EUROPEAN COMMISSION
EUROSTAT

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

Luxembourg,

FINAL FINDINGS

EDP STANDARD DIALOGUE VISIT TO THE SLOVAK REPUBLIC

25–26 June 2019

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Executive summary

An EDP standard dialogue visit to Slovakia took place on 25-26 June 2019 in order to review the implementation of the ESA 2010 methodology and to ensure that the provisions of the ESA 2010 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and appropriately recorded in the Slovak EDP notifications and Government Finance Statistics (GFS). A videoconference to finish some items of the agenda took place on 9 July 2019.

Eurostat reviewed and took note of the institutional arrangements in the context of EDP reporting and the data sources used for the compilation of GFS. The Statistical Office of the Slovak Republic will reflect on the possibilities of establishing working meetings with the Supreme Audit Office and continue the discussions with the Council for Budget Responsibility, in the framework of the EDP. Eurostat reviewed the reporting of data according to Council Directive 2011/85 and some improvements were agreed. The Statistical Office of the Slovak Republic will also correct and update the EDP Inventory.

The Slovak statistical authorities informed about the forthcoming 2019 benchmark revision exercise, and agreed to prepare a detailed summary of the main changes affecting deficit and debt figures.

Eurostat congratulated the Slovak statistical authorities for the timely implementation of most of the action points agreed during the previous EDP dialogue visit that took place on 14-15 November 2017.

The Slovak statistical authorities informed about the status of investigation on the issue that led Eurostat to express a reservation on the quality of data reported in the April 2019 EDP notification, and agreed to correct the B.9 of 2018 in the October 2019 EDP notification for the amounts identified at that time.

It was agreed that some technical improvements were needed in the reporting of financial derivatives, interest accrued and EU flows. The Slovak statistical authorities will provide more details in this regard.

Eurostat took note of the methodological change in the calculation of the corporate income tax, observing that it had not received any analysis to support such a change. Eurostat requested some additional clarifications about this change, as well as about tax liabilities of General Government (e.g. tax refunds).

The calculation of the super-dividend test was yet another matter covered during the meeting. A common approach to the calculation was agreed, and the Slovak statistical authorities will provide to Eurostat detailed information to perform it.

Eurostat and the Slovak statistical authorities discussed in length the recording of foreign claim renegotiations in the light of the recent methodological developments. The Slovak statistical authorities agreed to revise the recording of some operations accordingly.

Other issues discussed included the delimitation of General Government, the nuclear fund, concessions, capital injections, guarantees, military equipment expenditure, energy performance contracts, emission trading permits and PPPs.

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

INTRODUCTION

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as regards the quality of statistical data in the context of the Excessive Deficit Procedure (EDP), Eurostat carried out an EDP dialogue visit to the Slovak Republic on 25-26 June 2019. A videoconference to finish some items of the agenda took place on 9 July 2019.

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 Rasa Jurkoniene and Mr Miguel Alonso. Representatives of the DG ECFIN and the European Central Bank participated in the meeting as observers. The Slovak authorities were represented by the Statistical Office of the Slovak Republic, the Ministry of Finance and the National Bank of Slovakia.

The previous Eurostat EDP dialogue visit to Slovakia took place on 14-15 November 2017.

Eurostat carried out this EDP dialogue visit in order to review data sources for the EDP data compilation and 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 would be sent within days to the Slovak statistical authorities, who may provide comments. Within weeks, the provisional findings would be sent to the Slovak statistical authorities in draft form for their review. After amendments, final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the information provided by the Statistical Office of the Slovak Republic prior to the EDP dialogue visit. Eurostat also thanked the Slovak statistical authorities for the co-operation during the mission and considers that the discussions were very transparent and constructive.

1. STATISTICAL CAPACITY ISSUES

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

Introduction

During the previous EDP dialogue visit, Eurostat noted the good co-operation among the institutions involved in the compilation of EDP and government finance statistics. Eurostat also took note of the commitment of the Statistical Office of the Slovak Republic and the Ministry of Finance to reflect on the possibilities for establishing regular working meetings with the Council for Budget Responsibility (CBR) in order to discuss significant matters affecting the figures of deficit and debt.

Eurostat asked about any changes to the existing arrangements and for an update on the status of the relations between the Slovak statistical authorities and the CBR.

Discussion and methodological analysis

The Slovak statistical authorities confirmed that there were no substantial changes in the organisation of the co-operation among the Statistical Office of the Slovak Republic, the Ministry of Finance and the National Central Bank since the previous visit.

The Ministry of Finance is responsible for preparing the public accounts and the budgetary reporting. It obtains data from DataCentrum (which collects accounting statements from Local Government entities) and from the State Treasury, which collects data from all other entities within S.13. The Ministry of Finance is also responsible for preparing and reporting forecast data.

The Statistical Office of the Slovak Republic is responsible for the compilation of EDP tables and their transmission to Eurostat. It is eligible to conduct surveys and receive administrative data as applicable. It also has access to source data from DataCentrum and from the State Treasury.

Roles and responsibilities in the field of EDP and GFS of the Ministry of Finance, the Statistical Office of the Slovak Republic, the National Central Bank, DataCentrum and the State Treasury are defined in a Memorandum of Understanding (MoU) signed in 2013. The Statistical Office of the Slovak Republic and the Ministry of Finance later complemented this MoU with an agreement containing specific provisions on the methods for sharing of information. A similar agreement exist between the Statistical Office of the Slovak Republic, DataCentrum and the State Treasury.

External auditors provide their opinion on the Consolidated Financial Statements of the Central Government of year t in December of year t+1. The Statistical Office of the Slovak Republic has put in place a working relation with the Ministry of Finance so that it becomes aware of preliminary significant findings already in advance of preparing the October EDP notification.

There is no formal co-operation agreement between the Statistical Office of the Slovak Republic and the Supreme Audit Office, although both parties have recently began to discuss the possibilities of establishing working arrangements in relation to the verification of the quality of public finance data. Eurostat welcomed these negotiations and indicated the possibility of inviting representatives of the Supreme Audit Office to future dialogue visits.

Eurostat took note of some legal concerns expressed by the Slovak statistical Authorities that would prevent granting the CBR preferential access to data, given recent legal interpretations, carried out at national level, of the European statistics Code of Practice[1] on confidentiality matters and of Regulation (EC) No 223/2009 on European statistics[2]. The Slovak statistical Authorities consider the CBR as a normal user of its services, at this stage.

Eurostat agreed that the rules on the Code of Practice needed to be strictly enforced, but wondered whether the CBR could nevertheless be granted a privileged pre-release access as it would be well justified and would not contradict provisions on impartiality set out in the Code of Practice (Principle 6.7). Eurostat reminded that Regulation (EU) No 473/2013 establishes that national independent bodies monitoring fiscal rules should have 'adequate resources and appropriate access to information to carry out their mandate'. Eurostat noted in particular that the CBR already has access to detailed micro/raw data from the State Treasury database, and that the CBR request therefore essentially concerns access to the statistical adjustments made to them. Eurostat wondered whether such access to statistical adjustments would be under the scope of 'confidential data' as defined in Regulation (EC) No 223/2009.

The Slovak statistical Authorities indicated that these recent legal interpretations of the Code of Practice and Regulation (EC) No 223/2009 also affected the data-exchange arrangements between the National statistical Office, the Ministry of Finance and the National Bank, regulated by the MoU signed in 2013, and with DG ECFIN. The Slovak statistical Authorities further noted that MoUs are in principle based on an exchange of data from all the signatories. They are nevertheless open to consider including the CBR in the current MoU between the Statistical Office of the Slovak Republic, the National Bank of Slovakia and the Ministry of Finance, either as a signatory or by means of an addendum to the document. Alternatively, the Statistical Office of the Slovak Republic may consider signing a separate MoU with the CBR. In the former case, it was indicated that the agreement from all the signing institutions would be necessary. Representatives from the Ministry of Finance and the National Bank expressed no objection in principle to that approach at that stage, and would further consult on the matter.

Eurostat noted that, in the exchange of letters that had taken place between the CBR and the European Commission following the Dialogue Visit of 2017, the CBR has expressed a clear commitment to put in place the appropriate measures to protect confidentiality. Eurostat further proposed to identify, together with DG ECFIN, good practices in the field of cooperation between statistical Authorities and Independent Fiscal Institutions at European level.

