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

Luxembourg, January 2021

FINAL FINDINGS

<u>EDP standard dialogue visit to Slovenia</u>

20 - 22 November 2019

Executive summary

Eurostat made a standard EDP dialogue visit (SDV) to Slovenia on 20-22 November 2019, and held a technical EDP meeting on 20 November 2019. The purpose of the SDV was to review: the existing institutional responsibilities for compiling EDP statistics; the implementation of ESA2010 methodology (especially the sector classification of certain units); the implementation of the accrual principle (particularly for taxes); the recording of specific government transactions, with a focus on bad bank (BAMC) activities, financial derivatives, public-private partnerships (PPPs), and energy performance contracts (EPCs); and to follow up the action points resulting from the 2017 EDP standard dialogue visit and the closing remarks of the October 2019 EDP notification. Given the complexity of the way in which BAMC activities and financial derivatives are recorded in government accounts, and the impact they have had in recent years, both sides agreed to add a one-day technical meeting to the SDV. The outcome of the technical meeting was formalised during the SDV, as noted in this report under the specific agenda items.

The institutional arrangements currently in place were reviewed. The discussion focused on the Memorandum of Understanding (MoU) between the main institutions involved in EDP reporting (updated in 2018), including important changes to EDP compilation responsibilities (since 2018, the Slovenian Ministry of Finance (MoF) has been a data provider only, having ceased to be the authorised producer of national statistics), the updates still needed to the EDP Inventory (last updated in 2018) concerning the new institutions responsibilities for the compilation of EDP tables, data sources used for calculating the gross fixed capital formation, the list of government units (to be published on Eurostat's website), the description of financial derivatives and the accrual method for taxes.

Eurostat praised the good cooperation that exists between Slovenia's statistical authorities (SSAs) and recommended that they take effective measures to retain EDP/GFS experts, as turnover had been high recently.

As regards the analysis of the EDP notification tables, some open issues from the October 2019 EDP notification were discussed. These were: F.8 structure, EFSF, the Health Budget Reserve Fund, and implementation of the 2019 MGDD (Manual on Government Deficit and Debt) rule on long-term trade credits and decommissioning costs. The SSAs provided F.81 and F.89 data broken down by subsectors and by groups of units, which Eurostat needed for quality checks, and agreed to start including these data in table 4 of the questionnaire. The SSAs would investigate whether there were any cases of long-term trade credit liabilities to be reclassified as F.4. They would also revise the recording of the dismantling of Slovenia's nuclear reactors, in accordance with the updated 2019 MGDD.

Eurostat thanked the SSAs for the progress made with following up the action points arising from the 2017 dialogue visit, particularly those associated with the MoU and the updating of the EDP Inventory in 2018; the recording of BAMC activities in the government accounts; the reclassification of public companies according to the result of market/non-market tests; and the recording of energy performance contracts (EPCs), PPPs, and emission trading permits (ETSs) in government accounts, which required a great deal of work and coordination efforts on the part of the Statistical Office of Republic of Slovenia (SURS), the Ministry of

Finance (MoF), the Bank of Slovenia (BoS) and BAMC (Bank Assets Management Company). The remaining issue associated with customs duties would need further investigation to clarify the accounting treatment of residents and non-residents.

The discussion continued on the application of the ESA2010 sector classification rules, mainly on the specific formula used for the 50% market/non-market test, including the treatment of subsidies (especially for bus companies). Eurostat recalled that units failing to comply with the 50% rule for three consecutive years should be reclassified from the first year of non-compliance, not from the third year (as was currently the case in Slovenia). Given the issue's importance to government deficit and debt, the SSAs would take further steps to implement complete reclassification. SURS would also reclassify companies in liquidation (Zlata Moneta) and check companies with no employees or only one employee.

The sector classification of DARS, the public infrastructure company (currently classified as belonging to S.11), was reviewed in the context of ESA2010 and concession rules. The SSAs told Eurostat that DARS's situation had not changed since the last EDP dialogue visit in 2017. There was a new draft law on government guarantees to cover up to 50% of loans financing new investments of DARS, and a new tax (mark-up toll) payable by heavy goods vehicles on specific sections of highways, imposed by the government in 2019. Eurostat asked SURS to provide an analysis of the impact of the tax/fee on DARS's sector classification. It also pointed out that DARS's sector classification might be reassessed in line with the outcome of the discussions in the EDPS Working Group (WG) and the Task Force on concessions planned for 2020.

There were also discussions about the Slovenian Railways Group (SŽ Group), made up of Slovenia's public railway companies (sector classification, market/non-market test for the last three years and some qualitative characteristics). SŽ Group comprised the parent company, Slovenske železnice d.o.o., and its nine subsidiaries (SŽ - Freight, SŽ - Passenger, SŽ - Infrastructure, SŽ Vleka in tehnika, SŽ - ŽIP, SŽ–Železniška tiskarna Ljubljana, Prometni institut Ljubljana, SŽ - Železniško gradbeno podjetje Ljubljana and SŽ Fersped). Following the results of the market/non-market test, two subsidiaries were classified as belonging to the general government sector (SŽ - Passenger and SŽ-Infrastructure), while the other seven were classified as non-financial corporations (in S.11). SURS said Slovenske Železnice d.o.o. was considered a public head office and its sector classification was determined on the basis of the predominant share of the value added by its subsidiaries. Eurostat noted the clarification, concluding that the existing sector classification of the group's 10 companies was correct.

Eurostat reviewed the classification of SID bank, concluding that S.12 was still acceptable for the moment. SURS would continue to reroute any further transactions made on behalf of the government. However, as SID bank was a development bank and discussions were ongoing in the task force (TF) on development banks, Eurostat recommended that SURS reconsider the sector classification analysis, in accordance with the outcome of the task force concerned.

As regards implementation of the accrual principle, Eurostat verified the accrual adjustments for taxes, interest and EU flows. The SSAs would provide Eurostat with the cash data for D.2 on a gross basis (i.e. showing refunds separately), and, for D.5, split between prepayments on the one hand and final settlements and refunds on the other. The data on corporate income tax

(CIT) and personal income tax (PIT) would also be distinguished. The SSAs would correct the stock data in table 5 of the EDP questionnaire for D.2 and D.5 and would also check whether the flow data were correct. As regards the recording of expenditure on military equipment, Eurostat welcomed the progress made and recommended that SURS compile the data on stocks in table 7 of the EDP questionnaire (military expenditure).

The recordings concerning the 2014 court decision on Ljubljanska Banka deposit holders were reviewed, as was the 2013 court decision on '*erased people' (persons removed from the register of permanent residents).* The SSAs confirmed that they had followed Eurostat's advice when recording these two cases of court decisions (including the revision discussed in the 2017 EDP SDV). They also informed Eurostat about another two new cases: one referring to bail-in operations carried out by the BoS in 2013-2014, and another concerning the NLB litigations in Croatia. The SSAs were then asked to provide Eurostat with relevant information on these cases, including the impact on government accounts.

As regards government interventions in financial institutions, a technical meeting was held on the first day of the 2019 EDP SDV concerning 2013-2019 BAMC (bad bank) complex operations. The purpose of the meeting was to check in detail whether the recording of BAMC operations in government accounts was in accordance with Eurostat's advice letter, sent in 2016. Eurostat also mentioned the ongoing discussions on the recording of defeasance structures held at EU level, which had not yet been concluded and still needed to be agreed among Member States. The SSAs stressed that it was important not to change past decisions retroactively, pointing out that any re-examination would involve an additional administrative burden. The BoS summarised the operations conducted regularly by BAMC, explained the structure of the updated Excel file provided to Eurostat before the meeting, and presented specific transactions extracted from the exhaustive list in the Excel table (conversion of debt to real estate, purchase of real estate at auction, conversion of debt to equity, cash recoveries, write-offs, and the sale and acquisition of non-performing loans (NPLs)). SSA reported that the total stock of NPLs (nominal value) recorded in government accounts at the end of 2018 came to €1528bn against a transfer value of approximately €0.4bn, which was the maximum possible remaining impact on B.9 over the next few years. Following the recording agreed with Eurostat and included in the advice letter of 2016, BAMC had a deficit from 2013 to 2016 (the highest figure being €344m in 2015) and a surplus in 2017 (€45.7m) and 2018 (€47.3m). Eurostat very much appreciated the detailed file tracking the various events concerning the portfolio of NPLs held by BAMC and concluded that this detailed file followed the methodology recommended in the advice provided in 2016 about conversions into real estate and equity, write-offs, etc. However, it suggested that further reflection was needed to ensure a more appropriate recording of the purchase of assets at auction in those specific cases where subsequent proceedings took place in a following quarter. This could help avoid the current procedure of writing off the full set of claims on a given debtor when only marginal operations were carried out. In addition, SSAs might reflect to adapt Annex 5 of the EDP tables in such a way as to include all BAMC financial and non-financial accounts and to value the equity stakes and NPL stocks at market prices in this table. The SSAs stressed that any changes in methodology would require substantial additional work for small improvements. However, the BoS agreed to improve the data in Annex 5.

Eurostat agreed with the SSAs that, given the complexity of financial derivatives, a technical meeting on the subject would be held on the first day of the 2019 EDP SDV in Slovenia, to check whether they were recorded in government accounts in the way Eurostat had advised in some emails sent in 2019. In that year, Eurostat had held intensive discussions with SURS and the BoS on the recording in government accounts of specific cases of financial derivatives (IRS, SWAPTIONS, NOVATIONS). These discussions had been conducted by email and at *ad hoc* meetings held during breaks in meetings of the EDPS WGs. Eurostat therefore planned to allocate more time during this EDP dialogue visit for detailed discussion of the recording of financial derivatives. Eurostat appreciated the quality of the derivative tables compiled by the SSAs on a voluntary basis and the associated source data and intermediary compilation tables. It concluded that the SSAs had followed Eurostat's recommendations on recording financial derivatives, made in the summer of 2019, when compiling the EDP tables reported in October 2019. However, during the mission, it was observed that the MoF disagreed with cases where Maastricht debt had been increased by financial derivative operations. In this context, Eurostat advised the SSAs to envisage the opportunity of using the central counterparty in their derivative operations. This was likely to have a statistical implication: to avoid including the cash collateral in the debt and creating off-market swaps following IRS renegotiation. In addition, the SSAs would examine the possibility of involving the Treasury (which accepted the principle) in compiling the requested statistics on financial derivatives, which could significantly alleviate the burden of compilation on the BoS. Eurostat noted, however, that this might require an amendment to the MoU.

As regards the other recording of specific government transactions, Eurostat recalled the importance of monitoring non-performing loans (NPLs) to make sure that debt cancellations were correctly reported. The issue of recording capital injections in the national accounts was also discussed. Eurostat advised the SSAs to continuously monitor capital injections into public corporations, in order to record the capital transfer and/or the acquisition of the equity shares of the government correctly. As for PPPs, EPCs and concessions, the Slovenian MoF, together with SURS, would take further steps to obtain a complete list of PPP, EPC projects and concessions and to ensure correct classification in the national accounts. As regards EPCs, the SSAs would send Eurostat a new draft EPC, which was expected to be used as a model for future contracts.

Eurostat appreciated the information provided by the SSAs before and during the EDP standard dialogue visit. It also thanked the SSAs for their excellent cooperation during the EDP dialogue visit, describing the discussions as transparent and constructive.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty on the Functioning of the EU, Eurostat made an EDP standard dialogue visit to Slovenia on 20-22 November 2019.

The Eurostat delegation was headed by Mr Luca Ascoli, Director of Directorate D, Government Finance Statistics (GFS). Eurostat was also represented by Ms Gita Bergere, Head of Unit D-2, Excessive Deficit Procedure (EDP) I, Mr Philippe de Rougemont, and Ms Nicoleta Savu. Representatives of the European Central Bank (ECB) and DG ECFIN also participated in the meeting as observers. The Slovenian Statistical Authorities (SSAs) were represented by the Statistical Office of the Republic of Slovenia (SURS), the Ministry of Finance (MoF) and the Bank of Slovenia (BoS). Experts from the Fiscal Council and the Court of Audit of the Republic of Slovenia also attended the meetings.

The previous Eurostat EDP dialogue visit to Slovenia took place on 14-15 June 2017.

Eurostat conducted the November 2019 EDP dialogue visit to review the implementation of the ESA 2010 methodology (especially the sector classification of units), the implementation of the accrual principle (particularly for taxes), the recording of specific government transactions (with a focus on BAMC activities, financial derivatives, public-private partnerships (PPPs) and energy performance contracts (EPCs)) and to follow up the action points resulting from the 2017 SDV and the closing remarks of the October 2019 EDP notification.

As regards procedural arrangements, the *Main conclusions and action points* were sent to Slovenia for comments. Then, within a few months, the *Provisional findings* would be sent to Slovenia for review. After this, the *Final Findings* would be sent to Slovenia and the Economic and Financial Committee (EFC) and published on Eurostat’s website.

Eurostat appreciated the timely information provided by the SSAs before the EDP dialogue visit and added that the quality of the reported data had improved between the last two EDP dialogue visits in 2017 and 2019. It also thanked the SSAs for their excellent cooperation during the visit, taking the view that discussions had been transparent and constructive.

1. STATISTICAL CAPACITY ISSUES

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

Introduction

The *'Memorandum of Understanding in the field of macroeconomic and financial statistics'* (MoU) was established between SURS, the MoF and the BoS in 2004 and further amended in 2007, 2009 and 2018[1]. The MoF ceased to be the authorised producer of national statistics in Slovenia in 2018, so it is no longer responsible for compiling and notifying EDP tables. The SSAs informed Eurostat for the first time of new institutional working arrangements, with the MoF as the sole data provider in the EDP process, at the 2017 EDP DV. These new arrangements were then formalised in the 2018 (updated) version of the MoU.

Under the new MoU, SURS and the BoS prepare the actual data for the EDP tables, while the MoF prepares the forecast for the current year. SURS publishes the EDP data nationally and reports them to Eurostat. General government non-financial accounts are compiled by SURS and financial accounts by the BoS in line with ESA 2010 methodology. In the event of a disagreement between the two institutions, SURS's decision is final.

Before the mission, SURS provided Eurostat with up-to-date flow charts of EDP data flows and institutions involved in the calculation of government deficit and debt for the April and October EDP notification.

Discussion

Eurostat enquired about cooperation between the institutions involved in EDP, given the significant amendments made to the MoU in 2018 as regards organisational structure and the division of responsibilities. SURS confirmed that the updated MoU signed in 2018 had introduced some significant changes to EDP institutional arrangements.

Firstly, sole responsibility for the EDP data reported to Eurostat now lay with SURS and the BoS. The MoF was now responsible only for planned data. It was no longer responsible for other parts of the EDP/ESA tables (interest, quarterly government debt, etc.), as it had been before 2018. However, SURS mentioned that the MoF had access to the EDP/GFS data produced by SURS before their publication.

Secondly, under the updated MoU, the MoF had taken over responsibility (previously shared with SURS) for publishing all data under Council Directive 2011/85/EU. Eurostat welcomed Slovenia's decision to include in the MoU the national authority responsible for Council Directive 2011/85/EU, which was noted as a good practice among Member States. The MoF

[1] For an English version of the 2018 updated MoU, see SURS's website: http://www.stat.si/StatWeb/File/DocSysFile/10087/MoU_GovernmentAccountsStatistics.pdf

informed Eurostat that a new unit independent of the budget department had recently been set up within the MoF. This unit was to take over tasks relating to EDP/GFS and other statistics (e.g. SDDS for IMF) for which the MoF was responsible.

Thirdly, SURS pointed out that the format of the Slovenian EDP working group had changed in 2018. It now included, in addition to SURS, BoS and MoF representatives, experts from the Fiscal Council (set up in 2017), who could attend meetings as observers. SURS had also invited the Fiscal Council to the 2019 EDP SDV meeting.

SURS also recalled that although the Court of Audit (CoA) was not part of the working group, there was a separate memorandum between SURS and the CoA on consultations about the quality of data sources (cash basis) provided by the MoF and on providing information about cases of irregularities involving fines and penalties. The CoA mentioned that the cash budgets of state, treasury, social security and health funds were audited each year. In addition (though not every year), individual units of central government were audited in relation to accrual information included in the Whole Government Account (WGA – the balance sheet of government seen as one unit, according to EPSAS rules, and including approximately 100 accounting details).

Eurostat noted that the provisions of the updated MoU on institutional responsibilities for EDP/GFS reporting had already been implemented in practice. It congratulated the Slovenian EDP/GFS team for delivering all the reports to it in time. Eurostat recalled the advantages, as regards high-quality data, of good cooperation between the three institutions involved in the EDP process. However, the institution expressed some worries about the number of experts in the current team. Given the new context, in which SURS and the BoS had more EDP/GFS responsibilities, an increase in human resources at both institutions had been expected. However, there had been no change in human resources at the BoS, while the figures at SURS had actually fallen. Eurostat therefore called on SURS to take effective action to maintain its experts.

Following up the technical discussions on financial derivatives from the first day of the mission, Eurostat recalled the proposal made to the MoF to balance the workload at the BoS. The MoF had been asked to provide the BoS with simplified reporting on financial derivatives in a format agreed with the BoS, based on a complex series of treasury transactions in accordance with ESA 2010 rules. Given the expertise and capacity of the MoF's treasury department, it had no objections to taking on this responsibility. SURS said the MoU could be further updated to include this working arrangement for financial derivatives reporting for EDP purposes.

Eurostat asked the SSAs about changes regarding audit and internal control for EDP matters. SURS confirmed that there had been no changes since the last EDP mission, and added that the audit process in place was applied to all macroeconomic statistics as regulated by the National Statistics Act and Regulation (EC) No 223/2009. Eurostat took note.

Findings and conclusions

Action point 1

23[2]. Eurostat appreciated the high degree of commitment and expertise of staff involved in EDP/GFS. However, it recommended that the SSAs take effective measures to retain EDP/GFS experts, as the high turnover observed in the last period could adversely affect the quality of the EDP/GFS reported by Slovenia.

Deadline: continuously

1.2 Data sources and revision policy, EDP inventory

a) Data sources

Introduction

The use of the data sources described in the updated MoU and EDP Inventory[3] was reviewed under this agenda item. The main data sources SURS used to compile the EDP tables were:

- the cash budgets (provided to SURS in Excel format by the MoF by the end of February at the latest),
- the preliminary data on the main direct budgetary units (provided to SURS by the Agency for Public Records and Related Services (AJPES) in mid-March),
- the annual financial statements (accrual basis) for public units and companies (provided to SURS by the AJPES at the end of April), and
- the Whole Government Accounts (WGA - the balance sheet on accrual basis of all government units, except companies provided to SURS and to the BoS by the MoF at the end of June/July, since the reporting units' deadline was at the end of April).

Discussion

Eurostat asked the SSAs to present any changes in data sources that had taken place since the last EDP dialogue visit, especially improvements in their availability for the April EDP notification. SURS said that there had been no changes in data sources or the availability thereof since 2017. However, it noted that on the evidence of recent years, the provisional data sources used for the first EDP notification had not differed greatly from the final data available for the second EDP notification.

