

EXPLANATORY NOTE

to the April 2015 reporting on government deficits and debt levels for the excessive deficit procedure

26.03.2015

This document provides information on the first Estonian reporting for 2015 on government deficits and debt levels and on the action points of EDP dialogue visit which took place on 20-21 January 2015. The overview covers action points, for which the deadline was in March 2015 or which have been implemented for the April 2015 EDP notification.

Please note that Statistics Estonia is responsible for the historical data for 2011–2014, when the Ministry of Finance provided forecasts for 2015. The cut-off date for the preparation of the forecast was 25.03.2015. The status of forecast included in this reporting as of 26.03.2015 is preliminary and is subject to possible revision within next two weeks.

It should be noted that the estimated effects of the reclassification of units (based on action points 12, 13, 15 and 16) are included only in the EDP notification and not to ESA GFS tables and other NA datasets. Information about the size of reclassification effects is provided under heading of relevant action points in this explanatory note.

Feedback on the action points of EDP dialogue visit

AP5

Trade credits in the EDP table 4 are consolidated.

AP6

The recording of the explanatory items “non-financial capital transfers” and “capital injections – financial transactions classified as capital transfers” are changed in EDP tables 2A and 2C. In both tables the items are recorded under the line “Other adjustments”.

AP7

Analysis was carried out for subsidiaries of AS Eesti Energia, as in the public corporation questionnaire only the information of the whole group was provided. The results of the market/non-market test are included in the Annex 1 of this explanatory note.

Overall, ten units were analysed. For all of them the market/non-market test results were above 50% (in most cases the results were over 100%).

AP8

Market/non-market test results for years 2011-2013 are provided in the Annex 1 of the explanatory note. Information is divided into two parts: 1) public sector units outside government sector and 2) public sector units in government sector.

List of public sector units outside government sector covers the same list as presented in public corporations questionnaire sent in January 2015, with the exception of four units which were reclassified into government sector according to the action points and are therefore removed from the list.

Two sets of data are provided for public sector units outside government sector:

- 1) revenues and expenditures based on which the test results are calculated (in millions of euros) and
- 2) market/non-market test results in percentages.

It should also be noted that in the context of net-interest charges in the present version of data the negative charges were replaced with zeroes. This affected mostly units classified into S.12 sector.

List of public sector units in government sector covers the non-profit associations, foundations and companies. Public-legal institutions classified into government sector are excluded from the list, because for all those units the classification decisions are made based on the qualitative criteria rather than quantitative.

ESA2010 emphasises the importance of market-prices and points out that in cases where public unit is selling goods and services both to the government and to other sectors it is necessary to test, if the price paid by the government is actually a market price (ESA2010 20.27-20.28). Additional testing is also required if the goods and services are sold only to government (ESA2010 20.24-20.26).

For these reasons, if the major testing was carried out for public sector units in the context of ESA2010, three indicators were calculated for all units:

- 1) usual market/non-market test based on all the revenues from the sales of goods and services;
- 2) market/non-market test based on the revenue from the sales of goods and services to other than government units (so called revenue of non-government sales);
- 3) share of non-government sales from total revenues from sales.

The same test results (alongside with underlying revenue and expenditure figures) are provided in the Annex 1 of the explanatory note for public sector units.

In some cases the classification of the unit was based on the qualitative criteria. For such units the information is provided in the dedicated column.

Please note that the major classification exercise was carried out in year 2013 and therefore the decisions were made based on the data for years 2005-2012.

AP12, AP13, AP15, AP16

According to the action points 13, 15 and 16 and based on the feedback from Eurostat in association with action point 12, following units should be classified into government sector:

- 1) Estonian Development Fund (EDF);
- 2) AS Smart Cap;
- 3) Estonian Oil Stockpiling Agency (OSPA);
- 4) Guarantee Fund.

Reclassification of the units is affecting net borrowing/ net lending of the central government subsector (S.1311) and general government sector (S.13). There is no effect on the debt of general government sector, as none of the units has taken any loans or issued any securities.

Table. The estimated effects on net borrowing/net lending (million of euros)

Name of unit	2011	2012	2013	2014
EDF	-0,1	-0,1	-0,2	-0,2
OSPA	10,3	-4,5	32,0	-27,1
AS SmartCap		0,0	0,2	0,4
Guarantee Fund	13,5	15,4	16,6	13,2
Total	23,7	10,8	48,6	-13,7

In EDP table 2A the units are included in the section "Net borrowing (-) or net lending (+) of other central government bodies". EDF and Guarantee Fund are incorporated into the subdivision of "Public legal institutions", while OSPA and AS SmartCap are included under heading "Enterprises".

AP14

The companies where the EDF is shareholder should be included into public sector. At the end of 2013 there were altogether 15 such companies, one of which went into liquidation in 2014 and one more is situated in UK (being a non-resident for Estonia; there is no information available). For the rest of the 13 units the market/non-market test was carried out. List of units and test results are provided in the Annex 1 of this explanatory note.

It should be noted that the EDF investment strategy is aimed at start-up companies, so it could be presumed that the units are not expected to be profitable for some time. This is especially true for the companies in the investment portfolio that are developing a knowledge-intensive product in which case the pre-production phase, where no sale revenue is expected, can last several years.

Nevertheless, EDF is expecting to earn profit from the investment in the form of selling the shares of the company. It is important to bear in mind that in order EDF to engage into investment, the private capital has to be included and the usual planned investment period is 5 years. In addition, a thorough analysis has to be carried out by the professionals and experts before providing investment capital to start-up. The investment strategy of EDF, which is approved by the European Commission, is available at their website (<http://www.arengufond.ee/wp-content/uploads/2013/04/EDF-Investment-Scheme-Strategy-ver-1-APPROVED-BY-EC1.pdf>)

AP17

Debt cancellation from government to Estonian Air was recorded in 2014. The amount of debt cancellation was 36.2 million euros.

AP19

The description of recording method of emission trading permits is included in the Annex 2 of this explanatory note.

Contact for EDP related issues:

Agnes Naarits
Deputy Head
Economic and Environmental Statistics Department
Statistics Estonia
51 Tatari Str, 10134 Tallinn
ESTONIA
phone: +372 625 9323
e-mail: agnes.naarits@stat.ee