

EXPLANATORY NOTE

to the April 2023 reporting on government deficit and debt levels for the excessive deficit procedure

31.03.2023

This document provides information on the first Estonian reporting for 2023 on government deficit and debt levels.

Please note that Statistics Estonia (SE) is responsible for the historical data for 2019–2022, while the Ministry of Finance (MoF) provided forecasts for 2023. The cut-off date for the preparation of the forecast is 07.12.2022.

Issues from the 2023 EDP dialogue visit:

AP5: The Estonian statistical authorities will detail the adjustments done by the SSSC on the budget execution for the calculation of the working balance and will show those adjustments in EDP T.2A. The EDP Inventory will be updated accordingly to describe the adjustment shown in EDP T.2A.

The adjustments are presented in EDP T.2A from April 2023 EDP notification onwards and descriptions are updated below in subsector "Comments on EDP T.2A". The EDP Inventory will be updated accordingly.

AP6: In relation to the revaluation of expected losses on loans granted by Kredex Foundation in the context of the COVID-19 (included in the working balance for 2021), the Estonian statistical authorities will revise the expenditure recorded in 2020 for loans not expected to be repaid at inception, instead of recording a revenue in 2021. From 2023 onwards, the statistical authorities will apply the delayed revenue approach for downwards revisions of expected losses. The EDP annex 8 on measures taken in the context of the COVID-19 pandemic will be adapted accordingly.

The revaluation of expected losses on loans granted by Kredex Foundation in the context of COVID-19 in 2020 has been investigated and the revision in expenditure has been estimated to be below half of the initial transfer (MGDD2022 4.9.2. p14-15). To add, the revaluation is not currently recorded as revenue in 2021 or 2022, therefore not affecting B.9 in those years. As the discussions with Kredex Foundation as well as the analysis took more time than initially anticipated the corrections will be implemented during October 2023 EDP notification. During analysis, new questions arised and SE would appreciate discussion

with Eurostat regarding the revision of the revaluation in the context of MGDD2022 4.9.2. to understand the effect on both non-financial and financial account.

AP7: Regarding the impact of the valuation of equities included in the working balance, the Estonian statistical authorities explained that the revaluation of equities is often revised between April and October EDP reporting of T-1. The Estonian statistical authorities will provide a note clarifying under which component of the working balance the revaluation of equities for 2021 has been recorded and for which amounts. The note will clarify why adjustments in EDP T.2A related to the revaluation of assets are recorded only for 2020 and 2021. The statistical authorities will also confirm that the revaluation impact included in the working balance is adjusted in EDP T.2A under the item “other adjustment – revaluations of financial assets-liabilities” and will consider renaming the item as “revaluation of assets”.

We would like to clarify that the profit/loss from revaluation of shares is not included in the B.9, compiled by SE, however included in working balance under financial revenues and therefore adjusted accordingly in EDP T.2A. The contributors to these revaluations are Kredex Foundation and Rural Development Foundation (Maaelu Edendamise SA).

In the email forwarded on 6th of March 2023, Eurostat added that clarifications on the reason why adjustments in EDP T.2A related to the revaluation of assets are recorded only for 2020 and 2021 in the Explanatory note would be highly appreciated. The need for an adjustment depended on whether State Shared Service Centre (SSSC) had made the adjustment for the profit/loss from revaluation of shares (Kredex Foundation and Rural Development Foundation) and revaluation due to change in currency exchange rate or revaluation in inventories during the compilation of working balance or not. In 2020 and 2021 the profit/loss from revaluation of shares was included in the working balance, hence, an adjustment was added to EDP T.2A to exclude it. On the other hand, revaluation due to change in currency exchange rate and revaluation in inventories were adjusted by SSSC during the compilation of the working balance. According to the guidance provided during the EDP dialogue visit in January 2023 and action point 5, we now show the adjustments previously done by SSSC (revaluation due to change in currency exchange rate and revaluation in inventories) in EDP T.2A line “revaluation of assets” for comprehensibility.

We confirm that the revaluation impact included in the working balance was previously adjusted in EDP T.2A under the item “other adjustment – revaluations of financial assets-liabilities”. The item in EDP T.2A has been now renamed as “revaluation of assets”.

AP17: The Estonian statistical authorities will clarify the classification of the funds transferred by the government to AS Kredex Krediidikindlustus (currently classified as a deposit) in order to cover the call of standardised guarantees counter-guaranteed by the State. Statistics Estonia will provide a note explaining how those guarantees are rerouted in the accounts of the government, detailing financial and non-financial transactions and stocks of assets and liabilities rerouted in the government accounts for the years 2020-2022. Additionally, Statistics Estonia will indicate how the rerouted non-financial transactions are recorded in EDP T.2A. Eurostat and Statistics Estonia will dialogue in order to determine the correct recording of the rerouted guarantees.

The note on the details of rerouted financial and non-financial transactions and stocks of assets and liabilities related to guarantees provided by AS Kredex Krediidikindlustus counter-guaranteed by the State for the years 2020-2022 and how the rerouted non-financial transactions are recorded in EDP T.2A has been provided.

