recent years.

³⁰ In its bi-annual meeting on 19-21 June 2019, the EDP Statistics working group (led by Eurostat) concluded that the Table on derivatives, as well as the Table on interest need detailed compilation guidelines that can help treasuries in better reflecting details related to the recording of derivative instruments and interest.

³¹ An answer to this action point was received on 31 July 2019.

Findings, follow-up and conclusions

AP 20: The Czech statistical authorities will prepare a table showing receivables and payables, stocks and flows, related to EU financial instruments. This table should also report data related to any losses incurred. The Czech statistical authorities will ensure the application of the rules.

*Deadline: October 2019 Notification*³²

4.2.4. Military expenditure

Introduction

Data on acquisition of military equipment are provided by the Ministry of Defence. 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 the years since 2015.

Discussion and methodological analysis

Eurostat enquired about current and planned acquisitions of military equipment, noting information in the press of significant increases in military spending expected in 2019 and 2020. The CZSO explained that they were not aware of any new contracts signed in 2019, but would monitor for such information in cooperation with the MoF and the Ministry of Defence (a cooperation agreement exists). The Czech statistical authorities furthermore confirmed that acquisitions of military equipment is financed close to delivery, aside from financial leasing (the Gripens purchased in 2015). No advance payments are currently made for the acquisition of military equipment.

Findings, follow-up and conclusions

With a view to an expected increase in military spending in the near future, the Czech statistical authorities will inform Eurostat – once the contracts are actually signed – how these spending will be financed.

4.3. Recording of specific government transactions

4.3.1. Guarantees

Introduction

Prior to the dialogue visit, the CZSO provided a table with a list of the guarantees called, as well as related repayments for 2015-2018. The CZSO also provided a detailed updated note on EGAP (a government-controlled exports insurer) and the Czech Export Bank. The 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 and the Railway Infrastructure Administration. Some of the provided guarantees related only to interest payment. Other guarantees provided by other central government bodies, e.g. by the Agricultural and

³² An answer to this action point was received on 31 July 2019.

Forestry Fund, are of negligible amounts. In 2014-2017, data on guarantees provided by local government entities were reported in public accounts according to the Decree No. 410/2009 Coll, as amended. Since 2018 these data have been reported according to Decree no. 25/2017 Coll. Health insurance companies cannot provide guarantees. Standardised guarantees are not applicable.

Discussion and methodological analysis

As already mentioned under section 3.c. ('2017 revisions in F.1/ F.6 assets and F.1/ F.5/ F.6/ F.72 liabilities') above, Eurostat wondered if the insurance policies provided by EGAP do not have the defining elements of financial guarantees. The discussion on this point was merged with point 3.c. above.

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

Introduction

Government claims (F.4) are reported in the Questionnaire table 8.1. Most of the claims are against foreign counterparts, in particular claims against third countries, as well as loans by national development banks (CEB, Czech-Moravian Guarantee and Development Bank or CMZRB) against non-resident debtors. Majority of debt cancellations for the period 2015-2018 concerned foreign claims.

The foreign claims stock and the claims against mediators (as explained further below) have increased over time mainly due to accrued interest, while no new lending has been extended, in combination with only small repayments over the recent years. In September 2018, Eurostat published an advice³³ to the Czech statistical authorities related to foreign claims, advising on how debt forgiveness should be treated, as well as on the interest accruals regarding those claims.

Discussion and methodological analysis

(a) Foreign claim against Cuba (CZK 5.1 billion as of end-2018): the main part of the claims against Cuba is in a non-existent currency "transferable rouble" (XTR) precluding meaningful valuation. Negotiations between the Czech Republic and Cuba have been restored recently. Cuba recognizes principal and interests in XTR, but the applicable exchange rate is in dispute. Only very limited comparable cases were identified: Cuban debts towards Slovakia and Russia in XTR. The Slovak case is similar, with the only difference that no agreement about debt forgiveness exists between Czechia and Cuba yet. The Czech claim against Cuba (which dates back to the mid-1990s) is currently valued at 10% of its original value. The corresponding 90% reduction was recorded in 2015 as 'other changes in volume'.