By way of an example, SURS said that in the April EDP notification, 80% of the values for public companies reclassified under S.13 were known from the provisional financial

[2] Action point's number as reffered in *Main conclusions and action points*. The new numbering follows the agenda order. This footnote is valid for all action points in this document.

[3] See the Slovenian EDP Inventory updated at the end of 2018 as a follow-up to the 2017 EDP SDV and published on Eurostat's website: https://ec.europa.eu/eurostat/documents/1015035/8572485/SI-EDP-Inventory-Sep18.pdf

statements that SURS had received directly from the most important companies. This included some aggregated data defined for SURS's needs.

As the WGA was not available in April, SURS explained that the BoS survey (an indirect source of data for the government balance sheet, including information stocks at market value and revaluation) had been used to compile financial accounts in the first EDP notification. Preliminary data from balance sheets (not sufficiently detailed to be used as a data source, as they included only opening/closing stocks, not at market value, with no revaluation available) for the main direct budgetary units received from AJPES had been used to double-check some of the EDP/GFS figures at aggregate level in the April EDP notification. SURS said Maastricht debt, compiled in cooperation with the BoS, could already be considered final in April (except for possible reclassifications), as detailed data at unit level and by financial instrument were available at the BoS (database provided by the MoF's Treasury Directorate, the BoS survey, and the database of the Central Securities Clearing Corporation). In the October EDP notification, only F.8 (other accounts receivable/payable) was therefore revised for the last notified year, by adding the information from the WGA.

Eurostat also enquired about data sources and the calculation of gross fixed capital formation (GFCF). In particular, it asked how the four data sources referred to in the EDP inventory (the SURS survey on investments – INV survey, the BoS survey on financial accounts, the WGA data, and data with a one-month time lag) were used in practice in compiling GFCF in EDP tables 1 (total expenditure), 2 (working balance and accrual adjustments) and 3 (accrual adjustments) in the April and October EDP notifications. The issue was that the primary data source mentioned in the EDP Inventory (INV survey) was available only after two years.

To calculate gross fixed capital formation (GFCF), SURS explained that the one-month-time-lag method had been used in the first EDP reporting. In the second EDP reporting, a mixed approach (WGA, preliminary INV survey data and the BoS survey) was used to calculate the accrual adjustment in EDP tables 2 and 3. SURS said that, in general, no significant revisions were needed to take account of updated source data. The INV survey (the main data source before the WGA) was currently used as an additional data source in the October EDP notification (preliminary INV survey data – incomplete coverage). It was also used later to verify the WGA data, given the late availability of the INV survey (end of December of year t+1).

Eurostat took note of SURS's clarifications of the current use of GFCF data sources. It asked SURS to explain how the differences between the WGA, the INV survey, the BoS survey and cash budgets in terms of coverage (all government units, including public corporations, reclassified under S.13), content (definition of investments included in each data source) and structure were treated for EDP purposes.

SURS confirmed that the INV survey covered all government units, unit by unit, including public corporations, and that its data structure was also more detailed than the information available in the WGA. SURS recognised that it was sometimes difficult to reconcile these sets of data, given the differences in their structure and valuation. For example, other accounts payable (F.8 on gross fixed capital formation P.51) was calculated as residual from the WGA in the October reporting, as there was currently no separate item for F.8 on investment in the

WGA, this information being presented together with other payables. SURS mentioned that further improvement of WGA structure was in progress and that a new variable to distinguish F.8 on GFCF from other payables would be added. SURS said there were now regular meetings with the MoF on investment data from budgets, to reconcile the cash flows included in the working balance with the WGA and INV survey data.

Eurostat understood that even if the INV survey was exhaustive, its late availability made the calculation of GFCF a complex issue. Moreover, the WGA structure should be developed to include information on F.8 on investments. Eurostat recalled that the analysis of the WGA structure on the need to split the other accounts receivable/payable into different categories was pending from previous EDP missions (2015 and 2017). However, it noted that the SSAs cooperated on the GFCF calculation; SURS had a system for checking preliminary and final data on investments, and for the reconciliation of data sources used in the first, second notification and later. Eurostat therefore asked SURS to provide the data associated with this exercise in practice, as a follow up of the discussion on GFCF.

Findings and conclusions

<u>Action point 2</u>

4. The SSAs will provide Eurostat with the template of the Investment survey. They will provide a reconciliation table, for the last four years, by the main units or groups of units, or at least at sub-sector level, between the information from the INV survey and the public accounts (cash budgets, WGA data, financial statements of public companies classified under S.13) and the link to the reported ESA P.51g of S.13.

Deadline: April 2021 EDP notification

b) Revision policy between the April and October EDP reporting

Introduction

For each EDP reporting in Slovenia, data for the last four years are open to revision. Revisions affecting B.9 and B.9f are made in the October EDP notification. They affect mainly the last year notified, as some data sources are available only for the second EDP notification. In April EDP notifications, preliminary data are available for all direct budgetary units. Estimates based on preliminary outturns of the largest entities (major public corporations reclassified under S.13, hospitals, universities) are used for the other units of central and local government. In October EDP notifications, the preliminary data used in the April EDP notification are revised with final data for the direct budgetary units. Estimates used in the April EDP notification are revised in October with data from financial statements concerning all other units in the central, local and social security subsectors of government.

Routine October revisions include possible methodological changes, improvements in data sources, reclassification of units, and correction of errors. As all general government gross debt data are already available in the first EDP notification, later revisions are unnecessary except for possible reclassification. According to the ESA2010 Inventory, government accounts data must be consistent in the EDP and ESA 2010 tables and must be published nationally before being transmitted to Eurostat. Since reclassification of units affects the level of GDP, and Slovenian GDP has been revised and published annually in August for the last four years, units are reclassified only in the second EDP notification (October). This ensures consistency of data in EDP and national accounts.

Discussion

SURS presented the routine revision policy for the four years notified in the October EDP notifications, as described in the updated EDP Inventory, noting that it had not changed in Slovenia since the last EDP dialogue visit. In addition, SURS recalled that in October 2019 the regular revision of data for the general government sector for the four years notified had been conducted in parallel with the benchmark revision for 2019 (BMR19) for the entire data series from 1995 on. BMR19 was conducted in line with revision policy at European level. This started in 2019, the aim being to apply the same revision policy throughout the EU, on a five-year basis.

In Slovenia, there were the following revision points under BMR19 that had most effect on the estimates of general government accounts:

(1) the recording of mobile phone licences (2001–2013),

(2) the recording of rerouted social contributions for health insurance as gross benefits paid to households (1995–2018), and

(3) the revision of recording of social transfers in kind due to conceptual consistency of transfers to households at local government level (1995–2018).

The revision changed the government surplus/deficit in different years in the range of −0.6% to 0.04% of GDP and on average by 0.01% of GDP. The impact was significant for 2001 (reducing the figure by €120 million, that is, 0.6% of GDP), owing to the implementation of the Eurostat Guidance Note on Mobile Phone Licences. Gross presentation of social contributions for health insurance (point 2) affected general government expenditure and revenue by 1% of GDP and new recording of social transfers in kind by 0.3% of GDP. Both revision items were neutral as regards government surplus/deficit.

The SSAs said the new MGDD issued by Eurostat in 2019 was implemented in Slovenia as presented in the October 2019 EDP notification request for clarification. The few remaining open issues were discussed under specific agenda items (decommissioning costs, long-term trade credits, etc.).

Eurostat also asked the MoF about the approval of the new accounting law mentioned in the 2013, 2015 and 2017 EDP dialogue visits (included in the mission findings as an action point), as this could improve the availability of accrual data in the April EDP reporting. The MoF replied that the law was still at the planning stage. The accounting law was not on the government's current work agenda, so no changes were expected in the short term as regards the gradual shift from cash to accrual reporting for all government units. Eurostat took note and asked the SSAs to inform it when further steps were taken.

Findings and conclusions

Eurostat noted that the last four years were open for routine revisions at each EDP notification. It appreciated the fact that Slovenia had abided by the benchmark revision policy in 2019 as agreed at European level. In general, Slovenia had made all the changes associated with the 2019 MGDD provisions. Eurostat recommended that the SSAs continue to update the full time series backwards over the next five years. For significant amounts, it encouraged the SSAs to proceed with revisions when discovered. The SSAs agreed to consider Eurostat's recommendation to carry out timely revisions in future, depending on impact value and human resources.

c) EDP inventory

Introduction

At the end of 2018, following up the 2017 EDP SDV, a second version of the EDP Inventory according to ESA2010 (the first version dated back to December 2015) was published on SURS's and Eurostat's websites.

Discussion

Eurostat asked SURS to bring the EDP Inventory into line with the new MoU signed in 2018 for institutional responsibilities, bearing in mind that the published version of the Inventory was not entirely consistent with the current working arrangements described in the previous section or with the table in the annex to the Slovenian version of the MoU provided to Eurostat.

Eurostat also recommended that SURS update the other parts of the EDP Inventory, where necessary, as discussed in the course of this EDP mission. This applies to:

- the data sources used for GFCF and its concrete calculation for the April and October EDP notifications,
- Annex 1 on general government units' list, for publication on Eurostat's dedicated website (referring to years 2018-2019), and
- an updated EDP Inventory including data for a more recent year, as the one published now refers to 2014 data.

Eurostat recalled that the EDP Inventory should be updated to take account of any major changes in the future.

Findings and conclusions

<u>Action point 3</u>

3. The SSAs will correct the EDP Inventory as regards the institutional responsibilities for compiling the data for EDP Table 1 (debt) and EDP Table 4.

Deadline: December 2020

1.3 Compliance with Council Directive 2011/85/EU

Introduction

The national collection and the publication of data required by Council Directive 2011/85/EU of 8 November 2011 *on requirements for budgetary frameworks of the Member States* were discussed.

Discussion

Eurostat noted that since January 2017, the fiscal data and the data on contingent liabilities had been published together at national level on the MoF website[4]. SURS explained that previously (2015-2017), responsibility for publication and data quality was shared with the MoF. As the MoF was responsible for collecting budgetary data on a monthly basis, SURS retained only responsibility for the quality of data concerning contingent liabilities on public corporations. Eurostat welcomed the initiative to formalise in the updated MoU the responsibilities for the compulsory indicators required by Council Directive 2011/85/EU.

The MoF informed Eurostat that progress had been made since 2017 regarding the fiscal requirements and that the MoF planned to publish fiscal data on a cash basis for all general government units by the end of December 2019. This would increase current coverage with the indirect budgetary units and public corporations data.

As regards contingent liabilities, Eurostat noted that data published nationally were consistent with those sent to Eurostat at the end of December 2018 in the context of the Enhanced Economic Governance package (the 'six-pack'). These data included annual data on government guarantees for 2011-2017, and non-performing loans for 2013-2017 (most of which were bad bank NPLs, zero values reported for S.1313 and S.1314). As regards data on off-balance PPPs, zero values were reported for all government subsectors for 2013-2017. SURS confirmed that investigations did not show any off-balance PPPs in the government sector. This issue was discussed in more detail later under the related agenda item.

Findings and conclusions

Eurostat noted that Slovenia had complied with Council Directive 2011/85/EU and that the fiscal data required under Council Directive 85/2011/EU would be published by the end of December 2019 including full coverage of general government units.

2. ANALYSIS OF EDP TABLES – FOLLOW-UP OF THE APRIL/OCTOBER 2019 EDP NOTIFICATIONS

Introduction

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[4] See the link: *https://www.gov.si/en/topics/fiscal-policy-2*

The SSAs sent Eurostat the second notification on 30 September 2019. This included the EDP tables (Annex 1), the EDP questionnaire (Annex 3) and the supplementary tables on government interventions in financial institutions (Annex 5). The EDP notification tables were reported with full internal consistency. During the assessment period, SURS had not revised Annex 1 and Annex 5, and had revised Annex 3 only once. This was an improvement on transmissions in previous years. Three EDP requests for clarification had been exchanged with SURS. The SURS press release[5] on deficit and debt was usually published before or on the day when the EDP tables were sent to Eurostat (25 September 2019). The whole set of EDP tables (Annex 1) was published nationally on SURS's website[6] only after Eurostat had sent the closing remarks to Slovenia, as well as the historical EDP tables (18 October 2019).

In October 2019, Slovenia reported a surplus for 2018 (0.8% of GDP). However, the general government debt exceeded the threshold of 60% of GDP (70.4% of GDP). Compared with the April 2019 reporting, there was no revision of B.9 in October 2019 for 2015-2018 as a percentage of GDP and no revisions for debt for 2015-2017 as percentage of GDP. For 2018, the downward revision of nominal GDP pushed up debt as a percentage of GDP (+0.3 pp), even though it actually fell in nominal terms.

The closing remarks of the October 2019 EDP notification included five main issues to be followed up:

(1) the monitoring of the BAMC activities (for new facts as well as for methodological treatment),

(2) the recording of financial derivatives in government accounts,

(3) F.8 data presentation in EDP questionnaire, broken down by groups of units and by F.81 and F.89,

(4) the follow-up of the action points from the 2017 EDP dialogue visit, and

(5) the EDP technical aspects on (5.1) ETS, (5.2) EFSF, (5.3) D.2 and D.5, (5.4) Funds of Funds, (5.5) the Health Budget Reserve Funds and (5.6) the implementation of MGDD rule on decommissioning costs. Closing remarks 1, 2, 4 and 5.1, 5.3, 5.4 were discussed under the related agenda items.

<u>Closing remark in the October 2019 EDP notification</u>

Eurostat has no further questions for this notification. However, we would like to follow up a number of issues after the October 2019 EDP notification. As agreed in this request for a clarification period, the issues will be discussed in the EDP mission to Slovenia planned for 20-22 November 2019. Please provide Eurostat with the documents as requested in the letter of invitation for the 2019 EDP dialogue visit. Eurostat considers the recording of BAMC

[5] See the link: https://www.stat.si/StatWeb/en/News/Index/8399

[6] See the link: https://www.stat.si/StatWeb/en/News/Index/8458

activities, financial derivatives and other accounts receivable/payable (F.8) to be part of the closing remarks, as continuous monitoring is needed for these issues.

1) BAMC activities – to be monitored, both for new facts and for methodological treatment. As BAMC is an important issue, given the significant amount of transfer value that could affect B.9, we will consider this an open issue until the BAMC activity is closed.

2) Recording of financial derivatives in the government accounts. The issues around swaptions, interest swaps and novations are difficult from an EDP methodological perspective. The verification of the recording in government accounts could also be difficult, even when the full picture is available.

3) F.81 and F.89 data presentation in EDP questionnaire tables 4: F.81 and F.89 broken down by group of units for each government subsector.

4) Partially implemented action point of the 2017 EDP dialogue visit (AP 11): Please provide Eurostat with the related data on custom duties, as requested in the request for clarification of the October 2019 EDP notification.

5) Other issues arising from the October 2019 EDP notification:

5.1) ETS - data recording in EDP and government accounts

5.2) EFSF - data recording in EDP and government accounts

5.3) D.2 and D.5 - source data, calculation and accrual recording

5.4) Fund of Funds - data recording in EDP and government accounts

5.5) Health Budget Reserve Fund - data recording in EDP and government accounts

5.6) Implementation of MGDD rule on decommissioning costs

Discussion

Eurostat appreciated the fact that cooperation during the latest EDP notification period had worked well. Eurostat thanked the SSAs for the notes provided before the mission on the closing remarks of the October 2019 EDP notification, particularly those on the recording of financial derivatives and BAMC activities in the government accounts. These had required a good deal of work and considerable coordination efforts on the part of SURS, the MoF, BoS and BAMC. Eurostat encouraged the EDP team to continue this cooperation.

Eurostat asked to discuss the closing remarks (3) F.8 Other accounts receivable/payable, (5.2) EFSF, (5.5) Health Budget Reserve Fund and (5.6) implementation of the 2019 MGDD rule on decommissioning costs.

Before the mission, SURS had sent Eurostat Excel tables with detailed data, as requested in closing remark No 3. Eurostat appreciated the work done to compile the F.81 and F.89 data, broken down by subsectors and by groups of units. Eurostat explained that the information required was needed for quality checks and was also provided by other countries to Eurostat. Although the instructions for EDP tables did not specify that in table 4 of the questionnaire data should be reported by group of units, Eurostat encouraged the SSAs to use this approach to develop the structure of table 4 of the questionnaire. This information made it possible to reconcile other accounts receivable/other accounts payable (F.8) in EDP tables 2 and 3 and trade credits and advances (F.81) flows and stocks in EDP tables 2, 3 and 4.

SURS agreed to start including these detailed data in table 4 of the questionnaire, but expressed concerns about the availability of data in April for the last year notified, as the WGA (government balance sheet) was not available until the summer (June-July). Eurostat took account of SURS's comments. It was expected that the April EDP notification would include at least the details for the first three years of the period notified and estimates for the last year. In October, data concerning the last year notified would be updated using the available WGA and the balance sheets of reclassified public corporations. Eurostat also reiterated that reporting of EDP tables 3B1 and/or 3B2 on a voluntary basis would be appreciated.

SURS also informed Eurostat that the modification of the current structure of WGA was a work in progress and that the most recent meeting between SURS, the BoS and the MoF on further improvement of WGA data had been held in February 2019. The main conclusions were that an additional variable on F.8 other accounts payable was needed in the breakdown, specifically to distinguish F.8 on GFCF from the other accounts payable. As regards EU flows, further improvement was needed for other short-term receivables and other short-term payables, especially for local government units (municipalities). Further improvement was also needed for units that were part of S.13, but were not in the system for WGA data reporting (i.e. public corporations). The MoF had committed to analysing the feasibility of suggested WGA improvements. If feasible, modification of the structure would be included in the next reporting cycle (2020/2021). Eurostat noted this progress and recommended that the MoF take further steps to implement the conclusions of the SSAs' meeting on the WGA improvements, as the MoF was responsible for WGA data and structure. Eurostat also noted the SSAs' commitment to improving WGA structure in line with EDP/GFS needs over the next few years.

As regards F.81 trade credits and advances, Eurostat reiterated that the SSAs had to ensure that the long-term trade credits were recorded as loans in government accounts in accordance with clarifications included in the new 2019 MGDD. It therefore asked SURS to confirm and provide more details of implementation in practice for units included in WGA and for reclassified public companies. SURS said no revision was needed in Slovenia, as F.81 trade credits and advances always included only short-term trade credits for both assets and liabilities, It was only since 2018 that military equipment had been affected by this rule on the asset side, and the amount had been recorded as F.4 loans. Eurostat pointed out that according to the chart of accounts provided during the meeting (the balance sheet of a public company), it seemed that some items and amounts had been reported not only for 'short-term trade credits', but also for 'long-term trade credits'. SURS agreed to look into this and come back with clarifications.

Eurostat also asked about the implementation of the *Eurostat Decision*[7] from 2012 on trade credits. This required trade credits that had been factored or restructured without recourse to be recorded as loans. The SSAs explained that there had been a few cases of factoring in the past. The data had been extracted from MFI statistics (banks) and there currently seemed to be some cases of factoring of VAT assets (two months old or more) through banks. However, no concrete data were available. Eurostat recommended that the SSAs collect information on factoring involving government units (assets and liabilities) and that they send it to Eurostat.

