

## EXPLANATORY NOTE

### to the April 2021 reporting on government deficits and debt levels for the excessive deficit procedure

31.03.2021

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 2017–2020, while the Ministry of Finance (MoF) provided forecasts for 2021. The cut-off date for the preparation of the forecast was 09.12.2020.

### EDP dialogue visit action points

EDP 2021 dialogue visit action point 3 and 16 – data reported in EDP tables and EDP Questionnaire is based on preliminary data. Updated submission will take place as soon as State Shared Services Centre (SSSC) provides new state budget execution report showing the corresponding differences between February and March data. After that Statistics Estonia adds the change to B.9 for EDP purposes only. Other domains will be updated with accordance with Statistics Estonia revision policy during regular annual revision.

Updated submission took place on 13<sup>th</sup> of April. Updates are made based on working balance from state budget execution report provided by SSSC. The data is still considered preliminary as data audit is ongoing and therefore the data presented is not final. Update means that the difference between February and March is added only to B.9 in EDP table 1 for EDP purposes only as it was agreed during EDP 2021 dialogue visit discussion. Other domains will be updated with accordance to SE revision policy during regular annual revision.

Main differences between February and March having an impact are the following:

	Difference (millions)	Clarification
State budget revenues	31,7	
Tax revenues	0,0	
Non-tax revenues	31,7	
Sale of goods and services	1,7	Delayed recording of sales revenue
Grants received	52,4	Delayed recording of grants received
Other revenues	-1,8	Delayed recording of other revenues

Financial revenues	-20,6	Estimated losses of loans given from special-purpose funds
State budget expenditures and investments	43,7	
Allowances given and other transfers	45,8	Mostly related to EU grants mediation
Operating expenditures	-6,4	Delayed recording of labour costs (such as performance fees and holiday fees)
Other operating expenses	-0,1	
Other operating expenses not mentioned above	-1,7	
Acquisition and renovation of tangible and intangible fixed assets	6,0	Delayed recording of acquisition of fixed assets
State budget revenues minus expenditures and investments	-11,9	
Revenue adjustments in state budget	0,0	
Expenditure adjustments in state budget	15,0	Correction related to changes in inventories.
State budget working balance	-26,9	State budget revenues minus expenditures and investments plus revenue adjustments in state budget minus expenditure adjustments in state budget

Please also note that such ad-hoc adjustment does not guarantee smaller or no changes in B.9 during revision.

EDP 2021 dialogue visit action point 6 – the estimated B.9 impact of inactive units have been added to the last reporting period for EDP purposes only. Other domains will be updated with accordance with Statistics Estonia revision policy during regular annual revision.

EDP 2021 dialogue visit action point 8 – the estimated B.9 and impact on Maastricht debt through long-term loan (AF.42) liabilities of reclassified units have been added to the last reporting period for EDP purposes only. Other domains will be updated in accordance with Statistics Estonia revision policy during regular annual revision for October 2021 EDP notification.

EDP 2021 dialogue visit action point 16 – data reported in EDP Questionnaire table 6 is based on preliminary data. Updated submission will take place as soon as SSSC provides the updated end of March data. After that SE adds the changes for EDP purposes only. Other domains will be updated with accordance with Statistics Estonia revision policy during regular annual revision.

EDP 2021 dialogue visit action point 18 – according to additional information received from SSSC there are no long-term trade credits regarding military equipment. Hence, no F.4 flows need to be differentiated from F.8. Year 2020 in EDP questionnaire table 7 is compiled based on the additional source data information received from SSSC. Years 2017-2019 will be revised in October 2021 EDP notification.

EDP 2021 dialogue visit action point 22 – superdividend test was carried out on preliminary data available at the time of compiling 2020 data. Test results have been taken into account in B.9 and B.9f, as well as in state budget execution report, and are reported also in EDP tables accordingly.

EDP 2021 dialogue visit action point 23 – updates are published on website of SSSC (Data on contingent liabilities and other indicators): <https://www.rtk.ee/saldoandmike-kasutajad/avaliku-sektori-raamatupidamine/valitsussektori-finantsnaitajad>

## EDP tables

## Comments to EDP table 1

SMP transfers to Greece regarding 2020 are in accordance with the corresponding draft note sent by Eurostat.

The revision regarding the listing of Tallinna Sadam will be done according to the Statistics Estonia revision policy for the October 2021 EDP notification. This implies that the transformation from AF.512 to AF.511 will be done via a transaction and not via other economic flows, according to ESA 5.150.

In 2020Q2 the State Treasury of Estonia issued 1500 MEUR of 10-year government bonds which led to an increase in long-term debt securities (AF.32) liabilities. The increase in short-term debt securities (AF.31) liabilities is due to the State Treasury issuing 575 MEUR of treasury bills in the year 2020, whereas 150 MEUR of treasury bills matured in 2020Q4. Additionally, 100 MEUR of treasury bills, which were issued in 2019Q2, matured during 2020.

The increase in long-term loan (AF.42) liabilities in the year 2020 is mostly due to the State Treasury incurring a loan from the Nordic Investment Bank.

## Working balance in EDP table 2A

The working balance used for the S.1311 subsector is drawn from the monthly state budget execution reports. These reports are accrual based from 2017 to 2018. Reports are mixed based mainly due to taxes starting from 2019.

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 for 2020 are following:

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

## Adjustments in EDP table 2A

Explanations for adjustments in table 2A are following:

Pursuant to EDP 2021 dialogue visit action point 22, superdividend test was carried out on preliminary data available at the time of compiling 2020 data. Test results have been taken into account in B.9 and B.9f, as well as in state budget execution report. However the superdividend test carried out by SE resulted in 5,1 MEUR of superdividends and is adjusted accordingly as a difference between superdividends included in working balance and superdividends included in B.9.

Following capital injections regarding COVID-19 measures have been included in B.9: Nordic Aviation Group AS 22 MEUR, Eesti Raudtee 10 MEUR and AS Saarte Liinid 3 MEUR.

Non-financial transactions in non-financial assets are not included in working balance, but are included in B.9 and adjusted accordingly.

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.

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.

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 3D**

Changes in sector classification (K.61) in 2020 is 1 MEUR due to the reclassification of units regarding EDP dialogue visit 2021 action points 6 and 8. The estimated impact on debt of these reclassified units has been added to the last reporting period for EDP purposes only.

## **Questionnaire related to the EDP notification tables**

### **Table 7.2**

Following EDP 2021 dialogue visit discussion, line item 13 have been corrected in 2020.

### **Table 13**

Regarding EDP 2021 dialogue visit action point 11, KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd) transactions re-routed through government accounts impacting government deficit and debt do not exceed the threshold of 0,05% of GDP as defined below table 13.

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