(b) Foreign claim against ex-Yugoslavia (SFRY, CZK 4.5 billion as of January 2017): In 2017 the claim was split into two parts: Serbia and the other countries which used to be in ex-Yugoslavia. Serbia and Czechia are in the latest stage before closing an agreement through

³³ <https://ec.europa.eu/eurostat/documents/1015035/8683865/Advice-2018-CZ-Recording-of-foreign-claims.pdf>

which Serbia recognizes a principal of CZK 313 million and an accrued interest of CZK 384 million. Previously, Czechia had been accruing compound interest, while Serbia recognised only simple interest accrual. The CZSO has made a revision to exclude all accrued interest on this claim in the period 2015-2018 (with negative B.9 impact). Once the agreement with Serbia is concluded (properly ratified), the simple interest of CZK 384 million, which is recognised by Serbia, will be spread (reallocated) over the years. Agreements with the other countries which used to be in ex-Yugoslavia (Croatia, Montenegro, etc.) are pending. The Czech statistical authorities informed that an agreement with Montenegro was expected to be signed by the end of 2019.

(c) Other foreign non-performing claims: A disputed claim with Iran has been settled with Iran and Czechia agreeing that the former will only repay the principal part of the claim, without accrued interest. The claim against Iran is no longer considered disputed.

Aggregate information on all the foreign claims by the CEB (Czech Export Bank) has been presented: CZK 46.4 billion at the end of 2018. These claims have been monitored and provisioned, where necessary, in accordance with the sound banking principles.

Claims against mediators have been significantly reduced in 2018, from CZK 872 million to CZK 204 million following the analysis of the MOF that those claims were considered non-performing. As a result, a majority of them (CZK 543 million) were removed from the balance sheet through recording debt cancellation against BMC Agro (a financial intermediary company, which used to be specialised in claim-recovery facilitation services, although it was not clear if BMC Agro continues to exist). A sizeable foreign claim (CZK 4.7bn) related to Czech companies' construction and supply of equipment for the building of a gas pipeline on the territory of the former Soviet Union (Transgas) is still unresolved. Eurostat enquired about this claim and the MoF explained that this claim was originally expected to be repaid through supply of natural gas originating from Kazakhstan. The Kazakh authorities were claiming that the agreed amount of gas has been physically transferred from Kazakhstan to Russia and Ukraine. However, Czechia had not received any of this gas, and the claim remains open (potentially to be reclassified as 'unlikely to be repaid').

Eurostat also informed the Czech statistical authorities about the intended changes in the MGDD (new chapters 2.4.3.19 and 2.4.3.20³⁴, Interest accrued on intergovernmental loans in dispute and on loans unlikely to be repaid). According to the new chapters, interest is accrued according to the 'debtor approach'. In case of a dispute on the calculation of interest on intergovernmental loans, the accrued interest that is recorded in national accounts is the interest recognised by the debtor, rather than the one expected by the creditor, pending the final agreement. At the time of final agreement, the value of the claim is recalculated backwards if necessary, including the correction of interest accrued on the principal. At the moment of final agreement, the only potential B.9 impact is the correction of interest in the particular period concerned: other changes in volume for the claim should not be recorded.

According to the new (2019) MGDD chapters, interest revenue accrued on intergovernmental claims considered unlikely to be repaid should be neutralised through recording a capital transfer

³⁴ The 2019-revision of the MGDD was published on 2 August 2019 at https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/product/-/asset_publisher/Wq1sJK3yM5fP/content/KS-GQ-19-007.

payable (D.99) for those amounts, analogous to cases of debt cancellation. This is achieved through the following entries: (i) interest accrued by the debtor to the creditor; (ii) creditor increases the value of the loan with the accruing interest; (iii) capital transfer (D.99) is booked from the creditor to the debtor equal in size to the accruing interest; and (iv) the capital transfer is used to repay the loan, thus reducing the value of the loan (to its starting point). This treatment is applied until there is strong evidence that the claim is performing again (e.g. resumed regular loan repayments).