The following issue concerned EFSF recording in government accounts. Before the mission, SURS had sent Eurostat detailed EFSF data as recorded in all EDP tables (EDP tables 1, 2A, 3A and 3B) and a proposal for small revisions for interest on EFSF in 'Other accounts receivable/payable' and 'Other adjustments', in order to follow Eurostat's clarification on neutral impact on B.9. After analysing the data provided, Eurostat had concluded that Slovenia's proposal to correct EFSF interest data in EDP tables in April 2020 was acceptable and would ensure a total neutral impact. In addition, EFSF data reported by Slovenia was consistent with Eurostat's database, including the loans granted, reimbursements and the purchase of service for EFSF.

SURS clarified the next point of the October 2019 closing remarks on the Health Budget Reserve Fund (ZZZS) as follows: the legal basis for the reserves produced by the ZZZS is set out in Articles 41 and 65 of the *Rules on the preparation of annual reports for the budget, budget users and other public bodies* and in Article 60 of the *Statute of the Health Insurance Institute of Slovenia.* The latter states: 'ZZZS establishes a reserve fund after closing its accounting statements by earmarking at least 25% of its surplus revenue over expenses minus unused planned expenditures carried over to the next accounting period, until such time as the reserve fund reaches 25% of the average monthly contribution income for compulsory health insurance under the accounts for the last three years. Reserve funds are used to cover unforeseen and increased expenditures resulting from epidemics, natural disasters, deficit coverage or other risks under the law.'

ZZZS informed the MoF that the reserves for 2018, totalling €10.7m, had not been spent. As could be seen from the MoF forecast for 2019, ZZZS had also planned a surplus for that year. ZZZS also informed SURS that the spending from the reserve fund would not be seen from its WB, as this spending would be reported separately, like the Budget reserve fund in S.1311. In theory, these rules had applied since 2001. In practice, if ZZZS recorded these reserves in the WB, SURS recorded the transaction as D.75pay (2014 (€5.2m), 2015 (€1.7m), 2017 (€0.3m.). Adjustment for the reserve fund was recorded not only in 2018, but also in 2007 and 2008. ZZZS confirmed that no reserves had yet been spent after 2015. In 2017, SURS recorded D.75pay with no adjustment, as the amount was small and the evidence of how the reserves had actually been spent was not checked with ZZZS. On request, ZZZS would prepare data for the whole period (i.e. within the October 2019 EDP notification since the

[7] https://ec.europa.eu/eurostat/documents/1015035/2041337/Statist-record-of-some-operations-rel-to-trade-credits-i.pdf/

issue was raised) and SURS would check how the reserves had actually been spent and make an appropriate revision to the next EDP notification in April 2020. Eurostat noted SURS’s explanation about the Health Budget Reserve Fund, seen as a special internal account that had to be balanced, and the need to further check the row data directly from ZZZS. It recommended including the necessary revisions in the April 2020 EDP notification.

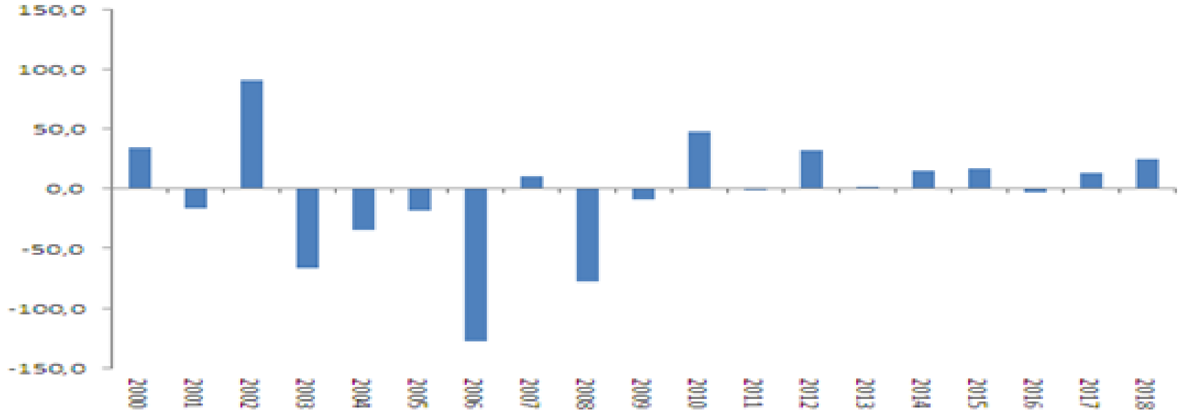
The next issue referred to the impact on government accounts of the transfer of the costs of nuclear decommissioning. In the request for clarification of the October 2019 EDP notification, Eurostat had asked Slovenia whether the new provisions of the 2019 MGDD on decommissioning costs had already been implemented for this notification and what the impact had been on government B.9 and debt. Following questions on clarification rounds, some doubts were expressed about the confirmed fully implemented status, then considered as an outstanding issue to be discussed further during the November 2019 EDP SDV. Eurostat explained that the rule for recording had changed slightly in the new MGDD. To be more precise, the impact on B.9 had to be neutral, by unwinding the related paid contributions via an F.8 entry until dismantling expenditure took place that would be matched by a tax recording.

SURS explained that there was a decommissioning fund in Slovenia (the Fund for Decomposition of NEK - Nuclear Power Plant Krško). Its entire stock of assets (as reported to AJPES at market value) had totalled €200.6m at the end of 2018 (and it had been quite stable during 2015-2018: €201.7m at the end of 2017, €199.4m at the end of 2016 and €192.9m at the end of 2015) were invested in equity and debt security (generating around €4m in property income each year). The contributions paid by GEN Energija (the company in charge of NEK classified under S.11) to this fund were treated in government accounts as D.29 (Other taxes on production), as stipulated also in the EDP Inventory (around €8m yearly in 2015-2018). SURS explained that the reason why tax revenue had been recorded instead of F.89pay was that this contribution was used not just for NEK, but also for current financing of ARAO (the Agency for Radioactive Waste, classified under S.13) and for payments to local government for environment damage on plant locations (recorded as D.73). SURS said the 2018 NEK contribution of €8.23m had been used to pay ARAO (€1.24m) for the waste management service and to offset environmental damage to land (€5.94m). SURS said it was monitoring the issue regarding NEK and that there could be a very long-term impact, as the primary phase of dismantling was expected in 2037. SURS also said that if the fund lacked sufficient money, the government will finance the dismantling.

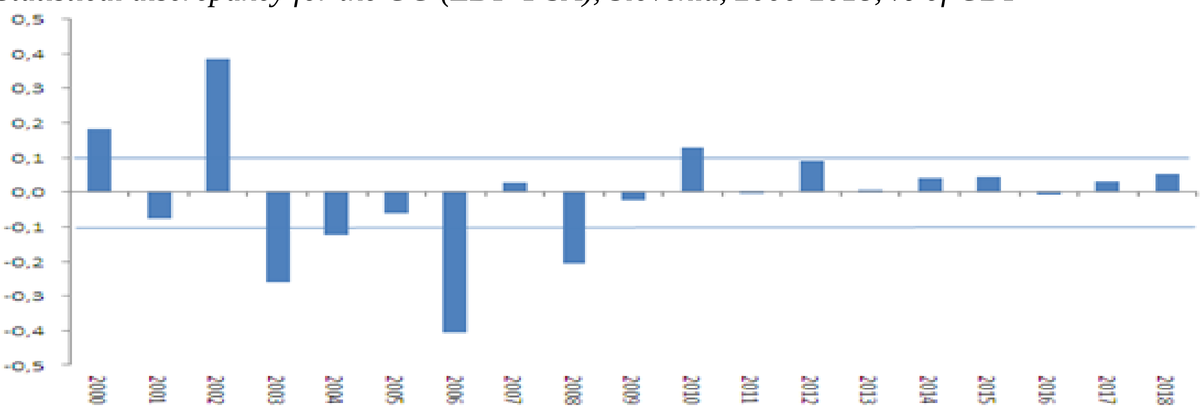
Eurostat recalled that the related MGDD rule applied to both, decommissioning and waste management. The contribution paid should enter only the financial accounts as F.8, and the property income of the fund should also be neutralised. Consequently, the associated taxes (an annual sum of €12m = €8m of paid contributions + €4m of property income) had to be neutralised by an F.8, so the B.9 of this fund should be very small in the notified period, 2015-2018. However, if the fund made expenditures not on decommissioning, these should be excluded from the calculation of taxes. Compensation for the use of land thus needed to be reconsidered, possibly excluded from taxes, and recorded as subsidies.

The next point referred to progress on reducing statistical discrepancies. SURS said the statistical discrepancies (B.9-B.9f) for 2015-2018 were small in terms of GDP (not higher than 0.05% of GDP) for all years, as could be seen from EDP table 3. Although statistical discrepancies did not compensate between the four reported years, analysis of the historical EDP tables showed progress, since 2007, when WGA data began to be used as the main data source for F.8 rec/pay. In 2018, the statistical discrepancy at the GG level was €20m (0.05% of GDP). The discrepancy varied between the April and the October EDP notifications, mainly because there were different data sources used for the compilation of NFA and FA. In the April EDP notification, F.8 rec/pay for FA were based on the data gathered from the BoS's statistical survey and NFA estimates based mainly on time-adjusted cash. For the October EDP notification, F.8 rec/pay were based on the same data source, i.e. WGA, so the statistical discrepancy was further reduced. The remaining inconsistency was work in progress. SURS mentioned that the small statistical discrepancy maintained for Slovenia was based on good cooperation between institutions. Even if the EDP/GFS team was small, the experts were trying to work together daily to maximise synergies. It followed that it was important for work to be organised in such a way that the results of B.9 and B.9f could be discussed at unit level and the results compared quarterly and annually. If any deviations were detected in the process of calculating B.9/B.9f, the individual unit could be contacted for additional information, as sound knowledge of data was crucial. In the process of calculating F.8 rec/pay vis-à-vis WGA data, SURS constantly improved the bridge tables, which were built for calculating F.81 and F.89 by the group of units for each subsector of GG. And last but not least, SURS said it was also important for the SSAs to cooperate on all open methodological issues, the correct recording of transactions on both sides of the accounts, and the further improvement of data sources.

Statistical discrepancy for the GG (EDP table 3A), Slovenia, 2000-2018, millions of euros.



Statistical discrepancy for the GG (EDP T 3A), Slovenia, 2000-2018, % of GDP



Eurostat appreciated the work done to reduce the statistical discrepancy, particularly the close cooperation between SURS and the BoS (using indirect data sources from the BoS in the April report meant less revision was needed in October).

Eurostat asked about revisions of EDP tables planned for the April 2020 EDP notification. SURS said small revisions of up to 0.1% of GDP would be carried out for all the years notified as part of the routine revision and follow-up of problems discovered during the EDP dialogue visit in November 2019.

Findings and conclusions

Action point 4

19. The SSAs will investigate if there are cases of long-term trade credits liabilities to be reclassified under F.4 for the units included in the WGA as well as for the reclassified companies. They will also send to Eurostat a note on the recording of factoring.

Deadline: April 2021 EDP notification

Action point 5

5. The SSAs will revise, for the years up to 2018, the B.9 of S.1314, to correct for amounts transferred into the Health Budget Reserve Fund. These were wrongly taken into account in calculating B.9 (as D.75 expenditure), as they are merely internal events.[8]

Deadline: April 2020 EDP notification for the four years included in the notification and the next benchmark revision for the previous years

Action point 6

6. The amounts paid annually to government to cover the future costs of dismantling nuclear reactors, hitherto considered as government taxes, will be classified as F.8. The SSAs will consider a government revenue in the years when expenditure is made on dismantling the nuclear reactor or for waste management. D.41 revenue is also to be recorded on the AF.8 created, matching the property income earned by the fund. The SSAs will examine the treatment of the significant compensatory transfers benefiting the municipalities (which may need to be netted out).

Deadline: October 2020 EDP notification for the four years included in the notification and the next benchmark revision for the previous years[9]

[8] Implemented for the years included in the April 2020 EDP notification.

[9] In the October 2020, Eurostat agreed with the SURS proposal to postpone the deadline to end of 2020.

3. FOLLOWING UP THE PREVIOUS EDP DIALOGUE VISIT

Introduction

Twenty-four action points (APs) were included in the final findings of the EDP standard dialogue visit to Slovenia of 14-15 June 2017. All but one action point had been closed in the context of the 2017-2019 EDP notifications. The remaining outstanding issue (AP11), which had been dealt with in part, was discussed under the appropriate agenda item in the course of this mission.

Discussion

Eurostat said the pending action point of the 2017 EDP dialogue visit would be discussed under the agenda item dealing with taxes. The action point was partially closed as regards excise duties, but import taxes were still under discussion.

AP 11 of 2017 EDP SDV: 'SURS will send Eurostat a note comparing yearly cash and accrual figures for excise duties and import taxes, covering at least the last ten years.'

Deadline: October 2017 EDP notification.

SURS said AP11 had been implemented within BMR19, but Eurostat asked for further information and data for quality checks. Owing to lack of time, SURS had not prepared all the detailed data requested in the last EDP notification; meetings with the MoF, as the data provider, were needed for this purpose.

Eurostat thanked the SSAs for providing regular progress reports on the follow-up of the action points resulting from the 2017 EDP dialogue visit. Such reports had been supplied not only in the context of the EDP notifications, but also in the interim period. The SSAs had also requested Eurostat's advice and agreement on following up particular issues. Eurostat had provided appropriate advice on several occasions on specific issues raised by SURS in emails and at ad hoc meetings held on Eurostat premises in the context of regular EDPS WGs and TFs.

Findings and conclusions

Eurostat thanked the SSAs for the progress made in following up the action points arising from the 2017 dialogue visit. This included:

- the signing of a new MoU and the updating of the EDP Inventory in 2018,
- the recording of BAMC activities in the government accounts,
- the annual qualitative and quantitative analysis of public non-financial corporations and reclassification of units where was needed, and
- the recording of EPCs, PPPs, and ETSs in the government accounts,

which represented a great deal of work and coordination efforts on the part of SURS, the MoF, the BoS, and the BAMC.

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government, application of the 50% rule in NA

4.1.1 Changes in sector classification since the 2017 dialogue visit

Introduction

Before the EDP mission, SURS had provided to Eurostat a list of general government units by subsectors at the end of 2018 and 2016, and a list of removed/new units from/in S.13 between 2016 and 2018, broken down by subsectors. The total number of units in S.13 at the end of 2018 was 2625, 43 fewer than at the end of 2016 (62 new units, 105 having been removed).

The sectorisation practices and the current list of general government units were discussed at the meeting.

Discussion

SURS confirmed the information given in the EDP Inventory that the delimitation of the general government sector was updated annually by SURS after consultation within an expert group comprising representatives of SURS, the BoS, the MoF and the AJPES. SURS calculated the 50% market/non-market test annually for each public non-financial corporation, using the available annual accounting statements. The expert group decided whether to reclassify a unit on the basis of the results for three consecutive years and qualitative information, as stipulated in ESA2010 and MGDD. Eurostat asked when an entity that did not meet the 50% market/non-market test was reclassified under S.13. SURS said that entities were reclassified after the third consecutive years of failing to comply with the 50% market/non-market test. Eurostat noted that such entities should be reclassified under S.13 from the first year and EDP data should be revised retrospectively. Where sizeable units were involved, this should be done immediately for all the four notified years, while smaller units should be dealt with in the context of benchmark revision. SURS agreed with Eurostat's recommendation on sizeable units. SURS said that where very small companies were concerned it would be preferable not to go back all three years. Eurostat recommended that different thresholds to be applied to large, medium-sized or small units. While for very small units flexibility could be accepted until the benchmark revision, for medium-sized units B.9 should be affected by a simple recording of an adjustment under the most relevant transaction for the company.

Eurostat asked about the concrete formula used to calculate the 50% test, if the considered variables were exactly extracted from the accounting statements. and if there was a standardised chart of accounts in Slovenia. In the course of the meeting, SURS provided a printed financial statement of a company, indicating the items used in calculating the test and explaining how the 50% test for market/non-market delineation was applied in practice. SURS said all the data needed to apply the 50% criterion and the super dividend test as well could be extracted from the accounting statement of public companies. The relevant variables for public service providers and public agencies were taken from public accounting statements (sales of goods and services, other current transfers, capital revenue, rents, cost of sold goods and materials for resale, labour cost, depreciation, cost of materials, cost of services, interest). The relevant variables for public corporations were taken from the financial statements of corporations (net sales, increase/decrease in inventories of finished and unfinished production, cost of goods, material and services, value of sold goods purchased for resale, other costs of services, labour costs, depreciation, other costs, interest). Eurostat recommended that SURS review the indicators taken into consideration and, if necessary, that it consult Eurostat on the appropriate calculation of the 50% test.

Eurostat also asked SURS to confirm the sentences included in the EDP Inventory according to which units receiving subsidies from general government are treated as non-market public corporations and all subsidies received from general government are shown separately and can be clearly identified in accounting statements for corporations. SURS explained that data on subsidies on production were included in the set of data received from companies to calculate the 50% market/non-market test and that in Slovenia only public bus companies received subsidies on products. SURS also said that public utility companies (ports, airports, roads, etc.) were classified under the sector of non-financial corporations, as they were clearly market producers. Eurostat enquired about the nature and size of subsidies on products received by public bus companies. More precisely, it asked what they were linked to, and whether they were paid by ticket sold or given to offset persistent losses arising for prices imposed by government (ESA 2010, paragraph 4.35 (c)), which should, however, be excluded from the calculation of market/non-market test. SURS asked for this issue to be examined further, as some checking was needed.

As regards the units reclassified during 2016-2018, Eurostat asked for clarifications, in particular, about the entities removed from the S.13 list. SURS explained that the main reasons were the results of the 50% market/non-market test, the reorganisation of the centres for social work, and the final closure of units in liquidation.

Eurostat welcomed the progress made by SURS on updating the S.13 list of units in the light of ESA2010, considering also the qualitative criteria for the sectorisation of public entities (control, other qualitative information, liquidation, etc.). SURS explained that dedicated meetings are organised twice a year with the other SSAs to analyse the entities, individually or in groups, through government control over public corporations and other qualitative information.

Findings and conclusions

<u>Action point 7</u>

7. In future, the SSAs will make every effort to reclassify units that fail to comply with the 50% rule for three consecutive years, in the first year, not in the third one. The SSAs may consider implementing complete reclassification in the first year above a certain threshold (significant units). They may also consider taking account of the materiality of the issue for the government deficit and debt, possibly by making a simple adjustment for government deficit and debt for small units.

Deadline: next benchmark revision

Action point 8

9. The SSAs will provide Eurostat with the formula used to calculate the market/non-market test and the super dividend tests. They will also send to Eurostat the template for the chart of accounts they used to conduct these tests.[10]

Deadline: October 2020 EDP notification

Action point 9

8. The SSAs will check the exact nature of the subsidies on products received by bus companies from government and report to Eurostat.[11]

Deadline: October 2020 EDP notification

4.1.2 Government-controlled entities classified outside general government

Introduction

The latest questionnaire compiled on government-controlled entities classified outside general government sector covered the year 2017. It was sent to Eurostat in December 2018. The data for 2018 were not available before the 2019 EDP dialogue visit.

