

Explanatory notes to the April 2014 EDP notification tables

This document addresses the issue concerning the year 2013 working balance in the reporting on government deficits and debt levels for the excessive deficit procedure and the corrections associated with the change in recording the guarantees on student loans.

Working balance in EDP table 2A

The basis for the working balance

In recent years the Ministry of Finance has been carrying out a project for implementing a new (cash based) reporting environment for State units. This project is accompanied with the development and implementation of new unified classification lists. Since the project is complex and large scale the implementation process is carried out step-by-step, resulting in the situation where number of State units is already using new environment and others are still using the old environment. The implementation process is planned to be finished by the year 2015.

As an additional complication the structure of the State budget and list of transactions included in the budget were changed starting from year 2013.

This process has currently resulted in the situation where the reliable cash based State budget execution report is not available at present. During the consultations with the Ministry of Finance it was explained that correct budget execution report will be published as a part of the Consolidated Annual Report of the State which will be presented for auditing to the National Audit Office by the end of June and is published on the web page of the Ministry of Finance at the same time.

This leads to the situation where the reliable cash based working balance (WB) figure is not available for Central Government subsector for April 2014 EDP notification. Therefore, it is substituted with the best estimate based on the accrual data.

This figure is compiled regularly by the State Accountant General and presented for the supervision and prognoses purposes to the Ministry of Finance. The figure is calculated based on the accrual claims and liabilities in the Public Sector Financial Statements (PSFS) with exception in tax revenues, where the cash based approach is used.

Effects of the mixed base working balance on EDP main tables and related questionnaire

In the case of the cash based working balance a number of adjustments is needed to reach the EDP B.9. The list of regular adjustments is presented in the following table with notes whether such an adjustment is needed also in the case of mixed base WB.

Adjustment	Cash based WB	Mixed base WB
Difference between interest paid (+) and accrued (EDP D.41);	x	Partially
Other receivables:	x	
1) time and accrual adjustment for EU grants, revenue side;	x	
2) time-adjustments for social security contributions, VAT and excises;	x	x
3) military expenditure	x	
Other payables:	x	
1) capital injections;	x	x
2) time and accrual adjustment for EU grants on expenditure side	x	
Net borrowing or net lending of other central government bodies;	x	x
Accrual adjustments and adjustments in intra-sectoral transactions.	x	x

Difference between interest paid and accrued is in year 2013 indicating only the interests associated with SWAP-s and FRA-s. The reason is that the interests are already presented on the accrual basis in the WB in the EDP table 2A.

Adjustments associated with the EU grants are not necessary in the case of mixed based WB since the recording rules already require that the revenues are recorded at the same time with associated expenditures. The time differences between cash movements and accrual based revenues and expenditures are reflected in claims and liabilities in PSFS and classified as AF.79 assets and liabilities in the financial account. As a result there are no accrual adjustments reported in the EDP table 2A but there are still other payables and receivables included in the financial accounts in GFS, which are also presented in the EDP related questionnaire table 4.1.

Military expenditures are also included in the working balance on the accrual basis. The same amounts are recorded in the GFS and reflected in the B.9 of general government sector. For that reason there is no adjustment in EDP table 2A for year 2013. There are time differences between cash payments and delivery of the equipment, therefore there is still information provided about F.79 transaction in the EDP related questionnaire table 4.1.

Recording of guarantees on student loans

After the October 2013 EDP notification it was pointed out by Eurostat that the recording of the transactions associated with the student loans in ESA95 based GFS should be altered and different recording approach applied.

Background

Government is providing three types of guarantees in association with student loans:

- 1) the borrower falls under the conditions defined in legislation, where the government takes over the obligation of the borrower permanently (this applies for instance in cases the borrower dies or is permanently disabled);
- 2) the borrower fails to follow the payment deadlines specified in the contract with the bank; the government takes the loan contract over by paying out the required amount to the bank and then requesting the repayment from the borrower;
- 3) the market interest rate for loans is exceeding the level of 5%, which is defined as the ceiling in the case of student loans; in this case the government is covering the difference between the market interest rate and ceiling interest rate.

The first and the third case are recorded as expenditures both in PSFS and in GFS.

In the second case the following approach is used in PSFS:

- a) At the time the borrower fails to discharge his/her liability for the bank government sector is informed. Government pays out the remaining loan to the bank and at the same time takes up the claim of loan towards the borrower.

This is recorded in PSFS as decrease in money and as increase in claims.

- b) At the time the borrower pays back (part of) the claims this is recorded as decrease in the claim and increase in money.

Similar approach has been used in GFS up until current time.

New recording

According to the opinion of Eurostat the recording used for the second case described in previous section is incorrect and the case should be treated as debt assumption. For that purpose the following recording has been applied in GFS:

- 1) Government payment to the bank (increase of claim in PSFS) is recorded as capital transfer expenditure.
- 2) Payment received from the borrower (decrease of the claim in PSFS) is recorded as capital transfer received.
- 3) The stock of claims recorded in PSFS is excluded from the stock of AF.4 assets in GFS.

Such changes affect the B.9 figures for S.13 sector and S.1311 subsector and loans in the asset side of the financial accounts. Following table gives overview about effects in GFS and in EDP tables (amounts are in million of euros):

	2010	2011	2012	Effects following datasets
D.9PAY	1.7	1.4	1.0	Line 2 in table 10.1 and line 8 in table 9.1 in EDP related questionnaire, ESA tables 2 and 2501
D.9REC	0.6	1.1	1.3	Line 13 in table 9.1 in EDP related questionnaire, ESA tables 2 and 2502
Change in B.9*	-1.0	-0.3	0.3	EDP table 1 net borrowing/ net lending of S.13 and S.1311, EDP table 2A, ESA tables 2 and 25
AF.4_assets	-6.2	-6.5	-6.2	Columns 1 and 14 in table 8 in EDP related questionnaire, ESA table 27

* Change in B.9 in 2010 is -1.0 due to the rounding issues

Changes in table 9.1 in EDP related questionnaire

Following changes have been made in Table 9.1:

- 1) D.9PAY is included as the Guarantees cash calls in line 8.
- 2) D.9REC is included as Repayments by original debtor in line 13.
- 3) The stock of all student loans is included in the Total stock of debt guaranteed by government in line 1.

No changes are made in the line 3: Amount of new guarantees provided, since it the amount of new loans provided during the year is unknown. Only the change in the amount of guaranteed loans can be found from the end of the year stocks.

No amounts are recorded in the lines 5 and 6 of the table, since no liabilities associated with loans taken over from banks are recognised in the accounting or in the GFS.

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