Eurostat took note that, in relation to the stock of certain claims towards Cuba, the Czech statistical authorities recompiled, for the April 2019 notification, the stock of these claims as well as associated interest (thus with a B.9 impact), based on a plausible estimate, following the Eurostat advice provided in September 2018. However, this recalculation was carried out for the years 2015-2018 only, with a break in time series in 2014.

Eurostat confirmed its position that the ‘other changes in volume’ recorded in the Czech national accounts in 2015 on the 90% reduction in the claim against Cuba are not compliant with ESA rules and enquired about an update on the negotiations between Czechia and Cuba, with a view to reaching a potential settlement (involving potential debt forgiveness).

Findings, follow-up and conclusions

AP 21: In the benchmark revision in 2020, the Czech statistical authorities will revise the entire time series for the years 1995-2014. At time of final settlement with Cuban authorities, the Czech statistical authorities will then either record a capital transfer for any negative difference between the settlement and the carrying value of the claim, or recalculate the stock of claims, based on the new agreed value, as well as accrued interest accordingly.

Deadline: Benchmark revision and/or final settlement with the debtor

AP 22: Eurostat took note that, in the case of government claims towards Serbia, accrued interest was removed for the whole amount (for the years 2015-2018), thus not fully following the Eurostat recommendation to record, in case of dispute on the interest formula, only the part recognised by the debtor pending final agreement. The Czech statistical authorities will consider the need to reinstate the minimal interest recognised in the October 2019 EDP notification and will implement a full consistent recording over 1995-2018 for the benchmark revision. After an agreement is eventually reached, the time series will need to be finally adjusted.

Deadline: October 2019³⁵

Benchmark revision and/or final settlement with the debtor

³⁵ An answer to this action point was received on 31 July 2019.

AP 23: Eurostat took note of the ongoing negotiation on the settlement of government claims towards Montenegro and the claim of a government unit Transgas (S.13) towards Ukraine and Kazakhstan and enquired on the holding loss concerning certain ‘classified’ claims. The Czech statistical authorities will inform Eurostat about the results of the negotiations and the recording in national accounts when relevant. The MoF will arrange a restricted meeting with Eurostat to document the origin of the negative other economic flow concerning ‘classified’ claims.

*Deadline: when relevant*³⁶

AP 24: The Czech statistical authorities will provide to Eurostat the stocks and flows of claims towards mediators of foreign claims since 2003³⁷ or earlier, if possible.

*Deadline: October 2019*³⁸

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 currently 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

Eurostat recalled the discussion during the April 2019 EDP notification. At the end of March 2019, the CZSO provided the EDP Questionnaire table 10 with only one large capital injection noted for 2018. During the discussion, the CZSO confirmed the explanation provided during the notification, that the capital injection total (D.9) is already included in the general government B.9 (net lending/ borrowing), so they do not expect any material revisions in this item to happen before the October 2019 notification. The issue was just that the detailed lines for public corporations were missing due to lack of information on the transactions counterparties at that time. Eurostat also noted the lack of information about loans provided to public corporations (EDP Questionnaire table 8).

³⁶ An update was received during the October 2019 EDP notification.

³⁷ The year of historical reference was changed/ set to 2003 (from 1995 initially proposed) as per the 3 July 2019 comments by the CZSO. The reason for this is that most of the claims resolved with the help of mediators were already closed in the past, with either full or partial settlement. Unenforceable claims (e.g. claims with missing documentation) were written-off. Only a negligibly small amount of such old claims is still kept in record.

³⁸ The table with stocks and flows of claims towards mediators, along with explanatory comments, was received on 31 October 2019.

Findings, follow-up and conclusions

Detailed lines for 2018 capital injections will be provided in EDP Questionnaire table 10, as and when information becomes available. The Czech statistical authorities committed to investigate the lack of information about loans provided to public corporations and to report back to Eurostat during the EDP notifications.

4.3.4. Dividends, super dividends

Introduction

Prior to the dialogue visit, the CZSO sent a table of dividends paid to government in 2015-2018, as well as a note on the super dividend test.