The questionnaire covered 548 entities. 526 of these were classified as belonging to S.11, while 22 of them were classified under S.12. The liabilities of these 548 entities totalled €23.425m at the end of 2017 (54.5% of GDP). If the three MFIs (NLB, ABANKA, SID) were excluded, the remaining 545 government-controlled units had total liabilities of €10.974m (25.5% of GDP). Of the total of 548 units, 100 reported liabilities exceeding 0.01% of GDP, amounting to €23.116m (53.8% of GDP) at the end of 2017. In addition, SURS told Eurostat that RS owned only 25% of NLB by the end of 2018 (see the section on privatisation, agenda item 4.3.10).

Discussion

Eurostat requested clarification about certain companies covered by the questionnaire, particularly:

- those reported as having failed to meet the 50% criterion for two consecutive years (FARME IHAN d.d.),

[10] Action point implemented.

[11] Action point implemented.

- those whose results varied significantly from one year to another (combined results of below and above 50%) (Anepremičnine trgovanje z lastnimi nepremičninami d.o.o.),
- those with information missing (GEN-I SONCE, energetske storitve, d.o.o., FARME IHAN – KPM d.o.o.), and
- those which met the 50% test but were observed to have made substantial losses (TERMOELEKTRARNA ŠOŠTANJ d.o.o.), or
- those which had results of around 50% (Javno podjetje za mestni potniški promet Marprom, d.o.o.).

Eurostat also asked SURS for explanations about entities covered by the questionnaire that had no employees (ZLATA MONETA d.o.o.) or only one (FARME IHAN d.d.). More specifically, it asked SURS to explain how a unit with a single employee (or very few employees) had sufficient decision-making autonomy and had reported even losses, as these cases looked suspicious (POSLOVNI SISTEM ZA AVTO Trgovina na debelo in drobno z avtomobili, rezervnimi deli in materialom, d.o.o., Ljubljana).

SURS explained that units were reclassified as belonging to S.13 only if the 50% test failed for at least three consecutive years, and that cases with results around 50% were closely monitored. As regards test results showing a very large difference between years, SURS said the figures were correct and had to do with a company involved in real estate trading (Anepremičnine trgovanje z lastnimi nepremičninami d.o.o.). As regards units whose test results were missing although they had been included in the questionnaire, SURS explained that some had been reclassified, others had changed names, and others had merged with the parent company. SURS said ZLATA MONETA, was a public financial corporation in liquidation and that the number of employees was missing from the reported data. Eurostat recalled the ESA2010 rules on public units in liquidation. Under these, public units in liquidation should be reclassified as part of the government sector, and therefore affected the government B.9 and government debt. As regards units with one employee, SURS explained that FARME IHAN and POSLOVNI SISTEM ZA AVTO were legal units, subsidiaries of some other public units classified under S.11. Eurostat suggested to SURS that in such cases the name of the parent company should be included in the questionnaire as a comment. Additionally, Eurostat recommended that SURS analyse entities with few employees separately (using a threshold of three employees, a practical approach used in other Member States), to check whether they were really institutional units under the ESA2010 definition, or whether they should be merged with the controlling unit. As regards companies with big losses, SURS explained that this could have to do with a revaluation problem. SURS agreed to check whether the 50% test had been correctly done and to examine these companies' balance sheet to check whether they had paid dividends. If they had, SURS undertook to find out the reason for the losses (TERMOELEKTRARNA ŠOŠTANJ d.o.o.).[12]

Eurostat enquired about two financial units partially owned by S.1314 which reported significant liabilities and a significant number of employees. SURS said these were

[12] In January 2021, SURS explained that the companies with big losses did not pay dividends to the government and write offs were the reason of the losses reported for TERMOELEKTRARNA ŠOŠTANJ d.o.o.

insurance/reinsurance companies dealing not with social insurance, but with all other types of insurance. Eurostat took note and suggested checking whether the public owners were really units classified under S.1314.[13]

Eurostat recommended that SURS continue monitoring the results of the 50% test. It also asked SURS to update the list of government units and to send Eurostat Annex 1 to the EDP Inventory, to be published on Eurostat's website (as also agreed under the agenda item on EDP Inventory).

Findings and conclusions

Action point 10

10. Zlata Moneta, a company undergoing liquidation, will be reclassified as part of the government sector. In addition, the SSAs will investigate cases of companies with no employees or only one employee.[14]

Deadline: October 2020 EDP notification

4.1.3 Sector classification of specific entities

Discussions focused on the Motorway Company in the Republic of Slovenia (DARS) and on the companies belonging to the Slovenian Railways Group (SŽ Group).

DARS (Družba za avtoceste v Republiki Sloveniji)

Introduction

The sector classification of DARS, a public motorway company, classified as belonging to the non-financial corporation sector (S.11), had been discussed with the SSA during previous EDP dialogue visits and in bilateral meetings. Each time, Eurostat had recalled the ESA 2010 rules governing the concession contract and the need to repeat the analysis underpinning the sector classification of the assets or of the company if there were any significant changes in the concession contract or any related legal act affecting DARS's current activities, in the context of the concession contract. Eurostat had also stressed that the situation might be reassessed in the context of the entry into force of the planned revised rules and MGDD chapter on concessions (initially scheduled for 2019).

Discussion

[13] In January 2021, SURS explained that one insurance company was owned by the Capital Fund (classified in S.1314) and the main shareholder of the other insurance company was the Pension Fund (classified in S.1314).

[14] Implemented with regard to Zlata Moneta.

DARS operates through a concession contract, and its main revenues are vignettes and tolls, which are treated as sales in national accounts. Since the 2010 amendments to the DARS law, the company has been building motorways in its own name and on its own account within the scope of the concession in place since 2004 and concluded for a maximum term of 50 years. It was agreed during the 2011 EDP visit that DARS seemed to be the real economic owner of the infrastructure. The result of the 50% test was made available as part of the questionnaire on government-controlled entities classified outside general government.

Eurostat asked the SSAs whether there had been any changes since the 2017 EDP mission in the way the company operates and in its governance structure and composition. Eurostat also asked whether DARS had faced any difficulties in redeeming its debt, and whether any new investments were planned.

The SSAs told Eurostat that there had been no change in DARS's situation since the last EDP dialogue visit in 2017. Government guarantees had come to €2.2bn at the end of 2018 and no guarantee had been called on until now. SURS noted that the related public concession establishing where DARS could invest until 2030 was a very old contract signed in 1996, with further amendments in 2004. It was not based on a tender; it followed the ASFINAG model (Austria) and the rules in place at that time. DARS had been granted the right to exploit the highways and had become the legal owner of built assets (the government being the legal owner of the land). DARS's debt was not government debt. SURS added that DARS had the autonomy to take decisions on everyday activities, even though it was 100% government-owned. It was a profitable company that complied with the 50% rule in order to be classified as a market producer under S.11. SURS also told Eurostat about a new draft law on government guarantees that would cover up to 50% of loans to finance new investment by DARS.

Eurostat noted that there had been no substantial changes in the legal acts concerning DARS's activities, that the draft law on new guarantees had not yet been approved, and that no guarantee call had occurred since the last EDP dialogue visit in 2017. As regards compliance with the 50% rule, Eurostat said quantitative criteria were not sufficient to determine the classification of a company. In national accounts, the economic owner also had to be considered, that is, the entity benefiting from the risks and rewards associated with the assets. It pointed out that the rules on concessions had been reviewed, not the rules on sector classification. According to the new specific rules on concessions in the ESA 2010 regulation and MGDD, DARS would likely have to be reclassified as part of the government sector, as the activity it pursued was unique and it had only one concession contract with government. However, since DARS's concession contract dated back to 2004, Eurostat had not asked SURS to change the sector classification immediately. Rather, it had asked SURS to follow up the issue of the ongoing related discussions in the EDPS WG and noted that the new rules on concessions must be applied if there were any significant amendments to the existing contract or to any second new concession contract. Eurostat recalled that in 2019 a questionnaire on concessions had been started and that there were plans to launch a dedicated task force in 2020 to investigate the different models used in Member States; it had noticed that the ASFINAG model used by several Member States was not recorded in the same way in the national accounts of different countries. For instance, Czechia and Slovakia reclassified public concessioners under S.13, Austria kept ASFINAG outside S.13, and Italy applied the model to private concessioners. SURS agreed that DARS's sector classification had to be reconsidered in the context of potential substantial changes to its activities, governance, government guarantees and borrowing, in accordance with the forthcoming new rules on concession contracts.

The SSA informed Eurostat that in 2019, to implement European policy on transport, the government had copied the model existing in Austria and Italy, and two new taxes had been imposed on cross-border road transport, one as a mark-up on tolls and the second one as trans-shipment fees. The first was considered as a tax on products raised on two sections of the highway (N-S and E-V) as a mark-up on toll payable by heavy goods vehicles, reflecting damage to the highway. It was to be used by government to have a second railway track built by 2TDK d.o.o. (a public company classified as belonging to S.13). The second tax was a fee for the use of train tracks by ships. Eurostat noted the two new taxes and expressed its views on the nature of such taxes and their impact when assessing the economic owner of the specified infrastructure (highways/railways). Eurostat concluded that both were indeed tax-like in nature, as they were paid directly to government and were both economically justified. As regards the trans-shipment fee, the government is the economic owner of the railways (Infrastructure Railways Company classified under S.13), and the second tax is raised by government on its own asset. As regards the mark-up on tools, the government is raising a tax on infrastructure that it does not own. As DARS is the economic owner of the assets (it is not classified as belonging to S.13), this could raise a statistical issue concerning DARS's sector classification if the tax became sizeable. Since the amount is small, this mark-up on toll could be seen as land rent for the exclusive use of the parts for which users would be paying. Eurostat requested further details of the amount collected in 2019 and the size/share of the highways affected by this surcharge toll. SURS said the tax levied in 2019 was estimated at €12m and that DARS's highways covered about 600 km, but further investigations were needed into the nature and consequences of this tax, which was raised for environmental damage reasons. Eurostat recalled that DARS was currently classified as belonging to S.11 because Slovenia had demonstrated in 2011 that DARS was the economic owner of the relevant assets. However, this new tax, at a first view, showed that the government controlled these sections of the highways.

Findings and conclusions

<u>Action point 11</u>

14. The SSAs told Eurostat that the government had established two new taxes (D.214) in 2019 to finance the construction of the second railway track of the Divača Koper section. These were a mark-up on toll and a trans-shipment fee payable at the freight port of Luka Koper. 2TDK d.o.o. (S.13) would be responsible for building and operating the second track. As regards the mark-up toll payable for heavy goods vehicles on specific sections of the highway, Eurostat invited SURS to analyse the impact of the tax/fee on DARS's sector classification; it was currently classified as belonging to S.11 because SURS had shown that it was the economic owner of the assets. When the government decides to receive money

based on infrastructure that is not owned, this could raise statistical issues. Eurostat also pointed out that there were ongoing discussions in the EDPS WG on concessions and that, depending on the results of the questionnaire circulated recently, DARS sector classification could be reopened. The second tax was payable for loading and unloading freight at the freight port and for trans-shipment from one vessel to another.

Deadline: December 2020

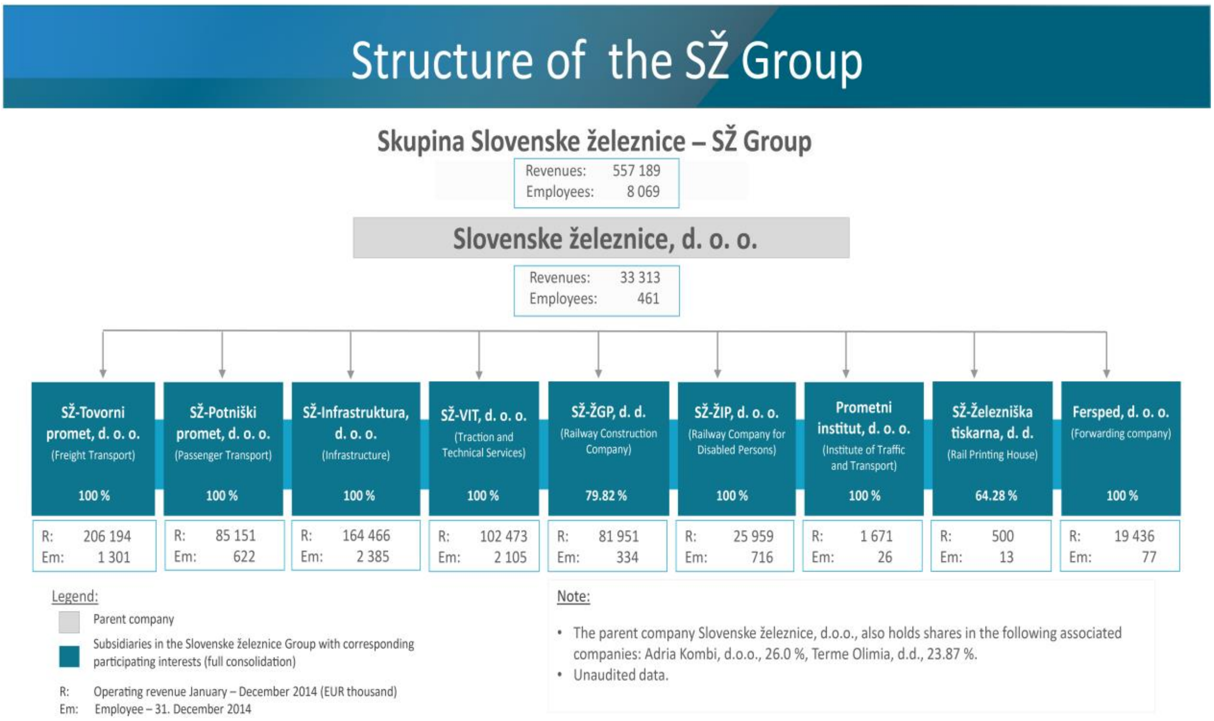
SŽ Group (Skupina Slovenske Železnice)

Introduction

In 2011, the Slovenian Railway company 'Slovenske železnice' (SŽ) owned by government was reorganised from one unit into four units. SŽ's sector classification was discussed during the 2011 EDP mission. However, the final decision on classification was taken in 2012, once the reorganisation had been completed and information was available. Accordingly, the SSAs informed Eurostat that, on the basis of the market/non-market test, 'SŽ Passenger' and 'SŽ Infrastructure' were classified as part of the general government sector (S.13), while 'SŽ Cargo' and 'Slovenske železnice d.o.o' (SŽ d.o.o.) were classified as belonging to the non-financial corporations sector (S.11). During the 2013 EDP mission, the sector classification of 'SŽ d.o.o' was discussed. It was explained that the company was an unusually large company with about a thousand employees. It managed the whole system of railway companies. It was also mentioned that the company received funds from three other railway companies, but no financing from government. The SŽ d.o.o also borrowed on the financial market to finance 'SŽ Passenger Transport'. Eurostat concluded that the SŽ d.o.o seemed to be a market unit. However, the company's sector classification was to be continuously monitored by the SSAs.

During 2019, SURS asked Eurostat for advice on how to record in the government accounts certain specific transactions (mainly to do with SŽ Passenger) concerning the modernisation of passenger trains in Slovenia. In that context, Eurostat opened discussions of the nature and the sector classification SŽ d.o.o. During the April 2019 EDP notification, Eurostat and SURS agreed that this would be discussed in detail in the 2019 EDP SDV.

According to the 2018 Annual Report, the Slovenian Railways Group (SŽ Group) built up the following structure in the year preceding that report:



Discussion

Before the mission, Eurostat had asked SURS to provide a note on public railway companies (sector classification, market/non-market test for the last three years, qualitative characteristics). Discussions focused on the information provided about each entity in the SŽ Group and the analysis of that information.

SURS gave a presentation on the SŽ Group, which comprises the parent company, SŽ d.o.o., and its nine subsidiaries: SŽ-Tovorni promet – Freight Transport, SŽ Potniški promet - Passenger Transport, SŽ-Infrastruktura – Infrastructure Transport, SŽ Vleka in tehnika, SŽ-ŽIP, SŽ–Železniška tiskarna Ljubljana, Prometni institut Ljubljana, SŽ-Železniško gradbeno podjetje Ljubljana, and SŽ Fersped.

SURS said SŽ d.o.o. was considered a public head office. Its sector classification was determined on the basis of the predominant share of the value added of its subsidiaries. The value added by the subsidiaries in 2018 is shown in the table below. Since the predominant share of value added relates to the non-financial corporations (from the first seven subsidiaries), SŽ d.o.o. is classified as belonging to the non-financial corporations sector. Eurostat asked whether SŽ d.o.o received funds from others outside the group or whether it borrowed on behalf of its subsidiaries, and, if so, where the debt was recorded. SURS confirmed that the SŽ d.o.o did not receive funds from outside, that it only had debts with companies in the group, and that when it borrowed on behalf its subsidiaries, the related debt was recorded in the accounts of the subsidiary concerned. Eurostat noted SURS's arguments for considering SŽ d.o.o. as an head office classified as belonging to S.11 according to ESA 2010 and asked SURS for an explanation of the number of employees (461 in 2018) reported for SŽ d.o.o., considering the number reported for SŽ – Passenger (580 in 2018). SURS explained that this had to do with the number of trainers.

The table below also shows the results of the market/non-market test of subsidiaries. Following the results of the market/non-market test, two subsidiaries are classified as belonging to the general government sector (SŽ-Passenger and SŽ-Infrastructure), while the other seven are classified as belonging to the non-financial corporations sector (S.11).

Most of the market income of SŽ-Tovorni promet (Freight Transport), Fersped and SŽ–Železniško gradbeno podjetje comes from companies outside the Slovenian Railways group. Most of the market income of SŽ-Vleka in tehnika (the company responsible for services relating to the availability of railway vehicles, towing services, technical wagon activities, and railway vehicle maintenance) comes from companies belonging to the Slovenian Railways SŽ group, and most comes from SŽ-Tovorni promet (i.e. most market income is generated by a non-government unit). The other units also generate their market income from companies within the group, but most of their income comes from companies classified outside the general government sector.

