EESTI
STATISTIKA

EXPLANATORY NOTE
to the April 2020 reporting on government deficits and debt levels for the excessive deficit procedure

31.03.2020

This document provides information on the first Estonian reporting for 2020 on government deficits and debt levels.

Please note that Statistics Estonia is responsible for the historical data for 2016–2019, while the Ministry of Finance (MoF) provided forecasts for 2020. The cut-off date for the preparation of the forecast was 11.12.2019.

EDP tables

Comments to EDP table 1

According to Eurostat's decision[1] on 23 December 2019 on the matter of statistical recording of euro coins, the issuance of euro coin is excluded from government AF.2 liabilities and assets for 2019. In accordance with our revision policy, figures for AF.2 for the period 2016-2018 will be revised for October 2020 EDP reporting.

In June 2019 the State Treasury of Estonia issued 200 million EUR in treasury bills. The Treasury auctioned 100 million EUR worth of treasury bills for six months with an average yield to maturity of -0,063% and another 100 million EUR for 12 months with an average yield of -0,19%. Therefore, AF.31 at the end of the year 2019 is 100,2 million EUR.

In April 2019 MoF mobilised 215 million EUR of loan resources from the European Investment Bank (EIB) to co-finance projects supported by the European Union (EU) which resulted in an increase of AF.42 liabilities in 2019.

[1] "Decision of Eurostat on government deficit and debt. The statistical recording of euro coin."
https://ec.europa.eu/eurostat/documents/1015035/2041337/ESTAT-decision-Recording-of-euro-coins.docx/30ebd86d-e0fa-7dc3-ec06-3cc2eaea1830

Working balance in EDP table 2A

The working balance used for the S.1311 subsector is drawn from the state budget execution reports. These reports were cash-based until the end of 2016 and are accrual based from 2017 to 2018. These reports were once again changed for 2019 reporting period and are mixed based mainly due to taxes. SE was informed about this change in February 2020 when State Shared Service Centre (SSSC) made the state budget execution report for 2019 available to us.

In April the figure for working balance is based on regular monthly state budget execution reports. Monthly reports are based on financial accounting data and are aspiring to follow the logic used in ESA2010 based government sector deficit figures starting from 2019. These reports are published on the website of MoF. It should be stressed that the data available in April is still preliminary and will be audited by the end of May.

According to SSSC, the main adjustments made to the monthly state budget execution report are following:

1) accrual based tax and social contributions revenues are replaced with time-adjusted cash figures;
2) changes in inventories recorded in balance sheet are included in expenditures;
3) sales of ETS have already been time-adjusted.

Since tax revenues are reported as time-adjusted cash figures and all other revenues and expenditures included in working balance are accrual based, the 2019 working balance used in April is therefore considered to be on mixed basis and is indicated accordingly in EDP table 2A.

According to SSSC, no further changes in monthly state budget execution report are expected. Thus, the working balance used in April and October are compiled using same principles and the list of adjustments presented in two notifications are not going to differ considerably henceforth.

Adjustments in EDP table 2A

Explanations for adjustments in table 2A are following:

1) There are no extraordinary adjustments for superdividends. As a rule, the superdividend test is carried out once a year in June when additional information becomes available. Superdividends (if any) are reported in October notification.
2) There are no adjustments associated with changes in inventories because these expenditures are included in working balance reported in table 2A.
3) Non-financial transactions in non-financial assets are not included in working balance, but are included in B.9.
4) No adjustments are made for student loans, since these are recorded as long-term loans (AF.42) under assets.
5) No adjustments are made for interest paid and accrued (D.41) because these are included in working balance and are accrual based.
6) No time adjustments for social security contributions (social security part), VAT and excises are necessary because time-adjusted cash figures have already been included in working balance.
7) From 2017 onwards, working balance is accrual based regarding all revenues and expenditures other than taxes and therefore there are no accrual adjustments associated with military equipment.
8) There are no significant adjustments on contributions to EU budget because the amounts included in working balance and in GFS are the same.
9) Sales of ETS have already been time-adjusted by one year in working balance, hence there was no need to adjust this sum contrary to previous April notification.

10) Net lending/net borrowing of other central government bodies are added because these units are classified inside the subsector, but not reported in the working balance. B.9 figures of groups of other central government sector units are estimated specifically for EDP purposes.

11) Adjustment for capital injections (financial transactions classified as capital transfers) shows the amount recorded as D.99 expenditure for state budgetary organisations.

12) Adjustment for change in pension provisions is an actuarial correction. In Public Sector Financial Statements (PSFS) provisions are created for pension entitlements on special pensions paid to specific groups of employees. In PSFS creation of the provisions and changes caused by actuarial calculations are reported among expenditures. Actuarial corrections are not treated as transaction in GFS. Therefore, the difference between records in PSFS and transactions included in GFS is presented in this item.

13) Adjustment for losses from doubtful receivables are recorded in source data as an expenditure after the bills are not paid by deadline and predefined amount of time has passed. These movements are not included in expenditures in GFS.

14) Adjustment for difference between accrual based tax interest and cash figures is made because tax interest in working balance is accrual based. In GFS tax interests are recorded as cash based amounts. Tax liabilities not paid by deadline are incurring interests, which in ESA 2010 context are more in line with definition of penalties. Due to the accounting rules the number of such fines are reported as doubtful receivables in PSFS. Some of the amounts are later retrieved and reported as negative amounts in doubtful receivables. As a result, doubtful receivables are volatile over time. In addition, the share of doubtful receivables from tax interests is high. Therefore, pure cash data is deemed more reliable in this instance. No time-adjustment is implemented because data is available only for tax interest as total and not for each tax separately.

15) Accrual based transfers made to local government are replaced with cash; therefore, the adjustment shows the difference between accrual and cash based figures.

Working balance in EDP table 2C

The working balance used for the S.1313 subsector is purely accrual based starting from 2019. Aggregated report is compiled by MoF based on the reports presented by local governments.

Comments to EDP table 3B

Changes in sector classification (K.61) in 2019 is -55,8 million EUR due to the removal of issuance of euro coins from 2019. In accordance with our revision policy, figures for the period 2016-2018 will be revised for October 2020 EDP reporting.

Questionnaire related to the EDP notification tables

Changes in Table 7

With reference to April 2019 notification, it was explained that deliveries reported in this table should only consist of military equipment assets. Thus, it was advised that P.2 should be excluded. Consequently, figures reported in table 7.1 exclude P.2 in April 2020 notification.

Please note that the figures reported in ESA table 11 include all of the P.51 of armed forces, among other things land, buildings, facilities, etc. Figures reported in EDP table 7 include P.51 expenditures only on military equipment.

In accordance with our revision policy, the treatment of long-term trade credits and advances as AF.42 assets and liabilities, according to the revised 2019 edition of MGDD will be implemented for October 2020 EDP reporting. The impact on government debt should be marginal.

Changes in Table 10.1B

Due to the suggestion made by Eurostat on 18 October 2019 to eliminate high revaluations relating to a state-owned company from the other economic flows of AF.5 asset in the periods 2014Q4 and 2018Q4, the revaluation and other changes in volume in 2018 changed compared to October 2019 EDP reporting.

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