

## Explanatory notes to the April 2008 reporting of government deficit and debt levels for the excessive deficit procedure

### **Reclassifications**

SE has made three reclassification decisions in March 2008. The following units will be reclassified to the general government sector:

- 1) State Real Estate Company (Riigi Kinnisvara AS);
- 2) Hospitals founded as public limited companies;
- 3) 92 local government foundations and 35 non-profit associations.

By the preliminary estimations entering the public limited companies and foundations to the list of government units impacts the general government accounts as follows:

	2004	2005	2006	2007
Surplus, % of GDP	1.6	1.8	3.4	2.8
Impact of reclassifications to the surplus	-0.2	-0.1	-0.2	-0.4
Debt level, % of GDP	5.1	4.5	4.2	3.4
Impact of reclassifications to the debt level	0.1	0.1	0.2	0.5

The reclassification decisions have been made quite late. Therefore it is planned to consolidate reclassification decisions and other regular revisions currently in work and publish the results as scheduled in our workplan in September 2008.

Because of this planned timeframe all calculations for ESA95 transmission tables in March 2008 have been made without taking into account the reclassification of units. In EDP reporting tables effects of the reclassification of units have been included but only as very preliminary estimations. Due to that the EDP notification tables and ESA95 transmission tables are not comparable at the moment.

### **EU transfers**

During the mission in September 2007 issue was raised about recording prepayments in the context of EU transfers. As it is cleared now – in accrual data of General Government Account such prepayments are recorded only in balance sheets and recorded in expenditures only after reports of actual expenditures are approved by EU. Based on that information we are certain that prepayments are recorded on the correct way in the calculations of EU transfers.

### **Inconsistency for taxes**

In previous notifications, there has been an inconsistency between financial and non-financial accounts regarding income taxes. Financial accounts are entirely compiled based on the general government accounts accrual data from the State Treasury of Ministry of Finance. Thus, they have so far incorporated D.5 receivables/liabilities. At the same time, in non-financial accounts, no time-adjustment is used for income taxes (they are entirely cash-based). The mentioned inconsistency resulted in D.5 transactions being reported as statistical discrepancy.

In present notification, the F.79 related to D.5 has been removed from financial accounts of general government (both liabilities and receivables). As a result, the recording of D.5 in financial accounts is consistent with non-financial accounts.

### **PPP**

SE has started the arrangements to initiate the investigation of the possible cases of PPP: the local government authorities will be contacted directly to ask more information concerning the contracts with the private enterprises. Hopefully this gives us enough information for the next EDP reporting.

31.03.2008

General Government and  
Financial Sector Statistics Department  
Statistics Estonia