			Employees	Value added (EUR mill)	Market/non-market test (%)		
Name	Sector	NACE	2018	2018	2016	2017	2018
1. FERSPED, d.o.o.	11001	52.290	61	3.7	103	103	107
2. SŽ - ŽELEZNIŠKA TISKARNA LJUBLJANA d.d.	11001	18.120	10	0.3	104	83	99
3. SŽ - ŽELEZNIŠKO GRADBENO PODJETJE LJUBLJANA d.d.	11001	42.120	250	13.0	105	101	106
4. PROMETNI INSTITUT LJUBLJANA d.o.o.	11001	72.200	16	0.7	103	107	96
5. SŽ-ŽIP, storitve, d.o.o.	11001	80.100	706	11.8	78	80	79
6. SŽ - Vleka in tehnika, d.o.o.	11001	33.170	1980	72.5	100	100	94
7. SŽ - Tovorni promet, d.o.o.	11001	49.200	1214	58.5	101	101	98
8. SŽ-Potniški promet, d. o. o.	1311	49.200	580	30.7	51	43	40
9. SŽ–Infrastruktura, d. o. o.	1311	52.210	2163	77.9	9	29	23

Eurostat thanked SURS for the analysis and the data provided and asked whether any of the railway companies, apart from SŽ-Infrastructure and SŽ-Passenger (classified as belonging to S.13), received government subsidies, in particular SŽ-Freight. SURS said that SŽ-Freight did not receive any such subsidies. SŽ-Infrastructure and SŽ-Passenger were the only companies receiving government transfers based on specific agreements (public service obligations). Eurostat then asked whether there were any flows between companies in the group. SURS said that all the companies except SŽ–Passengers (classified as belonging to S.13) paid the same amount to SŽ–Infrastructure for use of the railway tracks.

Findings and conclusions

Eurostat noted the clarification provided and concluded that the existing sector classification of the 10 companies in the group was correct.

4.1.4 Re-routed transactions, assets and liabilities through government accounts

Introduction

As recommended by Eurostat in the 2017 EDP SDV, data on the activities of SID (the Slovenian promotional development and export bank) on behalf of the government are rerouted into the government accounts and included for all years in table 13 of the EDP-related questionnaire, even if only one year exceeds the threshold of 0.05% of GDP.

Discussion

Eurostat asked SURS if it had investigated any cases other than SID in connection with rerouting. SURS said it was not aware of any rerouting cases other than SID's activities on behalf of the government.

Eurostat asked SURS to provide data and to confirm that not only revenue and expenditure related to activities carried out by SID on behalf of the government were rerouted into the government accounts, but also the associated assets and liabilities. SURS confirmed the practice of rerouting to the non-financial and financial government accounts and said the associated assets were invested in debt securities and deposits. SURS also said that the bank concerned, SID, also provided guarantees on credit for export and other contingent liabilities given for the preparations of the exporting companies, such as insurance operations.

Eurostat then asked SURS to comment on the significant increase in the activities undertaken by SID on behalf of and for the account of the government as a percentage of its total activities in 2018. According to the Annual Report, the figure was considerably above the average of 10% over 2010-2013. According to Eurostat's advice letter, sent in 2015, this low percentage was one of the main arguments for continuing to classify SID within S.12. SURS explained that the increase was the result of counting the activities carried out via three public funds. Two of these were development funds, while the other (the Fund of Funds) had been set up to deploy EU financial instruments. SURS explained that the funds were not rerouted as all the three funds had been classified in the government sector since their inception. Therefore, they were not part of SID, but part of the government sector. They had separate financial statements and were therefore not included in the total percentage of rerouted activities. Eurostat took note of SURS's clarifications.

Findings and conclusions

Eurostat concluded that it was acceptable for SID to be classified within S.12 for the time being. However, as SID was a development bank and discussions on development banks were ongoing in the TF, Eurostat recommended that SURS reconsider the sector classification analysis, depending on the outcome of the relevant task force. In addition, SURS would continue to look into whether it was necessary to reroute any further transactions that might be made on behalf of the government.

4.2 Implementation of the accrual principle

4.2.1 Taxes and social contributions, tax credits

Introduction

The general recording of taxes and social contributions, as described in the EDP Inventory, was clarified. In particular, the calculation of D.2 and D.5 was reviewed (one of the closing remarks of the October 2019 EDP notification), as was that of custom duties (action point of the 2017 EDP SDV partially implemented). Taxes and social contributions are recorded in EDP tables 2 and in EDP questionnaire table 5 on a net basis, except for D.5 (taxes on income and wealth), which are recorded on a gross basis, as recommended by Eurostat in the 2017 EDP SDV. The main sources of data for recording taxes and social contributions are the monthly budget data of the central budget, the Pension Fund, the Health Fund and the local government budgets. The dataset is provided by the MoF and is on a cash basis.

Discussion

The SSAs confirmed that there had been no changes in the recording of taxes and social contributions since the last EDP visit. The SSAs also confirmed that Slovenia currently provided no tax relief in the form of tax credits. SURS outlined the main taxes and social contributions and their accrual calculation. SURS explained that the accrual recording of VAT and social security contributions involved using a time-adjusted cash method with a one-month time lag. The method used for taxes on income and wealth involved moving back to the year before, the final settlements (+) and the refund of the prepaid tax (-).

Before the mission, SURS had provided Eurostat with the monthly cash data for 2014-2018 for D.2 and D.5, as requested by Eurostat in the October 2019 EDP notification. Eurostat had requested these data to see whether there were any unusual patterns.

Q.17.1 - Monthly cash data for the last 5 years for D.2					
D.2 (mill eur)	**2018**	**2017**	**2016**	**2015**	**2014**
JAN	522.8	539.6	470.0	514.6	482.6
FEB	464.8	420.9	398.6	371.7	337.4
MAR	368.4	379.9	379.0	382.1	366.7
APR	602.4	516.9	472.6	486.7	455.7
MAY	431.7	445.0	505.1	381.1	441.1
JUN	526.2	465.2	398.6	468.6	421.0
JUL	543.7	534.2	520.9	525.4	496.5
AUG	528.2	489.1	490.7	449.8	391.7
SEP	462.7	474.3	466.6	356.3	487.0
OCT	603.6	541.7	501.1	590.0	495.3
NOV	575.6	526.2	489.2	462.8	432.3
DEC	493.1	485.3	467.1	446.1	474.6
Total	**6,123.3**	**5,818.3**	**5,559.7**	**5,435.2**	**5,281.9**

Q.17.3 - Monthly cash data for the last 5 years for D.5					
D.5 (mill eur)	**2018**	**2017**	**2016**	**2015**	**2014**
JAN	206.4	178.8	165.6	151.8	125.7
FEB	174.6	144.0	145.2	130.7	136.4
MAR	183.8	150.0	143.9	150.9	114.5
APR	286.1	273.1	219.1	238.5	161.3
MAY	204.5	178.5	160.5	131.0	122.4
JUN	279.4	266.7	211.0	211.7	189.2
JUL	54.2	53.9	13.7	0.9	-14.3
AUG	165.0	144.3	162.8	158.7	128.5
SEP	201.1	162.3	146.9	119.6	125.8
OCT	166.8	199.8	181.6	148.9	109.7
NOV	195.1	138.6	135.0	167.0	140.1
DEC	234.6	202.9	184.3	167.9	136.8
Total	**2,351.7**	**2,092.8**	**1,869.6**	**1,777.7**	**1,476.1**

In response to Eurostat's further questions about the monthly cash D.2 data provided for certain months, SURS explained that the trend observed could be the result of VAT cash refunds, as the data provided were net of these amounts. As it was possible that these cash refunds might be concealing an underlying pattern, Eurostat asked the SSAs to provide the monthly gross cash VAT data if possible. Eurostat also asked them to check whether the time lag used was still appropriate, or whether it should be changed if the pattern observed deviated from the norm during the five years analysed, which would require further data adjustments.

Analysing the monthly cash D.5 data provided, Eurostat made a number of observations, most of them concerning July income taxes for 2014-2018. SURS explained that the data had been provided by the Tax Administration Office, referred to both PIT and CIT, and were final data, including prepayments, final settlements and refunds of prepaid taxes. Eurostat asked the SSAs to conduct further separate investigations into PIT and CIT monthly cash data and the detailed monthly data on prepayments, final settlements and refunds, if these could be obtained from the Tax Administration Office.

Eurostat also commented on D.2 and D.5 in EDP questionnaire table 5. In particular, F.89 flows and stocks for D.2 could not be reconciled using the monthly cash data provided before the mission. Moreover, significant amounts had been reported for F.89 stocks for D.5, mainly for liabilities. Eurostat asked SURS to explain what exactly the stock of assets and the stock of liabilities referred to. SURS explained that a given stock had been recorded for 1995, the first year compiled in the series, then the next year's stocks had been calculated by adding related flows within years, even if the method used for flows had changed. SURS cited the example of 2009, when the method for calculating D.2 transactions changed from assessment to the time-adjusted cash method; the stock at the beginning of 2009, resulting from the previous method, was maintained. SURS agreed to look into these issues and to correct F.89 stocks for D.2 and D.5 in EDP questionnaire table 5.

Eurostat recommended that the SSAs also compare the annual cash tax data with the assessed data from the declarations, adjusted for the write-offs, to reassess whether the cash data were equal to the accrual data in the long run (10 years).

Another point discussed was the calculation of import taxes, the remaining part of action point 11 from the previous EDP SDV. Action point 11 reads: *'SORS will send to Eurostat a note comparing yearly cash and accrual figures for excise duties and import taxes, covering at least the last ten years.'* Since the 2017 SDV, Eurostat and SURS had discussed this issue intensively in the request for clarification in the context of the EDP notifications, as well as in the interim period. SURS's analysis of the method used to calculate excise duties proved that the accrual data were correct, then AP was partially closed in 2018. The remaining part concerning custom duties was also intensively discussed. However, owing to uncertainty in the data, the EDP tables were not revised until the October 2019 EDP notification, when the recalculation of customs data on an accrual basis negatively affected the B.9 for each year.

During the October 2019 EDP notification, Eurostat had requested detailed data on customs duties, including data regarding (a) customs duties on an accrual basis (separating residents and non-residents), (b) customs duties on cash (separating residents and non-residents) and

(c) the related amounts paid into the EU budget between 2007 and 2018. Before the mission, SURS had provided granular data on customs duties on a cash and accrual basis, broken down by residents and non-residents, but also other adjustments resulting from internal inspection controls that had been recorded in the government accounts in the context of the 2019 benchmark revision (BMR2019).

Custom duties **cash** figure													
	Years												
Import taxes	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2007-2018**
Residents	90.9	84.0	66.1	43.1	50.4	41.4	39.7	41.0	46.1	48.8	49.5	53.4	**654.3**
non-residents	26.2	36.1	24.4	47.6	49.9	41.2	37.7	36.7	36.4	33.2	33.8	36.4	**439.6**
SUM (residents plus non-	**117.1**	**120.1**	**90.5**	**90.7**	**100.3**	**82.6**	**77.5**	**77.7**	**82.5**	**81.9**	**83.3**	**89.8**	**1093.9**
Custom duties **accrual** figure													
	Years												
Import taxes	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2007-2018**
Residents	84.8	76.3	56.9	58.6	61.9	54.0	50.6	52.1	51.7	52.9	53.9	56.9	**710.6**
non-residents	26.5	39.7	29.6	32.1	33.2	24.7	25.9	26.1	30.5	27.1	27.8	33.3	**356.6**
SUM (residents plus non-	**111.3**	**116.0**	**86.5**	**90.8**	**95.1**	**78.6**	**76.5**	**78.2**	**82.2**	**80.1**	**81.7**	**90.2**	**1067.2**
Adjustments (additional data sources BMR2019)													
accrual adjustments	M	M	M	M	0.8	0.6	0.1	0.1	0.5	0.6	0.8	0.8	**4.2**
centralized custom duties	1.7	1.4	1.3	0.9	0.1	0.0	0.1	0.4	0.4	0.6	0.6	0.7	**8.3**
inspection control	M	M	1.8	0.7	1.3	0.6	0.5	2.1	0.6	0.3	0.4	0.4	**8.6**
SUM	**1.7**	**1.4**	**3.1**	**1.6**	**2.2**	**1.2**	**0.7**	**2.6**	**1.5**	**1.5**	**1.8**	**1.9**	**21.1**

Eurostat had asked the SSAs to explain the table provided before the mission. SURS explained that from that table only customs duties on residents calculated on an accrual basis had been included in the government accounts and that these data had been collected and provided by the Customs Administration. For the purpose of this exercise, customs duties for non-residents calculated on an accrual basis had been extracted from the foreign trade statistics, while the related cash data on residents and non-residents had been provided by the MoF. Eurostat pointed out that there was an observable average and total discrepancy of 10% between cash and accrual data reported for residents between 2007 and 2018. In addition, since 2010, the accrual data reported for residents, and thus included in the government accounts, had always been higher than the related cash data, suggesting that revenues had been overestimated. Another observation concerned data reported for non-residents, which gave the opposite impression, in the sense that accrual data were always lower than cash data for 2010-2018. Eurostat asked the SSAs to clarify the definition of residents and non-residents, based on which custom duties had been collected and reported to Eurostat. The SSAs asked Eurostat to follow up the issue after the mission, as it was necessary to consult the Customs Administration.

Findings and conclusions

<u>Action point 12</u>

11. The SSAs will send Eurostat the cash data for D.2 on a gross basis (i.e. showing refunds separately), and not on a net basis as at present. The SSAs will also send Eurostat cash data

for D.5 split between prepayments on the one hand and final settlements and refunds on the other (the two latter categories being split if possible). These data will be provided in sufficient detail, e.g. distinguishing CIT and PIT.[15]

Deadline: October 2020 EDP notification

<u>Action point 13</u>

12. The SSAs will correct the stock data in EDP questionnaire Table 5 for D.2 and D.5, using the cash received in T+1 that is moved back to T for the purpose of the accrual adjustment, and will subsequently check the correctness of the flow data.[16]

Deadline: October 2020 EDP notification

<u>Action point 14</u>

13. The SSAs will investigate the issue of the difference between cash and accrual with reference to import taxes and clarify the way in which such taxes, payable by residents and non-residents, are dealt with for accounting purposes.[17]

Deadline: October 2020 EDP notification

4.2.2 Interest

Introduction

Under the new MoU signed in 2018, the MoF no longer compiles the accrued interest in the EDP tables, as it did until 2018. However, the MoF is required to provide SURS with all available annual and quarterly public finance data, breakdowns and explanations necessary for the calculation of interest as an accounting category.

During the April 2017 EDP notification, Eurostat discovered that interest on currency swaps had not been calculated in accordance with ESA2010 and that the necessary corrections had a substantial impact on B.9, given the appreciation of the US dollar in previous years. At that time, the MoF expressed its disagreement with these rules and referred to the management of cash liquidity as the reason for swap contracts in Slovenia.

[15] Implemented for D.5. In the October 2020 EDP notification, Eurostat agreed with the SURS proposal to postpone to April 2021 the deadline for D.2.

[16] In the October 2020 EDP notification, Eurostat agreed with the SURS proposal to postpone the deadline to the April 2021 EDP notification.

[17] In the October 2020 EDP notification, Eurostat agreed with the SURS proposal to postpone the deadline to the end of December 2020.

Before the 2019 mission, Eurostat asked SURS to send the updated questionnaire on cash and on accrual flows of interest expenditure and revenue by instrument for 2013-2018. These documents formed the basis for the discussions that took place.

Discussion

Eurostat welcomed the updating of the EDP Inventory in 2018 by describing data sources and calculation of interest for each government subsector, and in particular the financial derivatives part as regards the interest accrued recorded in the context of currency swap operations, which had been the subject of intense discussions in 2017. Eurostat recalled the ESA2010 rules applicable to the recording of interest on currency swaps, that is using the interest calculated before the swap for the B.9 impact. Eurostat asked SURS to confirm that this rule was now followed when calculating interest in EDP tables 1, 2 and 3, together with the recommendation made by Eurostat during the previous EDP mission (action point 13: *'Eurostat considers that, as far as the calculation of interest on debt swapped on forex is concerned, the interest should be calculated as the average of the interest during the year and not taking the value at the end of the year'*). SURS confirmed that both of these ESA 2010 rules for compiling accrued interest in the EDP notifications were being followed. This has been the case since the reporting of October 2017. SURS also noted that cooperation with the MoF, which provided all raw data, was on a sound footing.

Eurostat enquired about the sentence included in the new EDP Inventory in section 3.6.3. (Adjustments for accrued interest D.41): *'The figure of accrual adjustment for interest expenditure is not the same in EDP Table 2A and in Table 3B'*. According to the October 2019 EDP notification, data were the same in both EDP tables. SURS explained that for some years not all premium/discount had been included in the working balance; that accounted for the different adjustments in EDP table 2A and in EDP table 3B.

Eurostat thanked the SSAs for sending the compiled questionnaire on interest for 2013-2018 before the mission, although the questionnaire was based on an old format. Eurostat had analysed the detailed interest data and concluded that they were consistent with those reported to it in the October 2019 EDP tables.

Findings and conclusions

<u>Action point 15</u>

17. Eurostat appreciated the detailed data on interest provided by SURS before the EDP dialogue visit, although they were based on an old format. It asked the SSAs to compile the questionnaire on interest in the new format to be provided by Eurostat.

Deadline: the next EDP dialogue visit

4.2.3 EU flows

Introduction

Eurostat verified the recording of EU funds, the flows and stock presentation (net/gross, consolidated/non-consolidated) in the EDP tables and in the EDP questionnaire respectively, the financial corrections and the calculation of neutralisation of the EU funds in the government accounts and the recordings related to the Fund of Funds, the latter being one of the closing remarks of the October 2019 EDP notification (closing remark No 5.4 on the Fund of Funds).

Discussion

Eurostat asked the SSAs about progress made on the recording of EU flows in the government accounts by subsectors with regard to the EDP tables and the EDP questionnaire since the last EDP mission in June 2017. SURS recalled that since the October 2017 EDP notification, EU funds had been presented on a gross basis in the EDP tables and EDP Questionnaire Table 6. As regards the consolidation between central and local EU flows, the rules were the same as explained in the 2017 EDP SDV, i.e. there were no prepayments included in the WB and municipalities were subject to special rules as regards EU funds, under which they could not receive the money from the central budget until the day before they had to pay the subcontractor. Eurostat welcomed the progress made with recording EU funds on a gross basis (separate assets and liabilities) and noted that the mechanism in place at local level for payments from EU funds had not changed since the last EDP mission.

As regards the Fund of Funds, Eurostat reviewed its recordings in government accounts using the data and information provided in the context of the request for clarification of the October 2019 EDP notification. SURS explained that this fund had been set up in 2017 to implement EU financial instruments, since when it had been included in S.13, as the government provided its guarantees. SURS said that the related recordings in government accounts followed Eurostat's guidance on recording EU financial instruments. More exactly, an F.8 liability to the EU and an F.4 asset to the final recipient were recorded in the financial accounts. In the event of loss of a loan, expenditure on fees was recorded as D.7 expenditure, and any write-off would be recorded as D.9 in non-financial accounts and a decrease of F.8 in financial accounts. SURS explained that there were still no adjustments in table 2A for 2018, as the impact on B.9 was neutral.