Discussion and methodological analysis

Eurostat enquired about some specific items included in performing the super dividend test, e.g. other operating income/ expense, and more specifically about the one-off nature of such items. The discussion also mentioned the creation/ dissolution of reserves and how such reserve flows influence the calculation of the super dividend test. The CZSO confirmed that the adjustments related to impairment and the creation of reserves, as well as sales of assets, are excluded from the operating profit. Eurostat also drew the attention to the fact that in 2017, Pražská Energetika Holding a.s. reported losses, while in 2018 it paid dividends, the majority of which (more than 80%) were recorded as normal operating dividend income.

Findings, follow-up and conclusions

AP 25: The Czech statistical authorities will analyse and report further on cases where public corporations reported losses in certain periods, but simultaneously paid dividends (in the subsequent year, for example, Pražská Energetika Holding).

Deadline: October 2019 notification³⁹

AP 26: The Czech statistical authorities will analyse and report to Eurostat the P&L items representing reserve/ provision reversals (in public accounts), and their effect on the calculation of the super dividend test.

Deadline: October 2019 notification⁴⁰

³⁹ The answer to this action point was received on 31 September 2019.

⁴⁰ The answer to this action point was received on 30 September 2019.

4.3.5. *Financial derivatives*

Introduction

The use of financial derivatives has been gradually diminishing over time. Derivatives were mostly used by central government in the past in the form of debt currency hedging (EUR-CZK) and (floating-to-fixed) interest rate swaps. Social security funds (health insurance companies) do not use financial derivatives. Prior to the dialogue visit, the CZSO sent an updated table showing detailed information on recording of derivatives, as well as a structure of government debt table, showing, among others, the split of debt into domestic and foreign currencies.

Discussion and methodological analysis

Eurostat opened the discussion by explaining the template table for recording financial derivatives. Eurostat informed that the template is still under development, with the ultimate purpose to achieve detailed, but yet concise reporting on the various (standard) financial derivatives that are used by EU Member States. Eurostat also explained that the table is predominantly aimed at budgetary central government, i.e. the template seeks to provide explanations for the derivative entries in EDP Table 3B1. Eurostat also recalled that, according to EDP reporting, if a certain portion of the foreign currency debt is hedged via financial derivatives, this part should be reported as a domestic currency debt.

Eurostat enquired about a number of the entries provided in the derivatives table (more details within action point 27). It was noted that the stock amounts are relatively minor compared to transactions. The MoF explained that this was justified by the nature of the derivative instruments used. Eurostat also reviewed some market to face/ nominal value differences, observed in ESA tables 27 and 28. The MoF explained in details how (predominantly in the past) it used to hedge floating to fixed interest rates, with a general preference to pay a fixed interest rate. The MoF also explained that Czechia does not have any off-market swap, which is evident in block 3 of the derivatives table. Eurostat also noted that, since at least 2015, the Czech government is able to borrow in domestic currency at interest rates which are comparable or seemingly better than the prevailing interest rates in Euro.

Structure of government debt

In spring 2019, a discrepancy in the debt structure was identified between the information published in the ESA tables and the statistical information supplied to the ECB (ECB Table 3). The discrepancy concerned the foreign currency breakdown of the Maastricht debt, as reported in a dedicated questionnaire on the structure of the Maastricht debt. The discrepancy was due mainly to a technical error in the tables compiled for the statistical office, whereby government debt held by foreign investors was misreported as foreign currency debt, while tables provided to the ECB were not tainted by this error. Additional, albeit significantly smaller revision was necessary due to new Eurostat rules for hedged debt reporting, which stipulates that currency-hedged debt denominated in foreign currency should be reported within local currency debt, for the purpose of the debt questionnaire, as well as reported as a newly created memorandum item. These discrepancies were corrected in May 2019 for years 2016 and 2017⁴¹.

⁴¹ The new structure of government debt data for 2018 was published (on Eurostat's Eurobase database) at the end of June 2019.