[1] https://ec.europa.eu/eurostat/web/products-catalogues/-/KS-02-18-142

[2] OJ L 87, 31.3.2009, p. 164–173

The Slovak statistical authorities informed Eurostat that there have been no structural changes in the number and composition of the human resources devoted to the EDP and GFS since the last visit, and that they are considered adequate. Eurostat emphasized the importance of sufficient staffing in the area of EDP and GFS in order to ensure a good quality of the reported data.

Findings and conclusions

Eurostat took note of the well-established co-operation between the institutions involved in the reporting of EDP and government finance statistics. Eurostat considers there may be an opportunity for further expanding the assurances around the quality in the reporting of public finances by collaborating with the Supreme Audit Office and with the CBR in the framework of the EDP reporting.

(1) Eurostat invites the Slovak statistical Authorities to strengthen and formalize the cooperation with the Supreme Audit Office of the Slovak Republic (SAO) in the context of the quality of public finance data, including reflecting on the opportunity of inviting SAO to EDP Dialogue Visits.

Deadline progress report: April 2020 notification

(2) Eurostat encourages the Slovak statistical Authorities to find a suitable arrangement ensuring appropriate access of the CBR to the statistical data necessary to perform their tasks.

Deadline: progress report by April 2020 notification

(3) Eurostat agreed to identify, together with DG ECFIN, good practices in the field of cooperation between statistical Authorities and Independent Fiscal Institutions at European level and share the findings with the Slovak statistical Authorities.

Deadline: 30 September 2019[3]

1.2. Data sources and revision policy

Introduction

There have been no significant changes in the data sources used compared with the previous dialogue visit. The State Treasury continues to provide data for Central Government, social security funds and budgetary organisations of higher territorial units and their subsidised organisations included in Local Government. The DataCentrum is the provider of source data from the Local Government budgetary and subsidised organisations of municipalities, which are also included in Local Government.

Public accounts are reported on an accrual basis since 2008.

Discussion and methodological analysis

Eurostat enquired in more detail on the data collection process. The Ministry of Finance collects data for all General Government entities from a database to which the Statistical

[3] Eurostat provided to the Slovak Statistical Authorities this analysis on 7 November 2019.

Office of the Slovak Republic has access through quarterly data batches. Information available in this database includes that from budgetary requirements as well as Financial Statements data (Profit and Loss accounts, Balance Sheets and Cash Flows statements).

The 2008 *Reform of Accounting for Public Administration* requires each accounting unit to report annually a complete set of accounts on an accrual basis. An additional form has been created in order to obtain comparable information on a quarterly basis, the so-called ‘Fin 2-04’, offering a simplified version of the annual report (with some aggregates and less disclosures). The Slovak statistical authorities further explained that State organizations are not required to send the fourth quarter’s Fin 2-04 data because they prepare their annual reports within a reasonable deadline. On the other hand, business units send the annual financial information only after it is audited, which delays the process. Consequently, business units report the fourth quarter’s Fin 2-04, in order for the Slovak statistical authorities to timely access and process the relevant data. Eurostat enquired whether the figures reported in the fourth quarter usually match the annual financial statements. The Slovak statistical authorities informed that only non-significant differences have been observed in the past.

The Slovak statistical authorities informed that data obtained from the budgetary reporting is the most suitable for the purposes of compiling government finance statistics. Data include, for example, six digits account codes for revenues and expenditures for each accounting unit. Although there are 616 account codes in total, the number of accounts used depends on the size of the unit. There are more than 8.500 accounting units within General Government (e.g., the Ministry of Finance or the Debt Agency). Eurostat enquired whether there are differences between the budgetary reporting of revenues and expenditures and Profit and Loss accounts data. The Slovak statistical authorities informed that they do not perform such a comparison on a regular basis, although agreed that it could be useful. Eurostat finally noted that the EDP Inventory does not make any mention to the use of Profit and Loss accounts or to Cash Flow statements[4].

Regarding the revision policy, the Slovak statistical authorities explained that, in the general framework of national accounts, a benchmark revision takes place every five years, with the next one scheduled for this year. The revised data will include all the methodological changes resulting from the current GNI verification cycle, as well as other adjustments in the context of data source enhancements, new information and improved methodologies for compiling specific national accounts indicators. The revised data will gradually be sent within the schedule of the ESA 2010 Transmission Programme, starting from 30 September 2019 for the relevant domains of national accounts. Subsequently, the historical data of quarterly national accounts will be recalculated and sent to Eurostat during October 2019. Eurostat stressed the importance of identifying the impact that these changes will have in the figures of debt and deficit, and requested that Directorate D will be timely and properly informed.

Eurostat took note that there were no changes in the time of publication of the following financial information:

1. The working balance of the State Budget that is reported in the EDP notification of April of year t+1, is discussed in the Parliament in June of year t+1.

[4] See for example EDP Inventory sections 2.2.1 and 3.2.2.

2. The Aggregate Accounts of General Government are published by the Ministry of Finance on both ESA and cash basis and presented to the Parliament in November of year t+1.
3. The Consolidated Accounts of the Central Government (i.e. State Budget, Extra-budgetary entities and Other Central Government entities not included in the Working Balance) are published by the Ministry of Finance normally in December of year t+1. These are reviewed by an external auditor.

For EDP purposes, the Slovak statistical authorities explained that the revision policy is driven by availability of data sources. Except for methodological changes, the data for year t is considered final in October t+2. Revisions between April t+2 and October t+2 are generally not significant; while those between April t+1 and October t+1 may be more substantial, typically caused by final cash figures replacing estimates of tax settlements.

Eurostat recalled that the four EDP years are in principle open for revision and noted that EDP/GFS data were deemed final in Slovakia in year t+2. The Slovak statistical Authorities agreed that, aside from the fact that source data is final in October t+2, reclassifications could lead to revisions in t+3 and *ad-hoc* methodological changes lead to revisions in t+4.

Findings and conclusions

(4) The Slovak statistical Authorities will prepare a note detailing the changes impacting government accounts with the implementation of the forthcoming 2019 benchmark revision. This note is complementary to the one to be sent to Directorate C of Eurostat.

Deadline: 15 November 2019[5]

(5) The Slovak statistical Authorities agreed to clarify their revision policy in the EDP Inventory, to reflect the information provided during the dialogue visit.

Deadline: April 2020 notification

(6) Eurostat encourages the Slovak statistical Authorities to commence working on the comparison between the accrual revenue / expenditure in the Profit and Loss and budget data adjusted for balance sheet information.

Deadline: progress report by April 2020 notification

1.3. Compliance with Council Directive 2011/85[6]

1.3.1. *Publication of cash-based fiscal data*

Introduction

[5] This action point is still open at the time of issuing this report.

[6] OJ L 306, 23.11.2011, p. 41–47.

The Council Directive, in its Article 3(2), Chapter II on accounting and statistics requires the publication of:
(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:
- monthly for Central Government, state government and social security sub-sectors, before the end of the following month, and
- quarterly for the Local Government sub-sector, before the end of the following quarter;
(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 2010 standard.

Discussion and methodological analysis

The Ministry of Finance publishes[7] cash-based fiscal data, covering total revenue/inflows and total expenditure/outflows of the General Government. The scope includes central budgetary and semi-budgetary organizations, social security funds, state funds, National Property Fund of SR, Slovak Land Fund, Slovak Consolidation Agency, Nations´ Memory Institute Slovak Republic, Health Care Surveillance Authority, Slovak National Centre for Human Rights, Radio and Television of Slovakia, Audit Surveillance Authority and public universities, Press agency of SR, Audiovisual fund, Danubiana, Council for Budget Responsibility, Railway Infrastructure Company and Local Government (including local semi-budgetary and non-profit organizations).

The data are based on the actual financial statements of Central Government and Local Governments units, and are published:

- monthly for subsectors such as Central Government and social security funds, preliminary data by the end of next month, final data within 6 weeks after the end of the reference period;
- quarterly for Local Government, until the end of the following quarter.

Eurostat congratulated the Slovak statistical Authorities for the detailed data published in the scope of Council Directive 2011/85/EU (cash data). However, it noted that there are differences between the cash-basis data published by the Ministry of Finance and the working balances that had been reported in the April 2019 EDP notification, for central and Local Governments. The Slovak statistical authorities confirmed that there is a different scope of entities reported in each chase. Whereas cash-basis data published by the Ministry of Finance include all entities that belong to Central Government and Local Government, EDP Tables report the working balance of only statutory (budgetary) central and Local Governments. The remaining entities are reported in EDP tables, at B.9 level, in different lines (extra-budgetary accounts and other Central Government bodies in EDP T2A, other Local Government bodies in EDP T2C). Eurostat recommended to make some improvements in the way the data is published.