Non-financial accounts (EUR mill.)		**2018**
Revenue		**1.861**
D.99 Other capital transfers		1.861
Expenditure		**1.861**
D.41 Interest		0.206
D.75 Miscellaneous current transfers		1.655
B.9		**0.000**
Financial accounts (EUR mill.)	**2017**	**2018**
Assets total	**63.1**	**-1.9**
F.2	59.9	-17.8
F.3	3.2	-3.2
F.4		19.1

Liabilities total	**63.1**	**-1.9**
F.8	**63.1**	**-1.9**
B.9	**0.0**	**0.0**

Eurostat asked SURS to confirm that questionnaire table 6 also included the flows and stocks relating to the Funds of Funds. SURS confirmed this and explained that the Fund of Funds was not included in the working balance of the central budget, but went through a separate account. Eurostat asked why no interest was recorded on the revenue side of the Fund of Funds. SURS explained that there was no interest on the revenue side because the Fund of Funds provided loans to financial intermediaries at a 0% interest rate. Eurostat asked what the interest on the expenditure side (€0.2m) represented. SURS said it represented negative interest on deposits (€0.037m), securities (€0.004m) and account balances (€0.165m) from the funds not yet lent to financial intermediaries. Eurostat recommended that this be shown as negative revenue in ESA table 2. Eurostat asked SURS to clarify what exactly the sum of €1.655m recorded as miscellaneous current transfers represented. SURS explained that most of the €1.655m related to the commission paid from the Fund of Funds to SID. Eurostat then asked whether this was a commission for administrative work, paperwork or some other type of work. SURS answered that it was a commission for administrative work done by SID and other financial intermediaries. Finally, Eurostat asked the SSAs if there were any cases of called guarantees in the previous programme and whether related losses had been recorded appropriately. The SSAs said there were no data available on called guarantees.

Findings and conclusions

The SSAs would continue to monitor EU funds to ensure that they were correctly recorded in government accounts.

4.2.4 Military expenditure

Introduction

Data source issues and some aspects of the recording of military expenditure were clarified.

Discussion

SURS mentioned that as the Ministry for Defence (MoD) was a direct budgetary unit, cash data on intermediate consumption and GFCF were adjusted with the WGA in the same way as for all direct budgetary units within the central budget. Annual F.8 adjustments for units reporting military expenditure were small (about €1m). SURS added that the MoD had confirmed that the date of payment was still close to the time of delivery and that no transactions in trade credits (payments after delivery) and advances had been detected annually, as trade payables should be settled within 30 days. However, in addition to cash data and WGA data, information on the delivery of military equipment was also based on SURS's well-established annual investment survey, which SURS regularly used to improve the first estimate reported in the April EDP notification. Eurostat noted that the accrual adjustments for military expenditure were included in the WGA source data, that the date of payment was close to the time of delivery and the time lag was still one month.

However, in the October 2019 EDP notification, prepayment made in 2018 for new armoured vehicles scheduled for delivery in 2021-2023 had been reported as long-term loan assets (F.4). SURS explained that these amounts had been recorded in the WGA in 2018 as fixed assets in progress, a mistake discovered by the Court of Audit, which had then informed the MoF and SURS. There was thus no need to revise F.8 in October, but only to record F.4 assets for the relevant prepayment; according to clarifications included in the new MGDD issued in 2019, long-term trade credits and advances had to be recorded in government accounts as loans.

SURS said that according to the available data and additional information from the MoD, data from previous years were not of sufficiently good quality to make further improvements to the EDP data already reported. Eurostat took note, but recommended that SURS also compile the stock of F.4 assets in EDP questionnaire table 7, as this was missing from the October 2019 round of reporting.

Findings and conclusions

Action point 16

18. The SSAs confirmed that before 2018 there had been no delay in deliveries of military equipment. SURS will compile data on stocks in EDP questionnaire table 7 on military expenditure.[18]

Deadline: April 2020 EDP notification

4.2.5 Court decisions

Introduction

Before the mission, Eurostat had asked SURS to send it a note on cases of court decisions and their implementation in government accounts.

SURS confirmed that there had been no change in recording the case of the court decision of 2014 on compensation for the deposit holders of Ljubljanska Banka (LB). As agreed with Eurostat in March 2015, in the April 2015 EDP notification, the sum of €257m had been included as government expenditure (D.9) for 2014 and the associated interest affected B.9 in the year it was paid (cash). The financial adjustments related to the capital transfer imputed in 2014 were not included in the transitional item in EDP table 2A because the payments had

[18] Action point implemented.

been made not from balance A of the central budget (working balance), but from balance B (financial transactions).

As regards the 2013 court decision on ‘erased people’, SURS confirmed the revision implemented within the October 2017 EDP notification, as agreed during the last dialogue visit in 2017 (AP17). The corrected total amount of final claims (D.9) for 2013 amounted to €25.9m (before the revision in 2017, the amount was estimated at €129.6m). Until the end of 2018, the government paid €24.1m to beneficiaries. All payments made over 2014-2018 on the basis of court decisions (recorded as D.9 in 2013) were excluded from the working balance in the year in which they were paid. From 2020, this adjustment of the working balance would no longer be necessary.

Discussion

SURS confirmed that it had followed Eurostat’s advice when recording the two cases of court decisions relating to LB depositors and the case of ‘erased people’. Eurostat took note and asked the SSAs if there had been any claim recoveries from other countries involved in the 2014 LB deposit holders. In the 2017 EDP SDV, the MoF had mentioned that claims had been recorded in the public accounts, for administrative reasons, as the case could be brought to court again. The SSAs said they were unaware of any such claim recoveries at the moment. Eurostat recommended that they investigate and keep it informed of any follow-up.

The MoF also presented another two new cases of court decisions in Slovenia, one concerning bail-in operations and another NLB litigation in Croatia.

The Ministry of Finance reports on holders of financial instruments which have ceased following decisions of Banka of Slovenia issued in the process of banking recovery under the ZBan-1L. The Constitutional Court, by decision U-I-295/13, adopted a decision concerning the constitutionality of the provisions of the Banking Act (ZBan-1) governing the bail-in of qualifying liabilities in the context of the recovery of banks in 2013 and 2014. The Constitutional Court ordered the legislator to enact an effective judicial protection procedure for former holders of qualifying obligations following Decisions U-I-295/13. To this end, the Act on Judicial Protection Procedure for Former Holders of Eligible Liabilites of Banks (ZPSVIKOB) was adopted in 2019, which entered into force on 19.12.2019.. The nominal value of eligible liabilities that have ceased is EUR 963 million. Any compensation is unlikely to be equal to the nominal value of the eligible liabilities. According to Decision U-I-295/13, the existence and amount of the compensation depend on whether the former holders were at a disadvantage and by how much. The answer to that question, however, depends on the bank's financial situation at the time of the decision of Bank of Slovenia and not on the nominal value of the eligible liabilities that have ceased. The Constitutional Court of the Republic of Slovenia, by Decision No 1/2000 suspended the implementation of the ZPSVIKOB until the final decision. In the event that the Constitutional Court of the Republic of Slovenia does not determine any unconstitutionality of the ZPSVIKOB and the ZPSVIKOB will be further implemented, the fiscal risk to the Republic of Slovenia is significantly lower, since the Bank of Slovenia is the defendant in the court procedure according to the ZPSVIKOB . If the court in proceedings under the ZPSVIKOB determines that the former holders are entitled to compensation:

- Bank of Slovenia pays it;
- Bank of Slovenia compensates claimants up to the amount of provisions made for this purpose and the general reserves established in accordance with the Law on BoS;
- If the compensation exceeds the amount for this purpose of the provisions and general reserves, the difference is temporarily provided by the Republic of Slovenia.

As a preventive approach and to safeguard the BoS's integrity, the bank was planning to build a buffer, funding a special reserve using the dividends that would otherwise have been paid to the state, as a BoS shareholder. The entire surplus of revenue over expenditure from 1 January 2019 to the date when the court decisions issued became final would be allocated to the BoS's special reserves, following the prior allocation of funds to specific reserves. If the general reserves were less than 1% of the BoS's total assets, the BoS could allocate a proportion of the surplus to the general reserves. Later on, these funds would be transferred to the central budget for the part not used at the end for compensations. Eurostat recalled that if the amounts concerned were transferred to the government in a single year, the super dividend test should be conducted later, taking into account only the profits of the previous year. It also noted that Resolution authorities were generally classified as being within government sector, so there was some doubt as to how these events would need to be recorded. Eurostat took note of the new developments associated with the bail-in court case and asked the SSAs for detailed information and the case's estimated impact on national accounts.

The MoF then provided information about some court cases against Ljubljanska banka, d.d. (LB) and Nova Ljubljanska Banka, d.d. (NLB) filed in Croatia by two banks, Privredna banka Zagreb d.d. and Zagrebačka banka. These cases involved claims against the Zagreb branch of LB. In 1994 certain, but not all, assets and liabilities of LB have been transferred to NLB. The MoF explained that this was a succession issue that had been disputed intensively but unsuccessfully by all five successor states to the former SFRY, including Slovenia and Croatia, under the auspices of the Bank for International Settlements since 2001. In addition, Slovenia and Croatia in 2013 concluded a memorandum of understanding (MoU) stating that this is a succession issue and all legal proceedings in Croatia regarding this matter will be stayed until an agreement on resolution of this succession issue is reached. Despite all these facts, legal proceedings against LB and NLB continued in Croatia. Slovenia is taking the view that Croatia is violating the succession agreement of 2001 and MoU of 2013 by mandating the two banks to recover the claims relating to foreign currency deposits from LB and NLB. The MoF said that Slovenian legal entities planned to contest, any related enforcement, if necessary at European level as well, as the proceedings violate Slovenian constitutional order and international legal obligations.

In addition, the MoF informed Eurostat that in 2018, to protect the value of capital investment of RS in NLB and in conjunction with privatisation (the recapitalisation/bank resolution plan had been agreed with the European Commission in 2013-2014), the Slovenian Parliament had adopted a special law under which the Succession Fund (a public fund classified as falling within S.13) was to compensate NLB for any negative financial impact resulting from final enforcement in court cases mentioned. The SSAs stressed that Slovenia had not assumed any obligations to Croatia under this law with regard to the transferred foreign currency deposits, as it was only protecting the value of its assets. The MoF added that eight final judgments covering the amount of €19m had been handed down in Croatia in 2019 (by November of that year). The total for 2019 had been estimated at €22m and other amounts were expected in the years to come. Eurostat took note of the NLB case: in particular, it noted that Slovenian legal entities and if legally possible Slovenia, would use all available legal remedies to challenge any court decision resulting from litigation in Croatia to the detriment of LB/NLB. To enable Eurostat to deliver its view on the impact on government accounts, Eurostat recommended that SURS provide detailed information, including estimated total amounts and analysis in the light of ESA 2010.

Findings and conclusions

<u>Action point 17</u>

15. The MoF gave a presentation on the court case brought against the BoS by a number of creditors in connection with bail-in operations conducted in 2013 and 2014. The SSAs were asked to provide Eurostat with relevant information about this case, including the impact on government accounts of the dividends that were not to be transferred to the central budget. They were also asked to consider the possibility of rerouting the dedicated fund to the government, and to reflect on any further impact which the forthcoming court rulings might have.[19]

Deadline: December 2020

<u>Action point 18</u>

16. The SSAs informed Eurostat about another court ruling (regarding compensation for the negative financial impact on NLB of litigation in Croatia). This will affect the government accounts over the next few years, as a result of a special law adopted in 2018 before the NLB was privatised, to protect the bank's value after privatisation. The SSAs will provide Eurostat with more information on the NLB court case concerning proceedings in which the plaintiffs are claiming that NLB is responsible for liabilities arising from the foreign currency deposits held with the Zagreb branch of Ljubljanska banka (the MoF estimated an impact of €22m in 2019).[20]

Deadline: April 2020 EDP notification

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[19] SURS informed Eurostat on the status of this court case in November 2020. SURS will continue to monitor the issue.

[20] SURS informed Eurostat on the status of this court case in June 2020. SURS will continue to monitor the issue.

4.3 Recording of specific government transactions

4.3.1 Government intervention to support financial institutions

Introduction

The Bank Asset Management Company - BAMC *(Druzba za upravljanje terjatev bank*) is a public non-market corporation, 100% state-owned, and included in the government sector (S.1311) since its creation in 2013 as a government defeasance structure. The company was set up to deal with the restructuring of banks after the financial crisis. It operates through the management of bank claims. To finance the purchase of ‘bad claims’ from banks, the BAMC may issue bonds or other financial instruments which are guaranteed by the State and take over loans with guarantees provided by the State. Eurostat and the SSAs engaged in intensive discussions on the BAMC and its operations between 2015 and 2019. The BAMC was mentioned in the closing remarks of all the EDP notifications as an issue requiring continuous monitoring, given the significant impact it could still have on the government accounts.

At the end of 2013, the BAMC had taken over the ‘bad loans’ from two banks (Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM)) for a transaction value/market value of €1,011.6m and a nominal value of €3,290.2m. The BAMC financed the purchase of these bad loans by issuing bonds valued at €1,011.6m, with a government guarantee. In the last quarter of 2014, the BAMC also took over bad loans from four other banks (Probanka, Faktor Bank, Banka Celje and Abanka), with a nominal value of €1,716.5m and a transaction value/market value of €584.4m.

Starting in 2014, the BAMC became involved in specific operations: conversions of non-performing loans (NPLs) to equity and to real estate swaps, proceeds of real estate collateral obtained at auction, recoveries and partial or total write-offs (see Eurostat’s advice letter of May 2016 on BAMC operations for related recording in government accounts[21]), but also bank recapitalisations, the issue of new loans, the sale of NPLs, and the acquisition of other NPLs of clients already in its portfolio.

At the beginning of 2016, two other banks, Faktor Bank and Probanka, were merged with the BAMC. Eurostat was consulted about the related recording in the government accounts. It recommended that SURS take the same approach as in the previous four cases (nominal value of claims taken over €730m and a transaction value/market value of €309m) and asked SURS to monitor the debts of Faktor Bank and Probanka resulting from the two loans the government had given them in the past. At the beginning of 2017, SURS informed Eurostat that the two loans given to Faktor Bank and Probanka by the government had been fully reimbursed at the end of 2016. Also at the end of 2016, the government recapitalised the BAMC with €50m to increase its capital adequacy. SURS asked Eurostat's view in January

[21] Eurostat’s advice letter on BAMC activities was published on 3 May 2016: http://ec.europa.eu/eurostat/documents/1015035/7142247/Advice-2016-SI-Statistical-treatment-BAMC-and-its-operations.pdf . The final data requested were made available in April 2016, so BAMC-related operations for 2014-2015 were revised in the April 2016 EDP notification.

2017. Eurostat agreed in February 2017 with SURS's proposal that the BAMC recapitalisation of €50m be recorded without any impact on B.9, as the BAMC was part of S.13, the impact being neutralised by consolidation.

During 2019, Eurostat discussed with the SSAs the recording of new NPLs purchased in order to manage the NPL portfolio of existing clients better. SURS consulted Eurostat on the recording of some specific BAMC operations regarding NPLs purchased by the BAMC from banks other than those recapitalised by the government. Eurostat agreed that in this case (as in some others), the statistical treatment recommended in the advice letter on BAMC activities sent in 2016 should be applied. Accordingly, it recalled the following principle regarding the recording in government accounts of the acquisition of these new NPLs: a capital transfer expenditure D.9 was to be recorded only for any positive difference between the amount paid out and the fair value ('transfer value') of the new assets (NPLs) acquired; when the stock of loans was recorded in government accounts for their original nominal value, an entry in the revaluation account occurred for the difference between the nominal value and the 'transfer value'. Therefore, the difference between the nominal value and the purchase/sale value (amount paid) should not be recorded as D.9, unless the banks selling these NPLs had benefited from a capital injection/recapitalisation by government. Considering also that the SSAs had confirmed that the amount paid was equal to the fair value at time of purchase, no capital transfer expenditure D.9 should be recorded. SURS also followed this recording approach for the acquisition of this kind of NPLs. Finally, Eurostat recommended compliance with the provisions of its 2016 advice letter for any further write-offs, recoveries and/or D/E conversion involving these claims.

During 2019, Eurostat and the SSAs agreed to hold a technical meeting on the first day of the 2019 EDP SDV on BAMC operations undertaken between 2013 and 2019, to check whether its recording in government accounts, financial and non-financial accounts, was compliant with Eurostat advice from 2016.

Discussion

Before the 2019 EDP dialogue visit, Eurostat asked SURS to provide updated notes on the BAMC, including updated data for 2013-2018 and planned operations for 2019, as below, and discussions focused on relevant documents provided before the mission:

- a summary note on the BAMC's past and planned/new operations, including its recording/proposal for recording in government accounts;
- a regular summary table including BAMC impact on revenues, expenditures and B.9 for 2013-2018;
- an updated Excel file including detailed operations by client and activities;
- a note describing cases of government interventions to support financial institutions, other than BAMC, if any;
- a note describing the compilation of Annex 5 to the EDP notification, including part 3 of this supplementary table.

Eurostat asked SURS about data on NPLs in the BAMC's books at the end of 2018. SURS said a total stock of NPLs with a nominal value of €1.528bn was recorded in the government accounts, against a transfer value of approximately €0.4bn, as the maximum possible remaining impact on B.9 in the next few years.

Eurostat then asked the SSAs about a paragraph in page 10 of the BAMC's Business Strategy for 2019-2022, adopted in February 2019 by the BAMC's Board, which said that NPLs had been over-valued by €623m at the time of their transfer to the BAMC in 2013-2014: *'BAMC paid €623 million more for the assets than the estimated market value. Before the transfers of the assets and before approval of the state aid to banks transferring NPLs, the EU estimated the market value of the assets transferred under legislative directions, i.e. the price at which the banks could have sold the assets in a 'fire sale' process to a buyer other than BAMC. The difference between these market values and the transfer values is documented in EU state aid decisions regarding the four banks. The market values were estimated to be €623 million less than the transfer prices*.'. The SSAs explained that the transfer prices for non-performing assets transferred to the BAMC were set by the European Commission, the latter's decision stated that the transfer price for assets subject to transfer to the BAMC must be based on the real economic value (REV). In setting the transfer prices of assets, the European Commission and its advisors also assessed the market value of the aforementioned assets at that time. The market value of the assets was substantially lower that the transfer value or REV and the difference between the two values constitutes state aid provided by the BAMC. Eurostat took note and would reflect further.

Eurostat also asked whether there were any other cases of banks in trouble or any other government interventions to support financial institutions that had not yet been mentioned. The SSAs said no other cases had occurred or were likely to occur. SURS said the operation to set up an SPV jointly with the private company, planned for 2017-2018 and discussed during the 2017 EDP SDV, had not been put into practice, and that there were no further plans in this direction.

Eurostat asked about cooperation concerning the provision of data between SSA and the BAMC. SURS said cooperation was good; the BAMC sent SSA data periodically, in a specific format agreed by institutions in 2016. As these data were confidential, SSA and the BAMC had agreed to share them for statistical reasons only and to discuss only specific cases with Eurostat, to ensure the appropriate calculation of activities. SSA therefore asked Eurostat not to include any names of companies or granular data in this report, and to mention only aggregated values. Eurostat took note of these requests and recommended that the SSAs continue their good cooperation on this important issue.

SSA summarised the operations made by BAMC on a regular basis, presented the structure of the Excel file and provided specific examples of recording for each type, extracting transactions from the exhaustive list in the Excel table provided to Eurostat before the meeting (debt-to-real-estate conversion, purchase of real estate at auction, debt-to-equity conversion, cash recoveries, write-offs, and the sale and acquisition of NPLs).