The CNB separately explained that some data reported to the ECB (for instance MUFA) differed from those reported to Eurostat (ESA tables), because under ESA rules a few development banks/ export insurance agencies are classified inside the general government sector, while according to ECB statistical instructions, these financial corporations fall outside S.13. However, the CNB remarked that it was nonetheless reporting to the ECB fiscal data using the ESA sector coverage for annual government finance statistics (ECB table 1, 2 and 3) as well as for the quarterly financial accounts of general government (ESA table 27), so to avoid disseminating to users fiscal data different to those of Eurostat. Eurostat welcomed this approach. Eurostat noted that, in relation to MUFA, the ECB could presumably decide to have a different recording rule to that of ESA (despite the fact that the ECB guideline specifies that MUFA is to be reported following ESA 2010 rules).

Findings, follow-up and conclusions

AP 27: Eurostat conducted a detailed discussion on the ad-hoc table on financial derivatives filled by the Czech statistical authorities for the EDP dialogue visit (as well as on the Structure of Government Debt survey), enquiring on the size of transactions compared to very small stocks, as well as on the negative stocks reported, also noting that the reported transactions were not the same or even commensurate with the data reported in ESA table 27, EDP table 3B or EDP Table 3B1. An updated table will be submitted to Eurostat, separating the instruments between assets and liabilities based on the criteria of whether the derivative in question is an asset or a liability (and not whether the derivative is used for hedging or not) and showing transactions for both legs of the swap (this should reduce the size of reported ‘transactions’). The Czech statistical authorities will also comment on the absence of collateral being reported, perhaps due to the use of central counterparty (which could then explain the limited reported stocks).

Deadline: one month after the publishing of the Eurostat compilation guidelines for filling out the Table on derivatives⁴²

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

Introduction

Prior to the visit, the CZSO sent to Eurostat a detailed PPP/concessions/EPC note. At that time no PPP was deemed to exist in Czechia. The CZSO informed Eurostat about a newly planned PPP intended for the D4 motorway (Příbram–Písek 48km, of which 32km as a greenfield and the remainder as a brownfield on an already existing stretch of the D4 motorway), which is the only planned PPP transaction in Czechia for 2019. At the time of the dialogue visit, this PPP was still in tendering, with financial close expected by the end of 2019. Additionally, the State Fund for Transport Infrastructure sent a number of questions, aimed to clarify the provisions of the Eurostat guide on the statistical treatment of PPP transactions⁴³.

⁴² Deadline changed/ set as per the 3 July 2019 comments by the MoF. In its bi-annual meeting on 19-21 June 2019, the EDP Statistics working group (led by Eurostat) concluded that the Table on derivatives (as well as the Table on interest) need detailed compilation guidelines that can help treasuries in better reflecting details related to the recording of derivative instruments and interest.

⁴³ <https://ec.europa.eu/eurostat/documents/1015035/7204121/epec-eurostat-statistical-guide-en.pdf>.

With regard to EPC transactions, the CZSO relayed information from APES (the Czech Association of Energy Service Providers) on EPC contracts signed, last updated for 2017. This information confirmed that the amount of EPCs signed in 2017 was insignificant as a percent of GDP. The total value of investments related to contracts signed by government institutions amounts to CZK 131 million (0.003 % of GDP).

Discussion and methodological analysis

Eurostat enquired and took note that EPC are recorded on-balance sheet in the own accounts of units allowed to engage in such contracts. The Czech statistical authorities monitor this activity through a dedicated database that shows a couple of hundred of projects covering all Czech residents, although a large fraction consists of units classified inside government. The amounts concerned are nonetheless small.

The MoF informed about a new forthcoming database encompassing large long-term procurement contracts (above CZK 300 million) which is being developed by the ministry. After cross-checking, the CZSO will receive this new database at the end of 2019.

This agenda point was mostly discussed during the follow-up video-conference (7 June 2019). The discussion then focused on clarifying the questions asked by the State Fund for Transport Infrastructure. Eurostat also asked the CZSO and the Fund to verify if the brownfield section (16km) of the D4 motorway qualified as a PPP if considered separately from the greenfield part (32km). The availability payment composition was also discussed, with Eurostat recommending that it would be preferable to define availability payments separately for the greenfield and the brownfield sections, in the PPP/ concession contract(s). Eurostat clarified that the availability payments for the brownfield section would have to cover predominantly its operation (provision of service), while the availability payments for the greenfield section have to cover three components: operational service, depreciation/ amortisation of the infrastructure built, and the interest for the imputed debt.

