

Explanatory notes to the October 2011 EDP notification tables

This document summarises some methodological issues in the Estonian government sector accounts and corrections made in the EDP reporting tables based on the action points defined during the EDB dialogue visit to Estonia on 4-5 July 2011.

The main data source used by Statistics Estonia (SE) is the information on the Public Sector Financial Statements (PSFS) obtained directly from the reporting system of the Ministry of Finance.

Methodological issues

1. Recording of the depreciation applied to the capital injections in kind

In PSFS, the movement of fixed assets and non-produced non-financial assets from one unit to the other are recorded. Sometimes one unit provides the capital transfers in kind to the several other units at the same time, and the receiving units are not always in the same sector. Since the providing unit is recording all the transfers as one figure, it is difficult and extremely time-consuming (although not at all impossible) to distinguish the transfers provided inside the general government sector and outside it.

Therefore, the easiest way to record this kind of movements in national accounts is to record all provisions of capital transfers in kind as a 'sales of assets' (either P.51 or K.2) and the receivable capital transfers in kind as the 'acquisition of assets' (also either P.51 or K.2). This way all transfers within government sector should balance out. Transfers to the units outside of the general government sector are recorded as 'sales of assets' (P.51 or K.2) and balanced with recording the 'capital transfer' (D.9 payable) at the same time.

Up until now, the depreciation of fixed assets provided in the bookkeeping data of PSFS was always considered to be 'other changes in volume' and have not been included into the calculations of the sales of fixed assets. After a thorough inspection of the source data, it became evident that in the case of capital injections in kind the depreciation have to be included; otherwise the revenues from the sales of assets calculated on the 'transfers in kind' basis, are overestimated and the outcome does affect general government net lending/ net borrowing.

This problem was detected during the major revision of national accounts data. These corrections affect the data for 2007-2009. Corresponding corrections are pointed out in the line 8.a in table 1.1 of the questionnaire relating to the EDP notification tables.

2. Correction in the interests on SWAP-s and interest expenditures

In the PSFS the Ministry of Finance was recording revenues/expenditures from SWAP-s until year 2010, therefore these figures were included for interest calculations for EDP purposes. During the revision of data in 2011, Ministry of Finance provided the information that amounts recorded as interests were in reality profits and/or losses from the currency movements. Corresponding corrections are recorded in the line 9.a in table 1.1 of the questionnaire relating to the EDP notification tables.

In addition, SE found out that among 'other financial expenditures' which usually includes bank service charges and some interests, the expenditure for creating a provision was recorded in 2009. Corresponding amount was automatically coded and recorded as interest expenditure. Based on the information provided in the State Financial Report it was now identified to be the creation of provision, which should not be recorded as expenditure but rather as a 'contingent asset'. Corresponding correction is recorded in the line 9.b in table 1.1 of the questionnaire relating to the EDP notification tables.

Action points

AP6. Correct the line “Difference between interest paid and accrued” in EDP tables 2A and 2C

Corrections are made and the lines “Difference between paid and accrued” in tables 2A and 2C are representing the difference between accrual interest recorded in the general government accounts (interest recorded for the state in table 2A and local government units in table 2C) and cash interests recorded in cash-based state budget report and cash-based local government reports.

AP7. Correct only the effects of revaluation of social security financial assets in EDP table 2D and do not include any correction of interest

Correction is made and only the effects of revaluation are corrected in table 2D. Line “Other accounts receivable” does not include the correction of interest any more.

AP8. The NSI will correct tables 7.1 and 4 of the EDP relating questionnaire, as amounts reported for military expenditures under other accounts receivable are in reality other accounts payable

Corrections are made in tables 4 and 7.1. In table 4 the correction in the line 6 of table 4.1.1 is accompanied with the correction in the line 9 of the same table and correction in the line 6 in table 4.1.2 is accompanied with the correction in the line 11 of the same table. The reason is that majority of the military equipment is recorded in the PSFS as fixed assets. Therefore, the receivables/payables relating to the gross capital formation have been always calculated as the difference between receivables/payables related with the fixed assets and receivable/payables associated with the military equipment.

AP8. The NSI will provide to Eurostat the figures on VAT gross receipts and reimbursements, as well as on VAT controls, on a monthly basis for the period from 2006 onwards. The NSI will provide to Eurostat a note analysing this issue in view of correction of the data.

Statistics Estonia sent the data requested to Eurostat on 31st August 2011. According to the Eurostat’s reply from 15th September 2011 SE have to incorporate the correction regarding the VAT reimbursements into October 2011 EDP notification.

Corresponding correction is made and the effects of it are pointed out in the line 5.a in table 1.1 of the questionnaire relating to the EDP notification tables. In addition to net lending/net borrowing figures also the line “Time-adjustment for VAT” in EDP table 2A (in the section “Other accounts receivable (+)”) and the line 3 in table 1.1 of the questionnaire relating to the EDP notification tables are affected.

AP10. The NSI will check the closing balance of the stock of government claims towards public corporations at the end of 2009

and

AP.11. The NSI will report in the table 8 of the relating Questionnaire (part on foreign claims) only claims to third countries.

Corrections are made in table 8. Stock of government claims towards the public corporations at the end of 2009 is now corresponding to the starting balance of the same stock at the beginning of 2010. In the part of Foreign claims in table 8 only claims to third countries are recorded.

AP.11. The NSI and Eurostat will investigate whether claim of PRIA towards the EU has more the nature of loan or of other accounts receivable

Currently no decision has been made still and therefore no changes in the recording of named claims have been made.

AP.12. Eurostat recalled that the rules on capital injections, as set up by the MGDD, had to be applied. When deciding on whether a capital injection is a financial or nonfinancial transaction, past profits and losses of the entity in question as well as future profitability should be analysed.

The rules set up in the MGDD have been and are followed. Past profits and losses of the entity are always taken into account. The estimation of the future profitability is much harder task to carry out and could, in most cases, be applied only for the bigger state enterprises; and even then only if the capital injection is significant (threshold set is 3 million euros (formerly 50 million Estonian kroons)).

In the cases of capital injections made into public corporations belonging to local governments, the decision is usually made based on the past behaviour of the corporation. The main reason for this is the fact that the total amount of capital injections made by local governments is relatively small. Some examples to illustrate this statement: during the period 2006-2010, all capital injections made in the form of ‘acquisition of shares’ amounted to 26,1 million euros, of which 14,9 million euros was targeted to two transportation companies with the aim to help to repay the loan. Excluding those two companies and 14,9 million euros (which was recorded as a capital transfer D.9), the capital injection in amount of 11,2 million euros have been made into 65 companies over the five-year period. 39 of these

companies have received the capital injections less than 100 thousand euros (altogether 511,6 thousand euros) over the five years; 24 have received the capital injection in the size of 100-999 thousand euros (total amount 7,1 million euros) and only two companies have received the capital injection larger than 1 million euros (altogether 3,6 million euros).

Since the majority of the injections are relatively small, it is not reasonable and efficient to carry out full estimation for all injections – SE simply does not have the resources for it. In the case of larger injections (higher than 0,5 million euros in single year), further information is gathered and the reason for the injection is inspected in more detail.

AP13. The NSI will exclude from swaps in EDP tables the amounts provided to banks to subsidise student loans.

and

AP.14. The NSI will correct the sign of the amount of interest under swaps in EDP table 3D.

Corrections are made.

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