Extracts from Eurostat's advice letter on BAMC specific operations (2016) concerning the recording in government accounts and followed in practice by Slovenia:

*'… **As a matter of generality, for the three operations, a capital transfer, with an impact on the deficit, has to be recorded in the government accounts for an amount equal to the difference between the original BAMC transaction value (i.e. the 'transfer value') of the NPL at time of financial rescue (net of any reimbursement to date) and a reliable fair value estimate of the recoverable assets – irrespective of the situation of the debtor.** In case the estimated fair value is higher than the 'transfer price', the difference enters the revaluation account. In the case of real estate acquisition, the deficit impact is further increased by the amount of fixed capital formation, at time of conversion, with a compensation later on at time of resale of buildings (reducing then the deficit).*

*… **Debt to equity conversion:** In practice, the recording in the government accounts will imply a capital transfer expenditure (D.9) equal to the 'transfer value' of the loan if the accumulated losses of the company exceed the 'transfer value'. If the accumulated losses are smaller than the 'transfer value', a capital transfer expenditure equal to the accumulated losses is to be recorded, together with a financial transaction (F.5) for the difference with the 'transfer value'.*

***Debt to real estate conversion:** The practical way to present the transaction, in the absence of detailed data, is to report, on the one hand, a capital transfer expenditure for the full amount value of the 'transfer value'. On the other hand, a gross fixed capital formation expenditure offset by a capital transfer revenue (for the same amount) should be recorded for the fair value of the asset converted. The valuation of the gross fixed capital formation is neutral for the deficit. Any further proceeds resulting from the sale of the real asset can be treated as revenue for government.*

***Proceeds from the real estate collateral sale process ('purchases in real estate'):** A capital transfer is again to be recorded for the difference between the 'transfer value' and the proceeds obtained at auction. When BAMC is itself the successful bidder of the auction, an amount for gross fixed capital formation is in addition recorded, similarly to the case of debt to real estate conversion.*

… Where the borrower was already bankrupt at the time of rescue, a capital transfer in full should be imputed, and any recoveries later on would be recognised as a capital transfer revenue. Under a simple and prudent approach, a final capital transfer expenditure should be recorded (for the 'transfer value') at time of entry into bankruptcy. Alternatively, the capital transfer can wait the moment of write-off, following ESA2010 conventions.

*In the absence of data on apportionment of claims, a second solution consists in taking into account the entire claim at the moment of first conversion, that is: **to record a capital transfer expenditure for the full 'transfer value' of the NPL.** When **further recoveries take place, whatever they may be, a government revenue is to be recorded,** positively impacting the deficit/surplus (B.9) of the government, at the moment of these recoveries.'*

Following the recording agreed with Eurostat and included in the advice letter of 2016, the BAMC had a deficit in 2013-2016 (reaching €344m in 2015, its highest point), while it had a surplus in 2017 (€45.7m) and 2018 (€47.3m).

Eurostat very much appreciated the detailed file tracking the various events concerning the portfolio of NPLs held by the BAMC. It was able to verify that this detailed file followed the treatments recommended in the advice letter issued in 2016 about conversions into real estate and equity, write-offs, and so on.

The SSAs pointed out that, to meet the requirements set out in the 2016 advice letter and the quarterly report, the SSAs and the BAMC would still need to make a considerable effort and incur additional costs. They also referred to the discussions in progress at EU level on the recording of defeasance structures. These talks had not yet been concluded, and the Member States had yet to reach an agreement. The SSAs therefore took the view that there was no need to make retroactive changes to decisions taken in the past, in view of new discussions and possible update guidelines, as the data reporting system for BAMC transactions was well-established, and any additional change could impose an additional burden on the SSAs and the BAMC. Under the Act Regulating Measures of the Republic of Slovenia for Strengthening the Stability of Banks, amended in 2015, the BAMC would cease to exist on 31 December 2022. Finally, since the recording had been decided, there had been no new events or additional information that would make it necessary to re-examine the issue.

Eurostat suggested that the SSAs might reflect on a way to ensure a more appropriate recording of the purchase of assets at auction in the specific case where the subsequent proceeds take place in a following quarter, to avoid a not fully appropriate shift of B.9 impact and grossing up of GFS expenditure and revenue. Eurostat also suggested that further examination of the possibility of implementing an appropriate adjustment could be established by way of recognising an F.8 (at least) for large operations.

The SSAs explained that, according to the present recording, where assets were purchased at auction, P.51g was recorded for the amount paid for the assets (i.e. acquisition of fixed assets with negative B.9 impact) with a corresponding D.99 expenditure for the remaining transfer value (i.e. initial transfer value reduced for possible repayments/events in previous quarters), because a proper determination of transfer value was not possible according to the available data sources. The value of D.99 was usually significantly different from P.51g. Secondly, when fixed assets were sold, the SSAs recorded a disposal of fixed assets with a positive impact on B.9. Thirdly, when cash repayment occurred (regardless of whether cash reimbursement from auction or regular repayment of loan), the SSAs recorded D.99 revenue. The present recording thus seemed to be appropriate, ensuring consistency among non-financial and financial accounts.

The SSAs explained that proceeds from auctions were always lower than the amount paid for the purchase of assets at auction, because auctions themselves cost money to run. The proceeds were divided into two parts: one part reduced the principle amount (named ‘cash reimbursement from auction’ in the BAMC file), and the other was recorded as interest revenue.

When the BAMC reporting system was first introduced, the BAMC prepared information on cash reimbursement from auction by each debtor, but keeping track of how much the BAMC was reimbursed by the bankruptcy manager for each auction caused the BAMC major problems. Such traceability required a lot of additional work, as the BAMC's internal system was not designed for collecting such information.

In mid-2017, the SSAs therefore decided that all repayments (regular and cash reimbursements from auction) should be included in the column of cash repayments as impact on D.99 revenue, and that B.9 would remain the same in both cases. Consequently, from 2017q3 on, the SSAs were not in a position to gather separate information on cash reimbursement from auction. The SSAs also pointed out that the BAMC reported data on interest revenue only as a total, so no debtor by debtor information was available.

The SSAs stressed that any changes in methodology would require substantial additional work in return for only small improvements. Between 2016 and 2018, almost all purchases at auction amounted to less than €0.5m each. Although there were three events with higher amounts in 2018, two of them had a transfer value of zero.

Eurostat suggested that the SSAs reflect on how to avoid the current procedure of writing off the full set of claims on a given debtor when only marginal operations were carried out on some of these claims, such as partial write-offs or partial sales. Although this procedure of full write-off (where it was not possible to apportion the transfer price value to each claim subject to an event) had been recommended in the 2016 advice letter, Eurostat took the view that a threshold should be used, below which an event on a claim would be ignored, pending a further significant operation on the debtor claims. Additionally, this would limit the current situation of frontloading expenditures with subsequent revenues at time of recoveries. The SSAs might examine (although the SSAs expressed their disagreement on this) the possibility of revising the recording of related operations and might propose another new threshold to Eurostat (currently this was applied only to cases of write-offs smaller than or equal to €10). This also applied to revision of past data at some convenient point (e.g. the next benchmark revision).

The discussion focused on the compilation of all three parts of Annex 5 to the EDP notification, the supplementary table for reporting government interventions to support financial institutions. The SSAs explained that Annex 5 was compiled separately for the BAMC and for the central budget, and at the end summarised the data for both units.

For the BAMC, Part 1 included interest received, dividends and D.99 other capital transfers revenues (within the 'Other' item) on the revenue side. Interest paid and D.99 Debt to real estate, D.99 Purchase at auction, D.99 Debt to equity, and D.99 Write-offs (within the 'Other' item) figured on the expenditure side. In Part 2, the item 'Other financial assets of general government entities' included the BAMC's total assets (Deposits, Debt securities, Loans, Equity, Other accounts receivable, Real estate), while the item 'Other liabilities of general government entities' included the BAMC's current debt data from loans and debt securities. In Part 3, the item 'Other financial assets of general government entities' included transactions in assets due to change in debt data and net revenue/cost from Part 1, while the item ‘Other liabilities of general government entities’ included change in debt from loans and debt securities.

For the central budget, Part 1 included on the revenue side dividends received in recent years and also guarantee fees and interest received before 2016. The expenditure side included interest paid and also capital injections into banks, recorded as capital transfers before 2015. In Part 2, the asset side in the ‘loans’ item for 2009-2012 included deposits in banks provided by the Republic of Slovenia as financial assistance, and for 2014-2015 it included the loans to Probanka and Factor banka. Also on the asset side, the ‘equity’ item included the value of capital injection into SID bank (in 2009), the amount increased for part of the capital injection into NKBM, treated as a financial transaction (€27m, in 2013), the amount of capital injected into Banka Celje, treated as a financial transaction (€81m, in 2014) and the privatisation of NKBM (equity decreased for €27m, in 2016). On the liability side, the ‘debt securities’ item increased/decreased in line with changes on the assets side and net revenue/cost from part 1. In Part 3, on the assets side, current transactions were reported, e.g. the sales value of NKBM €250m in 2016, the sales value of NLB in 2018, and the super dividends of NLB and Abanka. On the liability side, debt increased/decreased according to changes in asset and net revenue/cost from Part 1.

Eurostat took note of the BoS’s explanations about the compilation of Annex 5 and suggested further improvements for future EDP notifications.

Findings and conclusions

<u>Action point 19</u>

2.a) Following the technical discussions at the meeting, the SSAs would adapt Annex 5 so as to include all the BAMC’s financial and non-financial accounts in the table (wages and salaries and intermediate consumption, etc.) They would also look into whether it was appropriate to value the equity stakes in two large banks held by the Republic of Slovenia at market price (although unquoted) and to value NPLs at a more reasonable rate, to avoid distorting the net assets impact of government rescue on the government accounts. Eurostat noted that the current distortion in net assets sent erroneous signals: massively underestimating the costs of rescue at inception (net assets being much too high at that time) and simultaneously degrading the performance of the liquidation process (with an artificial fall in the net assets over time). Eurostat recalled that a number of Member States used the transfer price to value the stocks of NPLs (in the table as well as in ESA table 27). If the SSAs followed this more realistic valuation, Eurostat accepted that Annex 5 would deviate from ESA table 27/6/7 in this respect.[22]

Deadline: October 2020 EDP notification

[22] Action point implemented.

4.3.2 Guarantees

Introduction

Before the visit, the SSAs had provided a list of guarantees by subsectors and beneficiary for 2015-2018. This information was used as an input into the discussion.

Discussion

Eurostat observed from the list of government guarantees by beneficiary that during 2013-2018, the biggest recipients had been DARS, foreign borrowers - EFSF (crisis), the BAMC, SID Bank, the Thermal Electric company (Termoelektrarna), the railway company (Slovenske železnice), Eko Sklad, Slovenski Regionalno Razvojni Sklad and the Slovenian Sovereign Holding (Slovenski državni holding). Eurostat also observed that these data were consistent with EDP questionnaire tables 9.1 and 9.2 and with the data on contingent liabilities which had been provided to it in accordance with the requirements of Council Directive 85/2011/EU.

SURS confirmed that guarantees called were booked as capital transfer expenditure, that repayments by debtors were booked as capital transfer revenue, and that guarantees systematically called three years in a row were recorded as debt assumptions in the national accounts for the full amount of the debt liability.

Eurostat noted SURS's clarifications.

Findings and conclusions

Eurostat recommended that SURS continue to provide data on contingent liabilities under Council Directive 85/2011/EU, consistent with the data reported in the EDP tables, including questionnaire tables 9.1 and 9.2.

4.3.3 Debt assumptions, debt cancellations, debt write-offs and government claims

Introduction

Before the mission, SURS had provided Eurostat with an updated list of government claims, stocks and transactions for 2015-2018.

Discussion

Eurostat asked SURS to confirm that there were no debt assumptions, debt cancellations, write-offs or sales of claims (other than the BAMC case).

SURS confirmed that as regards debt assumptions, debt cancellations and write-offs in 2015-2018, there had been no new recording since 2017 EDP SDV. Currently, only the debt assumptions of SR Passenger and SR Cargo were reported in the EDP notification tables (2015-2018). These two were not the result of government guarantee calls, and the recording was the same as presented in the last EDP SDV in 2017 (‘*in 2010, government recognised claims to SR Passenger transport for an amount of EUR 43 million (non-financial transaction D.99) and this was paid off in 4 years (2012-2015) for an amount of 10.8 million each year (recorded in the EDP table 2A, section Other financial transactions). In 2011, government recognised claims for a total amount of EUR 134 million of which EUR 119 million to SR Cargo transport (S.11) and EUR 15 million to SR Passenger transport (S.1311). Repayments started in 2014 and claims will be paid off in ten years by equal amounts each year (recorded in the EDP table Table 2A, section Other financial transactions)’*). Eurostat took note of these explanations and observed consistent recording in the EDP tables and questionnaire table 8, except for BAMC debt cancellations (NPL write-offs). It therefore recommended completing the missing data on the BAMC in questionnaire table 8.

SURS also mentioned that in the October 2017 EDP notification a revision had been made concerning the inclusion of data on non-performing loans (D.99) according to AP 20 of the 2017 EDP SDV (AP20: ‘*Eurostat and SURS agreed that SURS will start recording debt cancellations for non-performing loans (NPLs), including the interest accrued, on these NPLs’*, see also the ‘Other adjustments’ section in EDP table 2A, Detail 15).

Findings and conclusions

Eurostat took note of SURS’s clarifications and recommended that SURS continue to monitor those NPLs that were very unlikely to be recovered. In the light of ESA2010 rules, if no repayment occurred, a capital transfer should be imputed, which would affect B.9.

4.3.4 Capital injections into public corporations

Introduction

Before the visit, Eurostat had been provided with up-to-date information on capital injections by subsectors and beneficiary and on the way these had been dealt with in national accounts for 2015-2018.

Discussion

During the discussions, SURS explained that in the period under consideration, there had been no changes in the statistical treatment of capital injections.

There had been no injections of capital into public corporations in 2018 and 2017. In 2016 there had been two capital injections (D.99). The S.1311 subsector (Adria Airways) (S.11) had received €3.1m and Polzela (S.11) had received €1.5m. In 2015 the government had recapitalised one public corporation, Polzela, providing €0.9m. At local government level, the system of monitoring and testing the capital injections and dividends, established in 2016 and implemented for the biggest municipalities (AP of the 2015 EDP SDV) observed small capital injections that are shown aggregated (€0.4m in 2018 and €0.1m in 2015). SURS confirmed that the capital injection test was applied on a case-by-case basis for the central and local government.

Findings and conclusions

Eurostat took note of SURS's explanations and recommended that it continuously monitor injections of capital into public corporations, to record the capital transfer and/or the acquisition of the equity shares of the government correctly.

4.3.5 Dividends, super dividends

Introduction

Before the EDP visit, the SSAs had provided Eurostat with the list of dividends paid to the government by individual companies and their profit for 2015-2018, accompanied by a note on the treatment of super dividends.

Discussion

Eurostat recalled the general rules to be applied for the recording of super dividends, implying that the dividend should be calculated based on the profit of the previous year and not taking into account amounts kept in the reserves or as retained earnings. Eurostat asked SURS to confirm whether these rules were followed. SURS confirmed that the rules were followed in government accounts and explained that super dividends were calculated as the difference between profit after tax for the individual enterprise and the amount of profit withdrawn by the central budget (cash), taking into account the equity share of the Republic of Slovenia. Any amount withdrawn by the central budget that exceeded the profit itself was considered as a super dividend. If an enterprise recorded a loss in the current year, all the withdrawals by the central budget were treated as a super dividend. At local government level, the amounts of super dividends were small and were shown aggregated (€1m on average in 2016-2018 and €6.6m in 2018). SURS also said there had been no methodological changes in calculation for the central bank, as the super dividend test already followed the general rules. As explained in the 2017 EDP SDV, for the central bank, the net result of financial operations, write-downs and risk provisions was excluded.

SURS mentioned that in the October 2018 EDP notification, the calculation for financial institutions had been improved. SURS said the new procedure followed the recordings of super dividends, as prescribed in MGDD for central banks, where holding gains/losses were excluded. For banks (other than the BoS) with large withdrawals from profit, this meant that the calculation took the following into account: net interest income, dividends received, net fee and commission income, employee costs and amortisation costs, and other general and administrative expenses. Before the new procedure was taken into account (i.e. until April 2018), SURS used as a proxy the profit after income tax from business accounts data.

Eurostat took note of SURS's clarifications and thanked it for the list of dividends paid to the government by individual companies, which it had received before the mission. Since DARS was not on the list, Eurostat wondered why it had paid no dividends and, in addition, whether NACE 52 was the appropriate classification for DARS ('*support activities for transportation*'). Eurostat asked SURS to investigate and to provide the exact formula used for companies and banks, including links to the specific items from data sources.

Findings and conclusions

See action point 8 (previous AP9) in section 4.1.1 above (Changes in sector classification since the 2017 dialogue visit):
9. The SSAs will provide Eurostat with the formula used for calculation in the market/non-market test and the super dividend tests. They will also provide Eurostat with the template of the chart of accounts that they use to carry out these tests.

Deadline: October 2020 EDP notification

4.3.6 Financial derivatives

Introduction

The use of financial derivatives and their recording in national accounts were discussed under this item of the agenda.

During 2019, Eurostat had held intensive discussions with SURS and the BoS on the recording in the government accounts of specific cases of financial derivatives (IRSs, SWAPTIONS, NOVATIONS). These discussions had been conducted through emails and at ad hoc meetings held in the lunch breaks of the EDPS WGs. Eurostat therefore planned to allocate more time during this EDP mission to pursuing discussions on the detailed data and information provided by SURS before the mission and throughout the year (see the relevant documents in the list above, including the closing remarks of the October 2019 EDP notification). Eurostat had given its views on the appropriate recordings in emails sent on 12.8.2019 and 16.7.2019 in response to Slovenia's requests in emails sent on 31.7.2019 and 1.7.2019. It had recommended that SURS include the relevant revisions in the October 2019 EDP notification.

In the context of the April 2017 EDP notification clarifications, it was discovered that interest on bonds issued in US markets and denominated in USD was recorded after currency SWAPs, whereas they should have been recorded before such SWAPs. The figures were therefore revised for 2013-2016 with a negative effect on S.1311 B.9. The figures were reduced by €5.4m in 2013, €47.5m in 2014, €126.0m in 2015 and €92.3m in 2016. Since then, SURS had confirmed that it would follow this recording of interest for any relevant operations.

Eurostat and the SSAs agreed to hold a technical meeting on the first day of the 2019 EDP SDV on financial derivatives in Slovenia, to check whether they were being recorded in the government accounts in accordance with the advice Eurostat had given in its emails in the course of 2019.

Discussion

Eurostat welcomed the update of the section on financial derivatives in the EDP inventory of SWAP operations and expressed its thanks for the exhaustive data and note provided before the mission. It pointed out that additional clarifications had been included in the new 2019 MGDD and in the Guidelines for completing the general government deficit and debt notification under the Excessive Deficit Procedure (2017) in the section on the net incurrence (-) of liabilities in financial derivatives (F.71). Eurostat recalled the rules on recording different categories of operations with financial derivatives in government accounts, in accordance with ESA 2010, and asked the SSAs to summarise the relevant operations in Slovenia.