Findings, follow-up and conclusions

AP 28: With regard to the contemplated D4 motorway PPP, which is currently under tendering (as of June 2019), the Czech statistical authorities will consider if the brownfield part of the project (16km out of 48km total) qualifies as a PPP, when considered separately from the greenfield part (the remaining 32km). If it does not qualify as a PPP transaction on its own, Eurostat recommended that the Czech statistical authorities envisage partitioning the contract for statistical purposes, between a greenfield part that could potentially be treated as an off-government-balance-sheet PPP, and a brownfield part that would be treated as an expenditure of central government. The Czech statistical authorities will provide to Eurostat a copy of the D4 motorway PPP contract along with an analysis of the statistical treatment as soon as it is available.⁴⁴

*Deadline: When applicable (e.g. three months following the financial close of the D4 motorway PPP contract)*⁴⁵

4.3.7. Emission Trading System (ETS) allowances (permits)

Introduction

The Czech statistical authorities account for revenue resulting from the auctioning of ETS allowances on a cash basis. During the EDP notification of April 2019, they confirmed that their methodology should be changed. They also stated that they had requested the necessary source data from the Ministry of the Environment and other relevant authorities. An action point from the previous EDP dialogue visit to Czechia on 22-23 November 2016 required the CZSO to report on the “progress on [ETS allowance] data sources and the recording in line with the MGDD”. The latter was not fulfilled, because the MGDD required that the ETS auctioning proceeds be time-adjusted, with the underlying principle that tax revenue should be booked at the time of the permit surrendering, which is assumed to approximate the timing of the harmful emission of gases.

The MGDD 2016 edition treatment of ETS allowances yielded the need to account a pure financial transaction at the time ETS permits are auctioned (+ F.2 asset against + F.8 liability), followed by ‘unwinding’ of the F.8 liability into D.29 tax revenue at the time of the surrendering. By regulation, the surrendering takes place in April (each year) following the calendar year of the harmful emission of gases (verified during the first few months of the subsequent year). The Czech statistical authorities have been booking a simple cash-based revenue at the time of the ETS auction (+ F.2 asset against + D.29 tax revenue).

During the April 2019 EDP notification, the CZSO also sent some additional (national accounts) data (‘Matrix’), showing the consequential effects of ETS issuance over the other sectors of the economy and the balance of payments (S.11, S.12, S.2) beyond the limits of government finance statistics, in terms of multiple affected ESA accounts (K.1, K.2, K.7, AN.2 and NP.2).

⁴⁴ On 1 August 2019, the CZSO confirmed that according to their preliminary analysis, the brownfield part does not qualify as a PPP, and the project will thus be split, for statistical purposes, into a greenfield part and a brownfield part, with the latter treated as investment/ operating expenditure by the government.

⁴⁵ An updated on the D4 motorway contracting procedure was received during the October 2019 EDP notification.

Discussion and methodological analysis

Eurostat thanked the CZSO for sending updated 2018 information (filled out ETS template) on the auctioning and the booking of D.29 revenue due to ETS allowances, which was received prior to the meeting. Eurostat also recalled the need for a time adjusted D.29 revenue, when accounting for the proceeds of the ETS auctions, taking into account the ongoing discussion at EU level.

Eurostat also appreciated the additional (national accounts) data ('Matrix'), sent during the April 2019 EDP notification, showing the consequential effects of ETS issuance over the other sectors of the economy. Eurostat stated that this data provided useful food for thought, for the EDP methodological treatment of ETS issuance, which continues to pose challenges, due to the fact that a sizeable part of the ETS allowances issued continues to be given away for free (to pre-determined national 'installations'). The latter has not been treated in government finance statistics, even though it has the nature of a subsidy, since the beneficiaries can trade (sell) ETS allowances received for free in the single ETS market (European commodity exchanges).