AP19: The Estonian statistical authorities will correct the table on the recording of interest provided prior to the visit. The corrections concern (1) the reporting of coupons accrued before imputation of FISIM, (2) the reporting of discount on long term debt securities and SURE loans under line 9 of the table (instead of line 10) and (3) the reporting of amortisation of discounts separately from the accrued coupons for long term debt securities. Statistics Estonia will also consider reporting short term debt securities at their market/nominal value in ESA Table 27, and report accordingly the interest accrued related to those instruments in the table on the recording of interest.

In the email forwarded on 6th of March 2023, Eurostat added that on a best effort basis the progress made to improve the table on interest (i.e. showing the breakdown of interest accrued between the coupons and the amortisation of discounts) is appreciated. However, due to the complexity of the action points of EDP dialogue visit 2023, this issue has not been resolved yet, SE will investigate this issue further and will keep Eurostat updated regarding its developments.

AP20: Concerning the recording of EU flows in the Table 6 of the EDP questionnaire, the Estonian statistical authorities in cooperation with SSSC will check the amounts of other accounts receivable/payable related to EU flows in 2021 in order to ascertain why the transactions in those accounts changed between the April 2022 and the October 2022 notifications. The statistical authorities will provide a detailed explanation of the topic in a note on this issue and will reflect on the possibility of the recurrence of the issue.

The note on the recording and change in the amounts of other accounts receivable/payable of EU flows in the Table 6 of the EDP questionnaire for 2021 has been provided.

AP21: The Estonian statistical authorities will also clarify the difference between the neutralisation of expenditure made on behalf of EU as reported in the extended template of ESA Table 2 and the neutralisation recorded in Table 6 of the EDP questionnaire.

In the email forwarded on 6th of March 2023, Eurostat added that progress report on the reconciliation of expenditures financed from EU flows (and neutralisation) in EDP questionnaire table 6, ESA transmission program T.2 (extended template) and EU flows provided before the dialogue visit is highly appreciated. Due to the complexity of the issue, it is still under investigation and SE will keep Eurostat updated regarding developments

AP22: The Estonian statistical authorities will investigate and report to Eurostat on the difference observed for 2021 in the stock of other accounts payable related to EU flows reported in EDP Questionnaire Table 6 and provided in the note on EU funds regarding October 2022 EDP notification (question 34).

Please see comment for AP21, which also applies to AP22.

AP23: Regarding the EDP annex related to the RRF, the statistical authorities will provide the inflows and outflows included in the working balance, and fill parts 1.3 and 1.4 of the annex. An imputation of a F.2(-) corresponding to the expenditures financed from RRF grants shall be added in part 1.4 in order to neutralise the impact on the change in debt.

The inflows and outflows included in the working balance are provided and parts 1.3 and 1.4 of the annex have been filled. An imputation of a F.2(-) corresponding to the expenditures financed from RRF grants is added in part 1.4 in order to neutralise the impact on the change in debt.

AP24: In the context of the high energy prices measures, government provides price cap or price reduction schemes with direct compensations to the producer/network management corporations. The schemes are targeted to all households and corporations, except for a scheme targeted to low-income households. The compensations are currently recorded as D.39. The Estonian statistical authorities will gather information from the Ministry of Finance in order to recognise the beneficiary of the scheme (households and corporations as consumer of energy) and to record the payments under the correct economic code (D.632, D.31 or D.39). The statistical authority will analyse and report to Eurostat the possibility to recognise a tax-subsidy scheme for the cap price scheme for households (for the period October 2022-March 2023) financed from the sale of CO2 quotas.

SE has gathered information from MoF as well as SSSC and compiled Annex 10 regarding the high energy price measures and their current recording in GFS. Additionally, SE provided a note, which analyses the possibility to recognise a tax-subsidy scheme for the cap price scheme for households. SE would appreciate discussion with Eurostat regarding the correct recording in the light of the draft guidance note on the recording of government expenditure measures on high energy prices and due to differences in economic codes presented by Eurostat EDP and GFS teams. SE will implement required corrections for the October 2023 EDP notification.

AP26: The Estonian statistical authorities will include in Table 9.1 of EDP questionnaire, the guarantees related to the SURE loans and the Pan-European Guarantee Fund (PEGF).

Guarantees related to the SURE loans are included in Table 9.1 of EDP questionnaire. Estonia is not participating in the Pan-European Guarantee Fund (PEGF).

AP27: In relation to the standardised guarantees granted during the COVID 19 crisis, the Estonian statistical authorities will revise the expenditures recorded in 2020 for provisions related to standardised guarantees granted in 2020 if the rate of default has been revised downwards, instead of recording a revenue in 2021. After one year from granting the guarantees, the statistical authorities will apply the delayed revenue approach for downwards revisions of rate of default.

The revaluation of provisions related to standardised guarantees granted in the context of COVID-19 in 2020 has been investigated and the revision in expenditure has been estimated to have relatively small impact on B.9 in 2020-2022. As the discussions as well as the analysis took more time than initially anticipated SE will implement revision of the revaluation in the context of MGDD2022 4.9.2. during October 2023 EDP notification.