Findings and conclusions

(7) The Slovak statistical Authorities will examine the possibility of complementing the monthly data published under Council Directive 2011/85/EU by separately

[7] https://www.finance.gov.sk/en/finance/national-reporting/the-data-according-coucil-directive-2011/85/eu-on-requirements-budgetary-frameworks-member-states/the-fulfilment-general-government/

reporting the State Budget data, following the same reporting template, with the objective of showing the monthly evolution of the annual working balance as reported in EDP Table 2A.

Deadline: April 2020 notification

1.3.2. *Publication of data on contingent liabilities*

Introduction

The Council Directive in its Article 14(3), Chapter VI on transparency of General Government finances requires:
For all sub-sectors of General Government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of General Government in the capital of private and public corporations in respect of economically significant amounts.

Discussion and methodological analysis

Eurostat noted that the data published by the Ministry of Finance on contingent liabilities from public corporations presented some differences with that received from the Statistical Office of the Slovak Republic in the context of Eurostat's annual questionnaire on public corporations. In particular, although the number of units in both sets of data is the same, the stock of liabilities is not. Eurostat asked about the scope of the liabilities included in each, e.g. whether AF.8 was part of the liabilities published by the Ministry of Finance. The Slovak statistical authorities will investigate the matter.

Eurostat enquired about the criteria followed to report liabilities stemming from the operation of public corporations. The Slovak statistical authorities explained that data are compiled from the corporations' individual financial statements, and that corporations participated by General Government are included in the data if the ratio of public ownership was 20% or more. At the same time, when calculating the liabilities stemming from the operation of public corporations in the questionnaire reported to Eurostat, these are defined as corporations with a ratio of public ownership of 50% and more. Eurostat enquired whether liabilities from corporations where government owned more than 20% but less than 50% are reported in the scope of the Directive. The Slovak statistical authorities will investigate the matter.

In addition, for the corporations partially owned by General Government, only the part of liabilities or equity corresponding to the government participation in the capital was taken into account. Eurostat indicated that this apportioning of debt in relation to the percentage of government ownership is not in line with the requirements, and requested that both the current calculation and the one without apportioning will be published.

Findings and conclusions

(8) The Slovak statistical Authorities will compile the figure of public corporation's debt without apportioning and publish it together with the apportioned figures. The Slovak statistical Authorities will inform Eurostat on what is the coverage of the figure of debt published (i.e. restricted to Maastricht instruments or not) and on the scope of corporations reported (whether entities with 20 to 50% of public

ownership are included or not). The Slovak statistical Authorities will ensure that the public corporations' debt published in the scope of this Directive can be reconciled with data reported to Eurostat (questionnaire on public corporations), and the reconciliation sent to Eurostat.

Deadline: April 2020 notification

1.4. EDP Inventory

The EDP Inventory was last updated following the 2015 dialogue visit. A number of sections that were inaccurate or out of date were already identified in the 2017 dialogue visit. During the 2019 dialogue visit, additional sections were found to be out of date.

Findings and conclusions

(9) The Slovak statistical Authorities will update the EDP Inventory and send it to Eurostat for its comments before national publication. The update will reflect, among other things, the discussion held during the meeting on source data, notably the use of annual balance sheet (financial statements).

Deadline: April 2020 notification

2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT (14-15 NOVEMBER 2017)

Introduction

All the action points agreed in the previous EDP dialogue visit have been implemented by the Slovak statistical authorities, with the following exceptions:

Action Point 1. The Slovak statistical authorities and the Ministry of Finance will reflect on the possibilities for establishing regular working meetings with the Council for Budget Responsibility in order to discuss significant matters affecting the figures of deficit and debt.

Action Point 8. The Slovak statistical authorities will review the EDP Inventory, updating at least the following sections:

a) Reflect the recent information sharing agreement signed with the Ministry of Finance;

b) Describe the working arrangements that are in place with the external auditors that certify the Consolidated Financial Statements of the Central Government;

c) The criteria followed in the recording of interest (e.g. definition of the source data, correction of erroneous statements and explanation of what is the purpose of each adjustment made in the EDP tables);

d) The description given on the provision of guarantees;

e) The process followed to reclassify institutional units following the performance of the market/non-market test;

f) The current status of the project to change the recording of VAT refunds;

g) The classification and recording of transactions of the Health Insurance Companies;

h) The role of the different certifying authorities in the management of EU funds;

Action Point 9. The Slovak statistical authorities will investigate the possibility of reporting taxes in Table 5 of the EDP related questionnaire on a gross basis (i.e. presenting assets and liabilities separately).

Findings and conclusions

Eurostat congratulated the Slovak statistical authorities for implementing most of the action points agreed during the previous dialogue visit and proceeded to describe the pending items, noting that they have been included in different points of the current's meeting agenda. Regarding Action Point 8, Eurostat reminded that it expected an updated EDP Inventory that takes into account all the matters already identified in the previous dialogue visit and those points raised in this dialogue visit.

3. ANALYSIS OF THE EDP TABLES – FOLLOW-UP OF THE APRIL 2019 EDP NOTIFICATION

Introduction

Under this point of the agenda, the Slovak statistical authorities provided an update of the investigation of the matter that led to a reservation on the quality of the data reported in the April 2019 EDP notification. Eurostat also asked for some improvements regarding the presentation and level of information disclosed in the EDP tables and in the EDP Questionnaire related tables.

Discussion and methodological analysis

The Slovak statistical Authorities confirmed that the deficit (B.9) of 2018 of Central Government, which was subject to a reservation expressed by Eurostat in the April 2019 notification, was indeed underestimated, as only 11 months of State Budget employees net wages were included in the deficit, due to an anomaly that occurred during the transition to a new accounting framework. In practice, 12 months of wages expenditures (D.1) were recorded, but an artificial revenue corresponding to one month of wages (€235 m, 0,26% of GDP) was mistakenly included (extra-budgetary accounts). The Slovak statistical Authorities continue to investigate if some other expenditure amounts (€105 m, 0,12% of GDP) could be subject to the same problem. The Slovak statistical Authorities will adapt the current bridge table related to the new chart of accounts so to eliminate or reclassify certain intra-links between budgetary and extra-budgetary accounts in order to avoid double counting of some expenditure (e.g. wages) and related revenue.

There were also a number of methodological issues discussed that may affect the reporting in EDP Tables, especially regarding taxes, interest and financial derivatives. These are presented in the following section.

Findings and conclusions

(10) To address the reservation expressed by Eurostat in the April 2019 EDP press release, the Slovak statistical Authorities will correct the B.9 of 2018 in the October 2019 EDP Notification, for the amounts identified at that time. The Slovak statistical Authorities will inform Eurostat about the investigation on the

other amounts under review. The Slovak statistical Authorities will also adapt the bridge table.

Deadline: October 2019 notification[8]

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of General Government

4.1.1. *Sector classification of specific units*

Introduction

Eurostat enquired about the sector classification of some specific units.

Discussion and methodological analysis

Železničná spoločnosť Slovensko, a.s. (ZSSK)

Eurostat noted that the railway passenger transportation company is classified inside General Government, failing the 50% market test, due to the fact that the Slovak statistical Authorities considered that the train-km *public-service obligation* subsidy is a subsidy on production rather than on product. Eurostat agreed that such subsidy should not feature within sales of the 50% market test of the transporter, but wondered whether it should not be considered as a subsidy on product on the input of the transporter (potentially being within the basic price of the infrastructure operator). Separately, the Slovak statistical Authorities confirmed that the railway infrastructure operator is inside General Government, failing the 50% market test even though they consider revenue from transporters within sales.

The Slovak statistical Authorities were not at this stage convinced about recognizing a subsidy on product on the input of the transporter and Eurostat agreed to await for the outcome of the ongoing discussions in the framework of the EDP Statistics Working Group (EDPS WG). The Slovak statistical Authorities indicated that an explanatory note on these subsidies had been recently provided to Directorate C of Eurostat.