Eurostat asked a number of questions related to the national accounts data Matrix, e.g. the composition of the reported AN.2, NP.2 amounts, the derivation of the amounts reported for permits given for free. Eurostat also asked questions related to potential D.74 flows (balance of payment effects).

Eurostat recalled that a number of independent and easily accessible data sources exist, when it comes to the ETS. One such source is the central EU ETS transaction log (EUTL)⁴⁶, which is published on the website of the European Environmental Agency and shows the numbers of permits issued for free, sold in auctions and surrendered (for each year), among other useful ETS data. Another useful data source is the ETS auction information published in the EEX commodity exchange⁴⁷, which shows cash proceeds by member state, from the auctioning of ETS allowances. Eurostat pointed out to some deviations between the cash data from the EEX exchange and the amount reported by the CZSO (e.g. CZK 3.2bn vs 2.95bn in 2016).

Findings, follow-up and conclusions

AP 29: The Czech statistical authorities will envisage changing the current practice of recording ETS-related D.29 revenue on a pure cash basis – taking into account the ongoing discussion at EU level. The Czech statistical authorities will clarify a number of issues raised in relation to the Matrix submitted in the April 2019 notification, which reports transactions, other economic flows and stocks of assets in relation to ETS for each of the institutional sector. They will notably analyse cases where ETS allowances allocated for free to units classified within general government are later re-sold to other market participants, rather than used to cover for verified emissions.

Deadline: April 2020 notification

⁴⁶ <https://www.eea.europa.eu/data-and-maps/data/european-union-emissions-trading-scheme-12> is the latest version of the EUTL published, which is being updated at least twice annually

⁴⁷ <https://www.eex.com/en/products/environmental-markets/emissions-auctions/archive>

4.3.8. Others: privatizations, sale-leaseback operations, mobile (3G/4G) licenses, securitisation

Introduction

Privatisations: privatization is largely a closed process, which occurred in the past (mainly during the 1990s). No significant privatization has been recorded since 2015. To a limited extent, there exist privatizations of flats and land at municipal level.

Sale-leaseback operations: this kind of transactions are being surveyed by the statistical questionnaires for government institutions (AAO, VI 1-01). Some values had been indicated by respondents in past years (several millions of CZK). However, further investigation and consultations with respondents showed that the questionnaires were incorrectly filled due to misinterpretation by respondents. No transactions of this nature have been identified.

Mobile license sales: Four big auctions of UMTS were carried out in the years 2001-2005. No new transactions with UMTS have been carried out in the years since 2005. In the years 2014-2016, there were also large auctions of LTE (4G) licenses. The next large wave of auctions (5G licences) is planned/ expected in 2020.

Securitisations: Prior to the dialogue visit, the Czech statistical authorities confirmed that no securitization operations have been undertaken.

Discussion and methodological analysis

The discussion below took place during agenda point 1.2.1. Availability and use of data sources, revision policy, in the context of the revision policy discussion.

Eurostat enquired with the Czech statistical authorities about their adherence to the Eurostat guidance for the recording of mobile license sales (auctions) published in March 2017, requiring that sale proceeds be spread (time-adjusted) over the lifetime of the license contract, reflecting a lease-like (D.45) revenue, counter-balanced by an AF.89 liability at the time of the sale (a financial transaction at t_0). The CZSO replied that they applied the guidance as early as October 2017, however only effecting the period (2013-2016) treated in the 2017 EDP notifications. The guidance has thus been applied effectively since 2013.

Eurostat took note that the change in the recording of the sale of radio spectrum frequencies, from non-produced assets (one-off) to rent (spread over time), carried out in the October 2017 notification, in application of the Eurostat guidance note published in March 2017, has been implemented in national accounts for all existing contracts, but only from year 2013 onwards and not for the years before. As a result, contracts older than 2013 are currently heterogeneously recorded over the period 1995-2018 in GFS (and EDP historical tables).

Findings, follow-up and conclusions

AP 3 [repeated from agenda point 1.2.1 above]: The Czech statistical authorities will correct the recording of the sale of radio spectrum frequencies in the years concerned (2012 and before) in the next benchmark revision in 2020.