Eurostat enquired about cooperation between SURS, the BoS and the MoF on the provision of data. SURS said cooperation was good. The MoF sent raw data on individual transactions to SURS and the BoS at quarterly intervals. As these data were confidential, the SSAs had agreed to share them for statistical purposes only and to discuss only specific cases with Eurostat, for purposes of appropriate recording in government accounts. SURS therefore asked Eurostat not to include granular data and information in this report, which should contain only aggregated values (and only if really necessary). Eurostat took note of the information provided and the request. It recommended that the SSAs continue their cooperation on this important issue and that they consider improving the format of data received from the MoF, to reduce the burden of further calculation at BoS and SURS level.

Eurostat took note of the explanation given by the SSAs and the MoF (the Treasury) of the extensive derivative programmes used involving cross-currency swaps since 2012, and swaptions and swap novation since 2018. In 2012, Slovenia had started a major programme of dollar bond issues, to exploit the preferential yield and liquidity prevailing at that time on the dollar market, while fully hedging into euro through cross-currency swaps with cash collateral. Following an improvement in financial conditions, the SSAs had carried out extensive refinancing operations in euro, involving large repurchases of dollar bonds and the associated unwinding of cross-currency swaps. At the same time, the SSAs thought to hedge against future increases in market interest rates through swaptions, systematically using swaption premiums to decrease the fixed legs of IRS, notably created by the exercise of the swaption.

The SSAs felt penalised by the treatment of the cash collateral received (accounted as debt) and by Eurostat’s interpretation of the MGDD concerning IRS novation/restructuring. They thought their practice of renegotiating of IRS against the premium on swaptions did not amount to restructuring in the MGDD sense. In their view, such renegotiation should not lead to an increase in the Maastricht debt for the market value of the swap, but solely for the amounts of the premium used.

Eurostat took note that the SSAs had nonetheless followed the recommendations it had made in the summer of 2019 on the recording of financial derivatives in the EDP tables. Eurostat also appreciated the quality of the derivative tables compiled by the SSAs on a voluntary basis and the associated source data and intermediary compilation tables.

Eurostat took note of the clarifications provided by the SSAs on recording all categories of financial derivatives existing in Slovenia and asked SURS to update, if necessary, the section on financial derivatives and debt in the EDP Inventory (novation operation).

Findings and conclusions

Action point 20

1.a) Eurostat recommended that the Slovenian authorities envisage the opportunity to use the central counterparty in their derivative operations. This would have the likely statistically implication to avoid including the cash collateral in the debt and creating off-market swaps following IRS renegotiation.

1.b) The SSAs will examine the possibility of involving the Treasury (which has accepted the principle) in compiling the requested statistics on financial derivatives, which could significantly alleviate the burden of compilation on the BoS. Eurostat noted that this might require an amendment to the MoU.

1.c) Eurostat took note of the need to adapt the guidelines to EDP table 3 on the unwinding of swaps used for hedging foreign currency debt in the event of (early) debt repurchases.

4.3.7 Public-private partnerships (PPPs) and concessions

Introduction

By legislation, all PPP operations must be registered at the MoF. A special department has been established at the MoF to monitor and report on the PPPs. The list of PPP projects available at SURS includes PPPs at local government level only, all being reported on government balance sheet on a prudential approach, as shown also in the EDP related questionnaire (the 10 biggest projects).

Before the mission, Eurostat requested the list of Slovenian PPPs and SURS' analysis of their classification.

Discussion

SURS recalled that since 2017 data on PPPs had been collected within the statistical survey on GFCF (INV) that they conducted annually. The reporting units were direct budgetary units at central and local government level. SURS processed the responses to the survey and found that most units did not have PPPs, and that the cases discovered were not sizeable and were all reported at local level (26 projects in 2018). Identified PPPs were reported in business accounting as operational lease and investment expenditure as off balance sheets. However, in government accounts financial leases were imputed. Up to now, by the rule and considering the small amounts and the burden for analysing them, SURS decided to record all known PPPs and EPCS as well on the government balance sheet. SURS reported the data for 2014-2017 for the first time in the April 2018 EDP notification and for the years before 2014 within benchmark revision 2019 (follow-up of the 2017 EDP SDV). Eurostat took note that Slovenia did not report any PPPs off balance sheet.

Eurostat thanked the SSAs for providing the list of PPPs and wondered about their names, as some of them appeared to be EPCs rather than PPPs (‘Boiler room – Dobrepolje’, ‘Boiler room – Litija’, ‘Boiler room – Oplotnica’, ‘Boiler room – Sv. Jurji’, ‘EPC Koper’, ‘EPC2 Koper’, ‘EPC Jesenice’, ‘EPC Brda’, ‘EPC Destrnik’, ‘EPC Kamnik’, etc.) SURS explained that according to the ESA definition these were PPPs.

Eurostat asked if the list of PPPs sent to it was exhaustive. SURS replied that the information came from the survey mentioned, in which all government units had taken part. There is possible non-reporting due to considering with the national rather than ESA definition of PPP so SURS was not confident that information on all PPPs was available. Eurostat asked whether the WGA contained any items with reporting on PPPs. The SSAs explained that the data on PPPs were not included in the WGA, but only as separate questions in the INV survey. Eurostat enquired about further steps which SURS had taken in cooperation with the MoF to obtain a full list of PPP projects and concessions (AP 22 of 2017 EDP SDV). The Mof provided information about plans to improve data collection on PPP of local authorities within the next two years.

Eurostat then enquired about the list of concessions published on the MoF’s website (in Slovenian). SURS explained that these were concessions according to the national definition, and that there was no exhaustive list of concessions under ESA rules. Taking note of SURS’s clarification, Eurostat recalled the concession rules under ESA2010. It also mentioned that it was planning a task force on concessions in 2020 and explained what counted when analysing a concession (similar to a PPP) for the purposes of appropriate recording in national accounts:

- government guarantees,
- government financing,
- whether the government guarantees the private partner a minimum level of revenues or profits (the private partner should also have to bear some of the risks),
- the concept of risk and rewards (if there is a maximum level of profit, the private partner should be allowed to receive any level of profit), and,
- for a concession involving an investment or construction, the economic owner of the future asset.

In view of the non-negligible amounts in the budget line ‘revenues from concessions’ (around €40m per year), Eurostat asked SURS about concessions involving existing assets other than DARS. It also asked whether, in the case of lump sum revenues, SURS had the information required to spread the amount concerned over the duration of the contract. The MoF explained that this item mainly comprised annual payments from lotteries, gaming, licences, and leases for the use of underground caves. The SSAs agreed to investigate the issue in more detail and, in the case of lump sums, to divide the amounts concerned over several years.

Findings and conclusions

Action point 21

20. SURS is currently including all the PPPs and EPCs in government accounts (S.1313), using a prudential approach and taking account of the burden involved in analysing each contract. Eurostat took note of the EPC database maintained by SURS's GFS unit. The SSAs will send Eurostat a new draft EPC, which is expected to be used as a model for future contracts.

Deadline: when available

Action point 22

21. The SSAs will examine whether the item 'revenues from concessions' in the budget concerns concession contracts in line with ESA 2010 definition. If so, they will check that any lump sums received are duly spread over the concession years. In addition, for concessions involving investments, the SSAs will check who is the economic owner of the (future) assets, in order to record them correctly in national accounts.

Deadline: April 2021 EDP notification

4.3.8 Energy performance contracts (EPCs)

Introduction

According to the EDP Inventory, the MoF and the Ministry of Infrastructure (MoI) are responsible for providing an overview of all EPCs at central and local government level. SURS has also established cooperation with local authorities, which have provided additional information about individual contracts. Additional information is needed about the stage of the contract: the first phase is when the EPC is signed, while the second phase is when the capital expenditure is undertaken and the regular payments by the government take place. The second phase is also the time when the EPC has an impact on government B.9 and debt. SURS abides by current Eurostat rules on the methodological treatment of EPCs.

Following up the 2017 EDP SDV (AP 23), starting with the April 2018 EDP notification SURS included data on energy performance contracts for 2016-2017. In EDP tables 2A and 2C, the impact was reported under 'Other adjustments'. The impact of EPCs was also reported in EDP table 3D. For 2016, debt was revised at local level. An in-depth examination of contracts according to Eurostat's rules led SURS to the conclusion that contracts signed in 2016 (i.e. one contract signed at local level) and in 2017 (one contract signed at central level and four signed at local level) should be recorded on the government balance sheets. There was an impact on B.9 and debt only in the case of the imputed loan for ESCO capital expenditure. This part of investment was recorded on the ESCO balance sheet and should have been included on the GG balance sheets. Another part of total government expenditure pertaining to individual contracts was already reported in accounting as operational lease and investment expenditure. Consequently, no additional adjustment was needed for that part. By this approach, all investments related to EPCs were recorded on the government balance sheets.

Before the mission, Eurostat had asked SURS to provide a list of the Slovenian energy performance contracts (EPCs) and SURS analysis on sector classification in the light of ESA 2010.

Discussion

SURS confirmed that the impact on B.9 and debt from EPCs had first been reported within the April 2018 EDP notification (AP 23). Since no such contracts had been detected before 2016, the impact was reported from 2016 onwards. SURS explained that there was an impact on B.9 and debt only in the case of the imputed loan for ESCO investment expenditure. At the moment, as a prudential approach, and in view of the burden which analysing each contract involved, all investments related to EPCs were recorded on government balance sheets. In 2018, two contracts at S1311 level and ten contracts at S1313 level were recorded.

SURS also confirmed the information included in the EDP Inventory regarding the time of recording on the basis of additional information about the stage of the contract. The first phase was when the EPC was signed and the second phase was when capital expenditure was undertaken and regular payments were made by the public partner. The second phase was also the time when there was an impact on government B.9 and debt. The impact on debt pertained only to the imputed loan for ESCO capital expenditure. The public-partner-related payments were included in the WB, so regular payments by the public partner (treated as an operational lease) started when the project entered the second phase; by this time the public partner was also making payments to the share of investment expenditure to the ESCO partner (shares were established by the contract). SURS also confirmed that EU funds for the EPC investment were neutralised.

Since 2016, SURS had been building the database of EPCs in cooperation with the MoF, the MoI and municipalities. SURS therefore had the relevant contracts with all the relevant information (the value of the contract, assets, service, EU funds used, phases) to determine the correct recording in S.13 (GFCF, P.2, interests, the imputed ESCO part). Eurostat asked whether SURS was cross-checking these data. SURS explained that as regards the B.9 impact, SURS assumed that all the payments were included in WB (data on EU funds, ESCO, and the public partner). SURS also collected information on total investments, including the private part, through the INV survey. By way of an example, it referred to 2018, when cash expenditure amounted to €1m (WB) and the GFCF in the INV survey amounted to €11m, so an adjustment of €10m was needed.

The MoF told Eurostat that a new draft model EPC, which was to be used for future contracts, would be sent to Eurostat for comments on recording in government accounts.

Findings and conclusions

See action point 21 (previous AP20), included above in section 4.3.7., Public-private partnerships (PPPs) and concessions.

20. SURS was including currently all the PPPs (S.1313) and EPCs in government accounts (S.1311 and S.1313), using a prudential approach and bearing in mind the burden involved in analysing each contract. Eurostat took note of the database of EPCs, maintained by SURS's GFS unit. The SSAs would send Eurostat a new draft EPC, which was expected to be used as a model for future contracts.

Deadline: when available

4.3.9 Emission trading permits

Introduction

In Slovenia, there was no trading in emission permits via the general government (the central budget) before 2013. According to the law, payments are collected by SID Bank and transferred monthly to the central budget. 50% of all payments go into the Climate Change Fund. In the April 2016 EDP notification, for the first time, SURS included accrual adjustments to the recording of emissions trading allowances (ETAs) in GG accounts. These revenues were recorded as D.29 (Other taxes on production) from the fourth quarter of 2012, when Slovenia began selling ETAs on the European Energy Exchange (EEX). The data source is the share of revenues designated for Slovenia from sales of emissions permits on the EEX platform (the revenues are transferred to the central budget on a monthly basis and are cash-based). According to the EDP inventory, '*the accrual adjustment is calculated by summing up data from May t to April t+1, when the coupons for the year t are to be submitted'*.

This issue was included in the closing remarks of the October 2019 EDP notification because of some inconsistencies (cash and accrued amounts, flows and stocks in the relevant ETS questionnaire table) resulting from the method used to calculate the accrual recording.

Discussion

SURS presented the current recording as reported to Eurostat in the October 2019 EDP notification, plus a new table on ETS, with calculations based on the average price used in the international context, in line with the provisions of ESA 2010. SURS said there was no information available on permits issued free of charge. However, the inconsistencies observed in October 2019 were still there (D.29 was sometimes recorded in advance than the cash over 2012-2018, especially in 2012 and in 2017: that was not acceptable under the applicable rules. As a result, the sum of D.29 exceeded the cash). Even using the FIFO method, as suggested by the MGDD, would not resolve the issue. As a significant increase was observed in the prices in 2018, this could result in a substantial impact on the revenues. In view of all this, Eurostat took the view that an appropriate solution would be to use the TAC method (which involves a one-year time lag). This was the method currently used by most Member States.

Eurostat also recalled that ETS recording was under discussion in the EDPS WG. In future, another option might be to record ETS as subsidies, using the average method if it was observed to work satisfactorily.

SURS agreed to revise the ETS recording in EDP and GFS data (stocks as well) in the April 2019 EDP notification. It would use the TAC method for calculating accrual (as suggested by Eurostat) for the years included in the notification. After this first step, SURS would apply the TAC method also to the backwards years.

Eurostat took note and recommended that SURS update the relevant section of the EDP inventory regarding the description of the accrual adjustment.

Findings and conclusions

<u>Action point 23</u>

22. SURS agreed to revise the recording for ETS in the April 2020 EDP notification, using the TAC method (involving an one-year time lag), at least for the four years covered by the notification. This recording was suggested by Eurostat as a temporary solution, pending a future amendment to the MGDD chapter on this issue, following ongoing discussions in the EDPS WG.[23]

Deadline: April 2020 EDP notification for the four years covered by the notification and the next benchmark revision for the previous years.

4.3.10 Others: privatisation, UMTS, sale and leaseback operations and securitisation

Introduction

Before the mission, Eurostat asked SURS to draft a note on the other specific government transactions, both current (2013-2016) and future (if any): privatisations, UMTS, sale and leaseback operations, and securitisations.

Discussion

Privatisations

SURS said three privatisation cases exceeding 0.01% of GDP had been recorded in the government accounts between 2015 and 2018. One substantial operation involving Nova Kreditna Banka Maribor (NKBM) had been carried out in 2015, involving the sum of €250m. In 2016 Nova Kreditna Banka Maribor had been sold for €250m, and in 2018 Nova Ljubljanska Banka had been sold for €669.5m (with the government retaining 25% of shares at the end of 2019). There had been no major operations in 2017 (the privatisation of Nova Ljubljanska Banka (NLB) had initially been planned for 2017, but the deadline had been

[23] Implemented for the years included in the April 2020 EDP notification.

extended to 2018). SURS also informed Eurostat that, in 2019, following the agreement with the European Commission reached in 2013-2014, Abanka had been sold (100%) for €440m.

Eurostat took note of this information.

UMTS

UMTS recording from the October 2019 EDP notification was in line with Eurostat's Guidance Note on Mobile Phone Licences, exploration rights and other licences, published in 2017, for all years concerned. In Slovenia, UMTS licences were sold in 2001, 2002, 2006 and 2014, while in 2016 radio frequencies were sold for the provision of mobile communication services. All transactions on licences were now recorded as D.45 and F.89 for time differences.

Sale and leaseback operations, tax credits and securitisations

According to the SSAs, no operations relating to sale and leaseback and securitisations had taken place in Slovenia. Eurostat took note of this information.

Findings and conclusions

Eurostat thanked the SSAs for the clarifications and information on privatisations, UMTS, sale and leaseback operations and securitisations in Slovenia.

5 ANY OTHER BUSINESS

No further issues were discussed.

List of participants

EUROSTAT
Mr Luca Ascoli
Ms Gita Bergere
Mr Philippe de Rougemont
Ms Nicoleta Savu

DG ECFIN
Ms Karolina Gralek

ECB
Ms Dagmar Hartwig Lojsch

Slovenian statistical authorities
Statistical Office of the Republic of Slovenia
Ms Mojca Škrlec (Head of Macroeconomic Statistics)
Mr Borut Strnad (Head of National Accounts Section)
Ms Nina Stražišar
Ms Marjana Klinar
Mr Daniel Letić
Mr Borut Brezar
Mr Tilen Rupar

Bank of Slovenia
Ms Saša Kovačič
Ms Andreja Strojan Kastelec
Ms Mojca Roter

Ministry of Finance
Ms Miranda Groff Ferjančič
Mr Matej Čepeljnik
Ms Ivana Šprah
Ms Katarina Koler
Mr Leo Knez
Mr Marjan Divjak
Ms Eva Križnik
Ms Katja Lautar
Mr Anže Podnar
Mr Peter Štemberger

Ministry of Infrastructure
Ms Anita Gorišek

Court of Auditors of the Republic of Slovenia
Mr Zoran Mladenovič
Ms Nevenka Cukon Mavec
Mr Dejan Kuralt

Fiscal Council
Mr Aleš Delakorda
Mr Jure Brložnik

Eurostat EDP dialogue visit to Slovenia

20-22 November 2019

Agenda

0. TECHNICAL DISCUSSIONS ON SPECIFIC GOVERNMENT TRANSACTIONS

0.1. Financial derivatives

0.2. Government intervention to support financial institutions

0.3. Other technical issues

1. STATISTICAL CAPACITY ISSUES

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

1.2. Data sources and revision policy, EDP inventory

1.3. Compliance with Council Directive 2011/85

2. ANALYSIS OF EDP TABLES – FOLLOW-UP OF THE APRIL/OCTOBER 2019 EDP NOTIFICATIONS

3. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

4.1.1. Changes in sector classification since the 2017 EDP dialogue visit

4.1.2. Government controlled entities classified outside the general government

4.1.3. Sector classification of specific entities

4.1.4. Re-routed transactions, assets and liabilities through government accounts

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions, tax credits

4.2.2. Interest

4.2.3. EU flows

4.2.4. Military expenditure

4.2.5. Court decisions

4.3. Recording of specific government transactions

4.3.1. Government intervention to support financial institutions

(summary of the discussions related to agenda item 0.2)

4.3.2. Guarantees

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

4.3.4. Capital injections in public corporations

4.3.5. Dividends, super dividends

4.3.6. Financial derivatives

(summary of the discussions related to agenda item 0.1)

4.3.7. Public-private partnerships (PPPs) and concessions

4.3.8. Energy performance contracts

4.3.9. Emission trading permits

4.3.10. Others: privatisation, UMTS, sale and leaseback operations, securitisation

5. ANY OTHER BUSINESS

5.1. ESA 2010 Transmission Programme, transmission of GFS data

5.2. Any other business