Slovak Investment Holding (SIH)

Eurostat and the Slovak statistical Authorities discussed the classification of the Slovak Investment Holding (SIH), a fund of funds in charge of implementing EU financial resources. While government controls SIH, the entity is classified in S.12501 to facilitate the neutralisation of EU flows in government accounts. According to the information available in its webpage, the SIH structure comprises the following entities::

(a) The National Development Fund I - established for the implementation of financial instruments from the EU Structural Funds during the 2007-2013

[8] This action point was completed in the October 2019 notification.

programming period. Its activities are based on the JEREMIE initiative (support for small and medium-sized enterprises).

(b) The National Development Fund II – implementing financial instruments from the European Structural and Investment Funds during the 2014-2020 programming period.

(c) The Slovak Asset Management Company, which manages state assets in order to mobilise domestic and foreign private co-investors and international financial institutions.

Eurostat indicated that the classification of this type of entities does not always follow a homogeneous pattern across the EU and further analysis is required, including on where do the risks of rewards of its operations lay. The Slovak statistical Authorities expressed their willingness to look into the matter. Eurostat requested more information about the activities of SIH.

Slovenská Záručná a Rozvojová Banka (SZRB)

The Slovak State Guarantee and Development Bank (SZRB) is a public financial unit that specialises in lending to small and medium enterprises and is classified in S.12201. In previous dialogue visits, Eurostat concurred with the analysis of the Slovak statistical authorities regarding the classification of this entity. Nevertheless, Eurostat pointed out that, since SZRB is the Slovak national promotional bank in the context of the European Fund for Strategic Investment, it may join investment platforms at national or international level or set up special purpose vehicles that may create some accounting challenges. Eurostat further reminded the Slovak statistical authorities about the necessity of implementing a monitoring procedure in order to identify and assess these operations, more specifically on whether or not to re-route some of them through General Government. The Slovak statistical authorities presented a questionnaire created with that intention and which has been already filled-in for the period 2015-2018. The questionnaire has an annual frequency, before the spring EDP notification, or will be sent upon request if needed. Eurostat welcomed the questionnaire and stressed its importance, noting the very small return on equity obtained by SZRB.

Findings and conclusions

(11) The Slovak statistical Authorities will provide to Eurostat with the following information regarding the Slovak Investment Holding (SIH):

(a) Are the three funds considered a unique institutional unit, or are they separate institutional units?

(b) Do loans and investments, created by the National Development Fund I, represent a stock of assets and related liabilities towards the EU?

(c) Similarly, does the figure of financial resources, allocated by the National Development Fund II (€623 m), represent a stock of assets and related liabilities towards the EU?

(d) What are the activities of the Slovak Asset Management Company? Why is it part of SIH, having different characteristics to the other two funds (since the Slovak Asset Management Company focuses on investing outside the EU budget)?

Deadline: 31 January 2020

4.1.2. *Government controlled entities classified outside General Government*

Introduction

Eurostat reviewed the Questionnaire on government-controlled units classified outside General Government provided by the Slovak statistical authorities in advance of the meeting.

Discussion and methodological analysis

Eurostat discussed the reclassification policy for public corporations that failed the 50% market test. The Slovak statistical authorities explained that they are reclassified inside General Government from the year following the third consecutive failure of the test, but that the reclassification is not done retroactively (i.e. from the first year of the test failure) unless the amounts involved are significant. Eurostat explained that, although in principle it is correct to wait for the third consecutive failure of the test before reclassifying, in order to ensure stability in the time series, once it happens the reclassification should be done retroactively. Eurostat noted that the current practice of the Slovak statistical authorities is not in line with requirements, but some flexibility can be observed for those small units for which statistical survey data is not available. Eurostat requested to be informed in each EDP notification about the units that have been reclassified, indicating whether they have been retropolated or not.

Findings and conclusions

(12) The Slovak statistical Authorities will align their reclassification practice to requirements, so that units are reclassified inside General Government from the year when they are bound to, despite of the moment of decision, considering the flexibility criteria described in the dialogue visit's discussions.

Deadline: October 2020 notification

(13) When reporting to Eurostat the list of units reclassified, the Slovak statistical Authorities will identify those units that have been retropolated and those that have not.

Deadline: April 2020 notification

4.2. Implementation of the accrual principle

4.2.1. *Accrual taxes and social contributions*

Introduction

Eurostat has observed relatively important revisions in tax revenues, reported for a given year t, between the April and October notifications of year t+1 (e.g. +0.2 pp of GDP for 2017, -0.3 pp of GDP for 2016, +0.2 pp for 2015, +0.2% for 2014, +0.3% for 2013).

Most of the revisions are due to the corporate income tax and to a lesser extent to the personal income tax for self-employed persons.

Discussion and methodological analysis

Slovakia uses the time adjusted cash method to record most of the taxes (i.e., personal income tax, corporate income tax, special levy on enterprises in regulated sector, value added tax, excise duties, road tax, social contributions and health insurance companies). For the remaining taxes, a pure cash method is used as they involve small amounts and very irregular payment schedules.

The corporate income tax in Slovakia is first paid through advances, the amount and frequency of which is based on the last known tax liability. In case of a difference between the sum of advance payments during the year and the tax liability declared, the overpayment or underpayment has to be settled within 40 days after the tax return has been filed. Tax returns can be submitted until September of the following year. Tax accrued calculated for the April notification in year t+1 includes cash data on advances, amendments and other payments (e.g. fines) in year t. In addition, in year t+1 settlements have to be mostly estimated. This situation is improved for the October notification because eight months are known by then, comprising more than 90% of actual tax settlements. Figures become final in the April notification of the following year (t+2).

Following the recurrent revisions in accrued corporate income tax, between April and October EDP notifications, the Slovak statistical authorities decided to change the method of calculation in 2019. The problem concerns the calculation of the final settlement of the tax in year t+1, most of which is moved, by the Slovak statistical Authorities, to year t in application of the accrual principle, given that for the April notification an estimate of the settlements is necessary. The issue is therefore to find an effective forecasting model for April t+1. The Slovak statistical authorities recently decided to move from a model based on a statistical survey to another based on macro data, aside from usual expert judgement inputs. Eurostat expressed concerns that a methodological change in the calculation of the corporate income tax had been implemented without any study to support such a change and without informing Eurostat.

Eurostat noted that the stock of receivables related to taxes falls by around 20% from 2014 to 2018, while the flows of D2 and D5 increase by close to 25% in the same period, and requested the Slovak statistical authorities to perform an analysis to support this otherwise counterintuitive evolution of stocks of tax receivables and tax flows.

Eurostat asked about the existing tax credit schemes in Slovakia. The main ones are the tax assignation and the child support. Other schemes, less significant in value, include the mortgage bonus and the employee benefit bonus. On the tax assignation, the Slovak statistical authorities explained that, from 2002, employees as well as employers can assign 2% of their annual income tax liability to a non-profit organization (NPIs) of their choice, provided that they fulfil a number of criteria. The tax assignation system is voluntary and participation does not affect the tax liability. In cases when taxpayers do not wish to support non-profit organizations, 100% of the tax revenue is revenue of government. In cases when taxpayers support non-profit organizations, then government revenue is reduced by 2%. Since the budget reporting system is cash based, the actual tax revenue booked in the system is net after deduction of the amounts that are forwarded to NPIs. The value of tax revenues is then increased by the amount forwarded to NPIs in order to show correct value of taxes collected in national accounts. Subsequently, the amount is booked as expenditure – current transfer from S.13 to NPIs. Eurostat indicated that the current booking presented two potential issues: firstly, the description of the tax seems to make it a non-payable tax credit, which, according to ESA 2010, is to be recorded as a reduction of tax revenue and therefore reduces the 'tax burden' and total revenue. Secondly, the transfer to NPIs should originate in the households sector rather than in the government sector, given that it is the former and not the latter that controls the beneficiary of the funds. The Slovak statistical authorities argued that government controls the list of NPIs that are eligible for receiving this allocation, having selected around 5.000 NPIs from a universe of more than 60.000 entities. Therefore, they see the tax assignation as a component of individual benefits. Eurostat requested to receive a written methodological argumentation with this view.

The discussion on tax credits ended reviewing the characteristics of the child credits, which Eurostat agreed are payable tax credits in nature. The whole amount of tax credit is properly recorded as government expenditure, with no reduction of the tax revenue. Eurostat requested nevertheless some additional information on the accounting treatment and on the time of recording.