Deadline: next benchmark revision (expected in mid-2020)

The EDP Inventory should also be updated following the benchmark revision, concerning mobile license revenue (lump-sums) received prior to 2013.

4.3.9. *(Lack of) Government assistance to financial institutions relating to the financial crisis*

Introduction

There were no transactions directly related to the financial crisis in Czechia. During the 2008-2009 crisis, the Czech financial system exhibited strong resilience. The crisis was felt in the country as an economic downturn (decrease in GDP), but financial institutions remained profitable and well capitalised. A comprehensive financial stability report is regularly prepared by the CNB (the latest for 2017-2018)⁴⁸, which analyses the health of the financial sector, as well as its ability to withstand future shocks (stress-testing).

Discussion and methodological analysis

During the meeting, the lack of government assistance to financial institutions relating to the financial crisis was confirmed. According to the latest assessment, there has been moderate growth in risks associated with the business cycle. In response, the CNB board decided to increase the countercyclical capital buffer rate to 1.5% with effect from 1 July 2019 (from 1.25% in effect as of 1 January 2019 and 1.0% in effect as of 1 July 2018). Other main indicators have remained unchanged and the non-performing loans ratio has generally decreased.

⁴⁸ <https://www.cnb.cz/en/financial-stability/fs-reports/financial-stability-report-2017-2018/>

Annexes

List of participants

Czech Statistical Office (CZSO)

Jaroslav Sixta
Václav Rybáček
Vladimír Kermiet
Petr Musil
Helena Houžvičková
Jaroslav Kahoun
Alena Tokošová
Lucie Beranová
Marie Laštovková
Lucie Smejkalová
Marie Trejbalová
Antonín Buš
Ludmila Vebrová

Ministry of Finance (MoF)

Marie Frýdmanová
Vojtěch Čížik
Tereza Havelková
Kateřina Helikarová
Martina Stehnová
Pavel Hora
Michael Rech
Petr Kusý
Adéla Kelnerová
Bohdan Rajčinec
Pavel Svatý

Czech National Bank (CNB)

Milan Belloň
Jaroslav Kochaniček
Lenka Marková

Supreme Audit Office

Jan Prosecký
Luboš Rokos

Czech Fiscal Council

Richard Hindls
Eva Zamrazilová

Ministry of Transport/ State Transport Infrastructure Fund

Ondřej Michalčík
Zdeněk Svoboda
Martin Janeček
Zdeněk Svoboda
František Vichta
Marcel Babczynski

Ministry of Industry and Trade

Vladimír Sochor

European Commission

Eurostat
Gita Bergere
Philippe de Rougemont
Daniela Ilavska
Vassil Georgiev

DG ECFIN

Septimiu Szabo

Agenda for the Meeting (including the video-conference on 7 June 2019)

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*
 - 1.2.2. *Compliance with Council Directive 2011/85*
 - 1.2.3. *EDP Inventory*

2. FOLLOW-UP TO THE PREVIOUS EDP DIALOGUE VISIT OF 22-23 NOVEMBER 2016

3. ANALYSIS OF EDP TABLES – FOLLOW-UP TO THE LATEST EDP NOTIFICATIONS

- 3.A. THE 2018 DECREASE IN S.13 B.9/ INCREASE IN INVESTMENT (GFCF) SPENDING
- 3.B. HIGHER 2018 'OTHER ADJUSTMENTS (+/-)' (DETAIL) IN EDP TABLE 2A
- 3.C. 2017 REVISIONS IN F.1/ F.6 ASSETS AND F.1/ F.5/ F.6/ F.72 LIABILITIES
- 3.D. STATISTICAL DISCREPANCIES (IN 2017)

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 and government-controlled entities classified outside general government (PCs)*
 - 4.1.2. *Sector classification of public transport operators*
- 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 System (ETS) allowances (permits)*
 - 4.3.8. *Others: privatizations, sale-leaseback operations, mobile (3G/4G) licenses, securitisation*
 - 4.3.9. *(Lack of) Government assistance to financial institutions relating to the financial crisis*