Eurostat also enquired whether the Slovak Tax Authority had liabilities or only receivables. Following the answer by the Ministry of Finance that there were also liabilities, e.g. related to VAT tax refunds, Eurostat requested Table 5 of the EDP Questionnaire related tables ('*Taxes and social contributions*') to be reported on a gross basis, and reminded that this was an open action point from the previous dialogue visit (see section 2). The Slovak statistical authorities explained that the current system for budgetary codes does not permit differentiation between taxes received and tax refunds (only the settlements are recorded). Moreover, when the result of the settlement is a negative amount, a *negative revenue* is recognized. Eurostat pointed out the inadequacy of this system and requested to separate the revenue and the *negative revenue* in the source data as a starting point of investigation. Eurostat also requested to obtain a disclose of the liabilities of the Tax Authority, suggesting that the information may be used in reporting tax liabilities in EDP Questionnaire Table 5.

Regarding social security contributions, it was discussed the impact in the recording of social security contributions derived from the 2018 debt relief programme. Under this programme, the Ministry of Finance earmarked €585 m from the State Financial Assets with the purpose of paying the debt accumulated by public hospitals as of 31 December 2016, which amounted to €647 m, the main creditor of which was the public Social Insurance Agency (SIA). In 2018, the SIA received €187 m out of the total payments of €325 m made under the programme. The Slovak statistical authorities explained that contributions to SIA due by General Government entities, as is the case of hospitals, are not accounted on an accrual basis, to be aligned with the method used by SIA to register the related revenues (time-adjusted cash). As a consequence, the associated impact in the B.9 of General Government for 2018 was 0: D.9 revenue for SIA (€187 m, from State Financial Assets) and D.121 expenditure (€187 m) for hospitals. D.121 of hospitals had been underestimated for the previous years, and so was the reported D.1 (and therefore

P.3 and GDP). The Slovak statistical authorities informed that the recording method for social contributions of General Government entities is going to be modified, as part of the benchmark revision, to record compensation of employees on an accrual basis, with payables related to health and social insurance recorded as F.89 and simultaneously accrue a D.61 revenue regardless of the method for evaluation of other social contributions on a time adjusted cash basis. They also noted that, during the revision of the amounts involved in the change, they had identified some other errors, which will have a minor impact in B.9. The errors pertained to additional stocks of tax payable that are currently ignored in the compilation, affecting the tax expenditure of certain government units. While agreeing that the current compilation method is not fully symmetric (with some B.9 impact), Eurostat needed to be reassured that the proposed change would not increase the asymmetry and requested an analysis to this effect.

Finally, Eurostat and the Slovak statistical authorities discussed the recording of the debt haircuts that are foreseen in the debt relief programme. It was explained that participation in the debt relief programme is voluntary, and that the debt haircuts for hospitals are currently recorded as negative entry at D.759PAY (as a result of higher reduction of payables of hospitals than cash paid to suppliers). The amount is therefore implicitly recorded in B.9 of hospitals at time of settlement of payables. Eurostat considered that the use of D.9r for this amounts would be more appropriate, to which the Slovak statistical authorities agreed.

Findings and conclusions

(14) The Slovak statistical Authorities will provide to Eurostat with the results of applying different forecasting methods regarding Corporate Income Tax to at least the past four years.

Deadline: 15 September 2019[9]

(15) The Slovak statistical Authorities will inquire on the reasons that could explain the perceived discrepancy between the increase in the stock of tax receivables and the evolution of tax revenues, a pattern that could reflect changes in corporate tax settlements (which are known) or changes to refunds, among other things.

Deadline: 15 March 2020

(16) The Slovak statistical Authorities will inquire with the tax authorities the possibility of receiving information on monthly refunds in a systematic way (related to tax and social security contributions). The Slovak statistical Authorities will also investigate the stock of tax payable reported in the balance sheet of the tax authority and determine whether this information can be useful when compiling EDP Questionnaire Table 5.

Deadline: progress report by April 2020 notification

[9] This action point was completed in the October 2019 notification.

(17) The Slovak statistical Authorities will write a note to Eurostat detailing why the current practice of grossing the gifts to Non Profit Institutions (2% personal income tax assignation) in GFS is appropriate, notably because this mechanism is not a tax credit and government is considered to be retaining sufficient control in the expenditure. The Slovak statistical Authorities will also explain in more detail the current practice in recording child allowances (which is a payable tax credit), including the time of recording in B.9.

Deadline: 1 March 2020

(18) The Slovak statistical Authorities will change the recording of social contributions payable by public hospitals so to enforce the accrual principle and to measure GDP correctly, without impact on B.9 (i.e. adjusting D.61 revenue), in the context of the forthcoming benchmark revision.

Deadline: 2019 benchmark revision[10]

(19) The Slovak statistical Authorities will provide Eurostat with a detail of taxes paid by government units in this context. At the same time, the Slovak statistical Authorities will provide an explanation of the proposed use of the payables concerning specific P.2, D.75 and P.51 transactions that are currently ignored in the compilation and are disclosed in the data provided as part of the analysis on the repayment of debt of the hospitals.

Deadline: 1 September 2019[11]

4.2.2. *Accrued interest*

Introduction

The reporting of interests paid and accrued in EDP Tables 2 and 3 was discussed. The Slovak statistical authorities provided to Eurostat, in advance of the meeting, the fulfilled interest table template. This template was presented by Eurostat in the EDPS WG of 3-5 July 2017.

Discussion and methodological analysis

Eurostat thanked the Slovak statistical authorities for the work performed in filling the interest template, and welcomed the positive feedback received about its usefulness since it uncovered an error in EDP T3. It further reminded that a new set of guidelines in relation with the template will soon be released, as announced in the EDPS WG of June 2019.

The Slovak statistical authorities confirmed that the information provided in the table relates to all Maastricht debt instruments and that some missing information, such as the opening balance of the stock of coupons accrued, will soon be added. On the other hand, some more work is required to compile the data to report the opening balance of the

[10] This action point was completed in the October 2019 notification.

[11] This action point was completed in the October 2019 notification.

stock of premiums and discounts. The links between the interest table and EDP Table 3 were discussed. Eurostat clarified that line 17 of the interest table '*Change in coupons and amortisation of discount/premium*' should match EDP T3, line '*Difference between interest (D.41) accrued and paid*', which was not the case at the moment. The Slovak statistical Authorities expressed their opinion that the interest table data is accurate, which would lower the discrepancies currently reported in EDP T3 if confirmed. The Slovak statistical authorities further asked whether the face value of debt should be reported before or after hedging. Eurostat explained that it should be reported before hedging, in order to allow for a cross-reference with D.41, and agreed to adapt the table for clarity purposes. A new item will be added, to also allow for a cross-reference with the Maastricht debt, after hedging.

Eurostat noted that, under the current presentation of EDP Table 2A, the debt agency (Ardal) is reported outside the WB of budgetary government. It follows that the interest flows are reported in EDP Table 2A within the line '*Extrabudgetary accounts and State financial assets*', as part of the B.9 of Ardal. Eurostat wondered why, if Ardal's debt is inside the debt of the budgetary government, the associated interest flows are outside its working balance. The Slovak statistical authorities explained that Ardal's interest flows go through an extra-budgetary account. Eurostat then first requested to clarify the presentation of EDP T2A by modifying the labelling of the line '*Extrabudgetary accounts and State financial assets*' to '*Extrabudgetary accounts including state financial assets and operations for Ardal'*. Moreover, Eurostat reminded that the line *'Difference between interest paid and accrued' in EDP T2A* should show all interest related data from Ardal, in order to present a clear and complete view on interests consistently with the practice in the other Member States.

A discussion followed on the presentation of interest in EDP T3. Eurostat asked whether interests receivable are being included in the line 'Difference between interest (D.41) accrued and paid', which should not be the case. The Slovak statistical authorities will investigate.

Findings and conclusions

(20) The Slovak statistical Authorities will correct the D.41 accrual adjustment reported in EDP Table 3A and 3B, with a counterpart correction in either discrepancy or in financial assets. They will also update the interest table following the discussions held during the Dialogue Visit, in particular regarding line 15 'discounts/premiums repurchased' and lines 7 and 11 encompassing the opening stock positions for coupon accrued and for premium and discounts.

Deadline: 15 September 2019[12]

(21) The Slovak statistical Authorities will report the accrual adjustments for the State debt interests in T2A under the line *Difference between interest paid (+) and accrued (D.41)(-)* consistently with the practice in the other Member States, and review the label *Extrabudgetary accounts and State financial assets* if necessary.

Deadline: 15 September 2019[13]

[12] This action point was completed in the October 2019 notification.

[13] This action point was completed in the October 2019 notification.

4.2.3. *EU flows*

Introduction

Eurostat and the Slovak statistical authorities had discussed this matter in length during previous dialogue visits because of its importance in the Slovak economy. There have also been some recurrent revisions of data between the April and October EDP notifications in previous years, following updates in the figure of financial corrections on EU funds.

Discussion and methodological analysis

The Ministry of Finance explained that EU Funds are received and paid in Slovakia by three certifying authorities that are in charge of distributing the funds to the different Ministries, which then act as paying agents towards the final beneficiaries. These entities are not institutional units, but rather belong to the Ministries of Finance, Labour and Agriculture, respectively. While all of them are inside the State, the EU funds that they manage are outside (in the extra-budgetary accounts).

The revenues and expenditures of the certifying authorities do not affect the net lending / net borrowing of the General Government. Revenues and expenditures related to EU funds affect the balance of the State Budget when they are transferred to the Ministries (revenue) or to the final beneficiaries (expenditure). A schematic presentation of the flow of EU funds is as follows:

1) The funds from the EU budget are paid into a bank account in the National Fund, outside General Government.
2) Three certifying authorities (inside General Government) are in charge of receiving the EU funds from the National Fund and distributing them to the different Ministries.
3) The certifying authorities have a bank account for this purpose in the extra-budgetary accounts of the State. The movement of this account is neutralised in EDP T3B through *Other accounts payable towards the EU*.
4) The Ministries act as paying agents towards the final beneficiaries. The difference between the inflows (money received from the accounts of the certifying authorities *minus* money paid to the beneficiaries) is recorded as *Other accounts receivable against the EU*. If the outflow is higher than the inflow, there is a positive adjustment that corrects the deficit in the working balance, and vice-versa. Thanks to this mechanism, there is no impact in B.9 due to EU flows.
5) When there is a financial correction, the *Other accounts receivable* are reduced. There are two types of corrections: individual if they are payable by the beneficiary and systemic, if they are payable by government. For both types there is a correction to the B.9 of government, reducing it through the variation in *Other accounts receivable*. When the Beneficiary reimburses the amount, there is a positive entry in B.9, also via an increase of *Other accounts receivable.* At the certifying authority's accounting system, it is recognized as a liability against EU and a receivable against the final beneficiary (for individual corrections), or against government in case of system irregularity.

A discussion followed on why the funds received from the EU in the extra-budgetary accounts of the certifying authorities are in AF.8 *Other accounts payable* rather than inside the Maastricht debt. The Slovak statistical authorities indicated that they consider that the debt is at the level of the certifying authorities, which in turn register *accounts payables towards the EU* for the funds received. The certifying authorities are in control of the funds. Eurostat took note and reminded that, if the control of the funds was rather at the EU level, then it could be argued that these would be EU money and then to be reported as part of the Maastricht debt.

Eurostat enquired about the time of recording of the transfer of funds to/from government. The Slovak statistical authorities explained that, when the EU funds enter the budgetary account of government, the account 341 '*Funds from the EU budget*' (D.74 rec) is used to register the revenue, and an account 600 (current transfers) or 700 (capital transfers) is used to register the expenditure. This applies when the beneficiary is outside General Government. It was also clarified that, although technically all income of funds from the EU are initially considered as current transfers, a later reclassification properly differentiates among current and capital nature, as applicable.

The Slovak statistical authorities explained that they identify whether the beneficiary is inside or outside General Government at the moment of payment from the certifying authorities. Transfers between units are accounted for on a cash basis. Eurostat noted that the neutralization (as well as re-routing) rule for EU flows is enforced in Slovakia, at least at the level of the paying agent. Eurostat enquired, for those cases where the beneficiary is a government unit, on the typical time lag that exists between the beneficiary expenditure on an accrual basis and the cash received by the beneficiary from the paying agent. The Slovak statistical Authorities indicated that they have been recently analysing this issue and will share with Eurostat the results once they are more mature.

Findings and conclusions

(22) Regarding EU flows, the Slovak statistical Authorities will inform Eurostat on the results of the investigation on how it addresses, for those cases where the Beneficiary is a government unit, the problem arising from the time lag that exists between the Beneficiary expenditure on an accrual basis and the cash received by the Beneficiary from the paying agent.

Deadline: 15 January 2020

4.2.4. *Military equipment expenditures*

Introduction

The Slovak statistical authorities confirmed that the Ministry of Defence fills regularly a Questionnaire about purchases of military equipment, and that there are no specific issues on this matter. There was a recent update made to the structure of this Questionnaire, to better capture some of the elements that are significant in the latest sizeable contracts, such as training or transportation.

Discussion and methodological analysis

Eurostat enquired some details about the questionnaire, including its frequency (annually, before the Spring EDP notification) and detailed content.

Findings and conclusions

Eurostat took note of the information provided.

4.3. Recording of specific government transactions

4.3.1. *Guarantees*

Introduction

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

Discussion and methodological analysis

The only government guarantees that were called during the period 2015-2018 related to those provided to the State Guarantee and Development Bank (Štátna Záručná a Rozvojová Banka - SZRB) and, more specifically, to the guarantee for loan for social contributions – the so called ‘odvodový úver’, a scheme to support employment in SMEs. The provider is the Ministry of Finance and the financial agent is the SZRB. The total volume of loans for social contributions is limited.

There were no guarantees provided by the Local Government or standardised guarantees.

Findings and conclusions

Eurostat took note and requested to update the EDP Inventory accordingly.

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

Introduction

The Slovak statistical authorities provided Eurostat with a detail of the debt cancellations performed for the period 2015-2018 in advance of the visit. Eurostat discussed the recording of foreign claims renegotiations of two specific cases.

Discussion and methodological analysis

Eurostat took note of the information and requested more details about the recent agreement reached by the Slovak and Serbian government regarding the debt owed by the later. The Slovak statistical authorities informed about the details of the agreement reached, and also mentioned that other former-Yugoslavia debtors are still challenging the computation of interest on the debt. Eurostat provided some comments about the accounting implications of the agreement, in particular about the rules that are described in the 2018 ex-ante advice provided by Eurostat to the Czech Republic on the recording of foreign claims renegotiations[14] and which are in line with the forthcoming 2019 MGDD.

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[14] https://ec.europa.eu/eurostat/documents/1015035/8683865/Advice-2018-CZ-Recording-of-foreign-claims.pdf/67bfa0fa-2b28-4bcc-b70d-0619c1cddc49

On the case of assets held against Cuba, originally held by Czechoslovakia and then split among the Czech Republic (2/3) and the Slovak Republic (1/3), which principal value is disputed by the debtor, Eurostat drew the attention of the Slovak statistical Authorities that the 2018 ex-ante advice (published) to the Czech Republic mentioned above also concerns this situation. The Slovak statistical Authorities recalled that they had also received an ex-ante advice back in 2014 (not published) on those very same Cuba claims, under the forthcoming ESA 2010. They wondered whether this advice had been methodologically superseded and enquired about the appropriate procedure to be applied in such situations.

Eurostat considered that the two advices were more complementary than contradictory, having in mind their rather different aims. The advice given to the Slovak Republic in 2014 was meant to define the appropriate capital transfer applicable at time of settlement of dispute / claim write-off, prescribing a capital transfer for only a part of the write-off, based on comparable transactions. The advice indicated that a capital transfer was not necessary for the full amount (carrying value minus repayment) given that the carrying value was disputed, but that not recording any capital transfer was not acceptable either. By implication, the reconciliation between the carrying amount and the capital transfer inferred recording an ‘other economic flow’ (other changes in volume), in the absence of retropolation of the carrying amount. The advice given to the Czech Republic in 2018 described different possible valuation methods for the claim, depending on various available information, implying the recording of an associated capital transfer. The advice moreover insisted that no ‘other economic flow’ was to be recorded, with the need to retropolate the ESA balance sheet amount, as well as the interest revenue proportionately.

Eurostat confirmed that the advice provided to the Slovak Republic in relation to the size of the capital transfer in 2016 is still appropriate and not in conflict with the advice provided to the Czech Republic. However, the later advice implies a backward downward revision of the ESA balance sheet value of the Cuba claim as well as associated interest revenue, with a B.9 impact for the years 1995-2015. For the Czech Republic, the D.41 revenues concern years 1995-2018, with the correction postponed to the 2020 benchmark revision for years before 2015, implying the existence of temporary ‘other changes of volume’ in 2015 until then.

The Slovak statistical Authorities welcomed this clarification, noting in particular that the advice provided to the Czech Republic had been (informally) consulted with the EDPS WG through a questionnaire. The Slovak statistical Authorities further considered the possible ways to amend the advice received in 2014 so that the current discussions are concluded and documented in a transparent manner. Considering the situation, the Slovak statistical Authorities thought that a proper reflection of this issue in the minutes of the Dialogue Visit and in a subsequent Action Point would be fit for purpose.

Findings and conclusions

(23) The Slovak statistical Authorities will revise the interest recorded on the Serbia claim according to the rules described in the 2018 *ex-ante* advice provided by Eurostat to the Czech Republic on the recording of foreign claims renegotiations and included in the 2019 MGDD, since the Slovak Republic and the Republic of

Serbia recently agreed in the interest formula. The revision to D.41 revenue will be done over the reporting period 1995-2018. The Slovak statistical Authorities will also use this interest rate formula for the rest of the claim on other former-Yugoslavia debtors, given that they do not recognize any interest at this stage pending clarification on the allocation of the principal among debtors, and that it would not be appropriate to record no interest revenue at all on those claims.

Deadline: 2019 benchmark revision[15]

(24) In relation to the Cuba claim, the Slovak statistical Authorities will keep the capital transfer registered in 2016, but will revise, for the benchmark revision, the ESA balance sheet amount reported in 1995-2015, so to eliminate the other economic flow currently recorded under this operation, and the associated interest revenue accruing over 1995-2015.

Deadline: 2019 benchmark revision[16]

4.3.3. *Capital injections in public corporations*

Introduction

Eurostat reviewed the data on capital injections by government for the years 2015-2018, submitted by the Slovak statistical authorities before the visit.

Findings and conclusions

Eurostat took note of the information provided.

4.3.4. *Dividends, super dividends*

Introduction

Dividends received from publicly controlled companies are an important source of government revenues in Slovakia. The fact that some of these companies have several layers of daughter companies represents a challenge in the statistical analysis of the dividends paid by them. During the previous dialogue visit, the Slovak statistical authorities agreed to investigate the need to perform the super-dividend test to daughter companies in case they observe unusual levels of dividends paid by them to mother companies. Following this, a methodological discussion was extended within the EDPS WG, which eventually led to a modification in the MGDD.

Discussion and methodological analysis

Eurostat reminded some guidelines for performing the super-dividend test:

1. Any proceeds coming from revaluation of assets or other reserves, reversal of provisions and exceptional sales of assets should be identified.

[15] This action point was completed in the October 2019 notification.

[16] This action point was completed in the October 2019 notification.

2. Dividends are recorded to the period when they are decided by the owners of the corporation (and not to the period when they are paid).
3. All subsidiaries are to be included in the scope of the analysis.
4. It has to be ensured that no more than 12 months of income are distributed.

The discussion then focused on the SPP group, the main contributor to the dividends received by government in recent years. The public company that pays dividends to government (*SPP*) has recurrent operational losses from its business of distributing natural gas to the regulated sector, but it also owns participations in a portfolio of companies that are highly profitable. The analysis of the dividends distributed by these companies is complex due to the different methods of upstreaming cash (withdrawals of equity, offsetting of intra-group loans or direct dividend payments) and because of the different financial closing dates of the companies affected. This last aspect was further complicated for 2017, when the daughter company *SPP Infrastructure* changed the financial year-end from June to September, providing a set of accounts for 12 months and another for 3 months. *SPP Infrastructure* is a holding with no operating activity. It receives dividends from other operational daughter companies such as *Eustream* and *SPP distribucia* or *Nafta*.

While acknowledging the difficulty of the calculation, Eurostat explained that the dividend paid to government cannot exceed the minimum between the dividend paid by the subsidiaries and their individual profit, properly apportioned, minus the operating losses of SPP. Eurostat presented an estimate of the identified super-dividend based on this approach for 2018. The Slovak statistical authorities agreed with this principle, but at the same time, considered that a more exact application of the rule can be made, and provided an alternative calculation of the super-dividend for 2018. Eurostat indicated that the calculation proposed by the Slovak statistical authorities was incomplete at this stage and requested additional information, including the relevant extracts of the financial statements of the affected companies, distinguishing for each unit the distributable ESA net income and the associated super-dividend passed to the upper level. Given the complexity of the case, Eurostat reminded that a consolidated group approach would be easier to validate and perhaps lead to a more stable recording of government revenue across periods. It also recalled the basic principle of the super-dividend test, which aims at excluding from dividend revenue the distribution of profits that are not income and at preventing recording more than one year of income as dividends.

Eurostat noted that the 2016 MGDD has been amended to clarify the calculation of the super-dividend in such complex cases, allowing a simplified consolidated group approach to be taken as a practical solution. In addition, Eurostat wondered whether an exact approach could be actually put in practice in case of multi-layered group of companies.

Findings and conclusions

(25) The Slovak statistical Authorities will provide Eurostat with detailed information to support the super-dividend calculation according to both the Eurostat and Slovak approaches for the last four years. Eurostat requested that the information provided, in addition to the relevant extract of the financial statements of the

affected companies, distinguishes for each unit the distributable ESA net income and the associated super-dividend passed to the upper level.

Deadline: 15 September 2019[17]

4.3.5. *Financial derivatives*

Introduction

The Slovak statistical authorities provided to Eurostat, in advance of the meeting, with the derivatives table, following the template presented by Eurostat in the EDPS WG of May 2017. The Slovak statistical authorities and Ardal explained the existing cross-currency swap agreements. The reporting implications in the EDP Tables were discussed.

Discussion and methodological analysis

The Slovak statistical authorities explained that Ardal is responsible for issuing the debt in the name of the Ministry of Finance, and for its day-to-day management. Ardal has entered into derivative contracts since 2012, in particular long-term cross-currency interest rate swaps relating to USD, CHF, JPY and NOK. Terms and conditions of these swap contracts match with the terms and conditions of the respective government bonds issuances as for value dates, maturities, amounts and currencies. All swaps were executed at market prices and are linked to collaterals. These collateral agreements are symmetric (i.e. can give rise to an asset or a liability to each party), and are deposited in cash on a monthly basis in the Ministry of Finance account at the State Treasury. The balance of such account, when the collateral is in favour of the government, is included in the Maastricht debt. Cash collaterals are reported in AF2L/F2L. Eurostat took note of the explanations and congratulated the Slovak statistical authorities for the detailed information provided in the derivatives table. Eurostat made some recommendations for improving the table and ensuring consistency with EDP tables.

Findings and conclusions

(26) Eurostat congratulated the Slovak statistical Authorities for the filling of the table on derivatives, based on a template provided by Eurostat, and recommended a few improvements, such as:

(a) Separating assets and liabilities in bloc 1;

(b) Adapting the reporting of assets and liabilities in bloc 2;

(c) Separating the stream of interest payments from the unwinding amounts of the cross-currency swaps used to fully hedge the debt denominated in foreign currency, in both blocs 1 and 5. This information will allow verifying the recording in EDP T3 for 2015 and 2018 in relation with swap unwinding, since the amounts reported in the line *Appreciation(+)/ depreciation(-)of foreign-currency debt* appear to be rather small;

(d) Verifying the reporting in relation to CHF hedging in bloc 5 (year 2018).

Deadline: October 2019 notification[18]

[17] This action point was completed in the October 2019 notification.

4.3.6. *Concessions*

Introduction

The Slovak statistical authorities informed Eurostat that the concession regarding a Multimodal Transportation Terminal situated in the Žilina region, which was discussed in the previous dialogue visit, was not yet operative. The concession involves a construction financed from public resources and which was going to be operated by an entity from the private sector in the framework of a long-term contract. No other concessions have been signed or were about to be launched.

Findings and conclusions

Eurostat took note of the information provided.

4.3.7. *Nuclear fund*

Introduction

In 2006, Slovakia set up the National Nuclear Fund to finance the costs of decommissioning nuclear power plants. The National Nuclear Fund is classified inside General Government. Eurostat requested more information about the functioning of the fund and discussed the accounting impact of its operations, in the light of recent methodological clarifications discussed in the framework of the EDPS WG.

Discussion and methodological analysis

The Slovak statistical authorities explained that the fund operates several separate accounts for every running nuclear facility for future decommissioning. Eurostat took note that the contributions received by the fund are recorded as revenue. These contributions are mainly received from three sources: 1) obligatory contributions from the holders of a licence to operate a nuclear facility, 2) fees paid by consumers of electricity, collected by the three public regional network operators, and 3) interest earned on the accumulated funds. Eurostat also took note that the transfer received at inception by the National Nuclear Fund (transfer of assets) from the several funds that existed until that moment, and that were classified inside General Government, was recorded as a D.75 transfer in 2006, not subject to consolidation. Eurostat considered that this amount needed to be consolidated.

Eurostat recalled that the 2019 MGDD clarifies the guidelines in this field, prescribing recording regular contributions to this type of funds similarly as one-off contributions, i.e. as financial advances. The Slovak statistical Authorities agreed that the rules validated by the EDPS WG and by the Directors of Macro-Economic Statistics had to be followed, are methodologically sound and seem to be applicable to the National Nuclear Fund. At the same time, the Slovak statistical Authorities stressed the importance of a homogeneous application of the rules across the EU.

Findings and conclusions

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[18] This action point was completed in the October 2019 notification.

(27) The Slovak statistical Authorities will record the contributions received by the National Nuclear Fund as financial advances, unless further analyses conclude otherwise. The Slovak statistical Authorities will consolidate the 2006 internal transfer of assets.

Deadline: 2019 benchmark revision[19]

4.3.8. *Private health insurance companies*

Introduction

Eurostat discussed the presentation of the adjustments made for two private health insurance companies (*Union* and *Dovera*) in EDP Table 2D. Although privately owned, a significant part of their activities is to provide public services.

Discussion and methodological analysis

Since 2018, the Working Balance of EDP Table 2D encompasses: the Social Insurance Fund, the Public Health Insurance Fund and the revenues accrued in providing public services, minus the related expenditures, of the two private health insurance companies. Two positive adjustments to the working balance are thus done to this Working Balance in relation to the private health insurance companies, reflecting:

a) Purchase of services of private insurance companies: to reflect the fact that private health insurance companies have, by law, a percentage of their operating costs reimbursed by government every year.

b) Transfer from the public part of health insurance companies to the private part: the health insurance companies have obtained some commercial loans in order to upstream money to their shareholders. The Slovak statistical authorities consider that the repayment of the principal and interests of these loans have to be reimbursed by government, according to their interpretation of the law.

Eurostat recalled that the Working Balance in EDP Tables should ideally be linked to financial statements or budget results audited by the relevant supervisory public bodies. Eurostat expressed its concerns regarding a lack of clarity around the impact that the operations of the two entities have in the B.9 of government, EDP T2D and in T3E and requested a detail with the expenditures, revenues and B.9 impact of each private HIC, split between the private part and the public part, as well as the related financial transactions in assets and liabilities for each part.

A discussion followed regarding the classification of the two private health insurance companies. Eurostat reminded, in particular, that the notion of control through public contracts is foreseen in ESA 2010, and wondered whether it may be applicable in this case. The Slovak statistical authorities took note and will further discuss internally but, in principle, do not see further reasons to change the current method of re-routing inside General Government the public business of the private companies.

[19] This action point was completed in the October 2019 notification.

Findings and conclusions

(28) The Slovak statistical Authorities will provide to Eurostat the expenditures, revenues and B.9 impact of each private HIC, split between the private part and the public part, as well as the related financial transactions in assets and liabilities for each part. The Slovak statistical Authorities will reflect on the appropriate manner of reporting the B.9 impact of these two entities in EDP T2D, also considering the possible consequences of the concept of control through contracts regarding the classification of these entities, as defined by ESA 20.309 (f).

Deadline: 15 September 2019[20]

4.3.9. *Agreement between MH Invest and Jaguar Land Rover*

Introduction

MH Invest ('MHI') is a 100% State owned company (classified inside General Government) that owns and develops the Nitra Strategic Park. MHI and Jaguar Land Rover ('JLR') signed an agreement in December 2015 in the framework of the latter's project to build a vehicle manufacturing facility. Eurostat and the Slovak statistical authorities discussed the accounting impact of this agreement.

Discussion and methodological analysis

Eurostat took note that MHI acts as a developer of land and infrastructure. MHI first acquired the land and, after development, it transferred its ownership and some options rights for further land purchases to JLR for building a vehicle manufacturing facility. In 2016, MHI booked the land for sale to JLR, creating a receivable of €35 m. In 2018, MHI received €35 m of cash from JLR. Eurostat enquired about the absence of counterpart to the transaction within accounts receivable (F.81) in 2016 and in 2018. The Slovak statistical Authorities explained that, although more investigation was required, it was possible that a positive impact in B.9 due to this transaction was wrongly recorded in 2016, rather than in 2018, given the latter being considered the right time of economic sale by the Slovak statistical Authorities. They thought that the recording of the sale of land in 2018 was at the moment B.9 neutral and agreed to investigate the associated accounting entries and inform Eurostat about the results.

Eurostat also pointed out that MHI is not disclosed in EDP Questionnaire Table 3 since it is included in the line 'Others'. In addition, no receivable of MHI is visible in EDP Questionnaire Table 4 for 2016. Some changes are advisable in order to provide more clarity to the data reported.

Findings and conclusions

(29) The Slovak statistical Authorities will provide to Eurostat the results of analysing the accounting made in relation to the investment agreement signed between MH Invest and Jaguar Land Rover.

[20] This action point was completed in the October 2019 notification.

Deadline: 15 January 2020

(30) The Slovak statistical Authorities will amend EDP Questionnaire Tables to provide more details on the activities of 'other Central Government bodies' and 'other Local Government bodies'. In particular, they will disclose the most significant entities currently reported under the line 'Others' in EDP Questionnaire Table 3, and they will disclose EDP Questionnaire Table 4 with more detail, by subsectors and including filling line 20a.

Deadline: October 2019 notification[21]

4.4. Others: privatizations, sale and leaseback operations, energy performance contracts, public-private partnerships (PPPs), UMTS, Court decisions, Emission trading permits and Debt reporting.

Introduction

Eurostat enquired on privatizations, sale and leaseback operations and securitisations, energy performance contracts, mobile phone licenses, PPPs, Court decisions, Emissions Trading Permits and the need to report AF.3 at market value in ESA Tables.

Discussion and methodological analysis

As regards to privatizations, the Slovak statistical authorities were not aware of any process that had to be discussed during the meeting.

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

Eurostat took note that the Slovak statistical Authorities will implement the 2017 guidance note on the recording of mobile phone licenses (spreading the proceeds across the license period, as D.45) in the forthcoming benchmark revision.

The Slovak statistical authorities have no knowledge of signed Energy Performance Contracts (EPC). A new entry in the budgetary classification has been created, with the instruction to all entities within General Government to report payments related to EPCs. This new entry shows no payments yet. Eurostat took note and reminded that it had given to the Slovak statistical authorities an ex-ante advice on a model contract prepared by them in the context of EPCs.

Eurostat took note that there were no new public-private partnership agreements.

The Slovak statistical authorities informed Eurostat that they were not aware of any significant Court decision that had to be discussed in the meeting.

Eurostat noted that the Slovak statistical Authorities followed the average price method for recording emission trading permits, which leads, in a context of net exporting of permits, to some undervaluation of the associated revenues. The Slovak statistical Authorities and Eurostat agreed to wait for the outcome of the related ongoing discussions in the framework of the EDPS WG.

[21] This action point was completed in the October 2019 notification.

Eurostat enquired about the availability of data for reporting AF.3 at market value in ESA Table 27. The Slovak statistical Authorities informed that the National Bank of Slovakia prepared a database of AF.3 instruments at market value, and that this information will be used in National Accounts and GFS for the forthcoming benchmark revision.

Findings and conclusions

(31) The Slovak statistical Authorities will report AF.3 assets and liabilities at market value in the ESA Transmission Program.

Deadline: 2019 benchmark revision[22]

[22] This action point was completed in the October 2019 notification.

Annex

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