AP28: Concerning the reporting of claims in Table 8 of the EDP questionnaire, the Estonian statistical authorities will clarify the coverage of the table (S.13 or S.1311). The EFSF loans rerouted in the Maastricht debt of Estonia will be reported under "foreign claims" instead of currently being reported under "other claims". ESA Table 27 will be adapted accordingly.

The coverage of the Table 8 of the EDP questionnaire is S.1311 (as specified in the heading of the table). The EFSF loans rerouted in the Maastricht debt of Estonia are not reported under "foreign claims" instead of "other claims". No corrections were necessary in ESA Table 27.

AP29: The Estonian statistical authorities will correct capital injections for 2020 in Table 10.1 of EDP questionnaire.

The item other capital injections into public corporations by central government subsector in Table 10.1 of EDP questionnaire for the year 2020 has been corrected. There was a double counting of a capital injection in the amount of 17.2 million EUR in line A_1.1.1.1 (In the State's public accounts). The double counting has been removed, therefore the value for 2020 in line A_1.1.1.1 is 35.0 million EUR instead of 52.2 million EUR. As the capital injection is included in working balance, no adjustment is necessary in EDP T.2A.

AP30: The Estonian statistical authorities will investigate the difference between the capital injections considered as expenditure provided in the list of capital injections in public units prior to the visit and the corresponding amounts reported in Table 10.1 of the EDP questionnaire.

Prior to EDP dialogue visit SE provided a list of capital injections in public units for the period of 2018-2021. In addition, Public Corporations Questionnaire was forwarded in December 2022. Not all companies present in the list of capital injections were included in Public Corporations Questionnaire as the Public Corporations Questionnaire excludes units that have been reclassified to government sector or if operations have been terminated beforehand. The list of capital injections provided prior the EDP dialogue visit in January 2023 as well as the Table 10.1 of the EDP questionnaire include the capital injections made prior to reclassification or termination.

AP31: Following the discussion on the capital injections in Elering AS and AS Eesti Energia, the Estonian statistical authorities will continue to closely monitor capital injections provided by the government to "energy corporations" (producers, distributors or network operators), in particular, in the context of the investment programs co-financed with the EU. Statistic Estonia will analyse and report to Eurostat large capital injections (10 million and above).

Currently, no large capital injections are to be reported and analysed.

Update regarding Rail Baltic project

In addition to the issues mentioned in the action points of EDP dialogue visit 2023, Eurostat requested SE to provide updates regarding the Rail Baltic project. Based on the information received from MoF, in 2022 the construction of the Ülemiste passenger terminal started, followed by the construction of the Pärnu passenger terminal and the Muuga multimodal terminal in 2023. Additionally, the process of acquisition of land as well as the construction of viaducts, bridges and eco-bridges is still ongoing.

EDP tables

Comments on EDP T.2A

For April EDP notification, the working balance used for the S.1311 subsector is drawn from the monthly state budget execution reports. Reports are mixed-based mainly due to taxes starting from 2019.

During EDP dialogue visit in January 2023, Eurostat requested that Estonian statistical authorities would detail the adjustments done by the SSSC on the budget execution for the calculation of the working balance and will show those adjustments in EDP T.2A. The adjustments are removed from working balance and added to EDP T.2A and explanations for individual rows are listed below.

Superdividends. Eurostat requested SE to calculate superdividend tests already in the April EDP notifications. The tests have been carried out and an adjustment has been added.

Non-financial transactions not included in the working balance. This detail includes non-financial transactions in non-financial assets, changes in inventories and residual value of assets sold. Non-financial transactions in non-financial assets and changes in inventories are not included in working balance but are included in B.9. Residual value of assets sold is not included in the working balance but according to MGDD2022 the amounts to be recorded in non-financial account are the full amounts of the proceeds of the sale. Therefore, adjustment has been made in EDP T.2A.

Rerouting. The detail includes adjustment for rerouting of AS Kredex Krediidikindlustus in non-financial account.

Adjustment associated with the sale of 5g licenses. According to MGDD2022, the time of recording should be accrual basis, therefore the revenue is adjusted.

Adjustment associated with the sale of ETS. According to MGDD2022, the time of recording should be accrual basis, therefore the revenue is adjusted.

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

Capital injections. The adjustment includes expense not included in the working balance or difference in recording of the expense between working balance and B.9.

Losses from doubtful receivables. Doubtful receivables are recorded as an expenditure in working balance if the bills are not paid by deadline and predefined amount of time has passed. These movements are not included in expenditures in B.9.

Revaluations in assets. Revaluations (profit/loss from revaluation of shares, revaluation due to change in currency exchange rate, revaluation in inventories) are reported in working balance whereas not recorded in B.9 and therefore adjusted accordingly.

Difference between accrual-based tax interest and cash figures. 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. No time-adjustment is implemented because data is available only for tax interest as total and not for each tax separately.

Difference between the accrual-based working balance and cash-based D.5 (transfer to local government).

Accrual-based transfers made to local government are replaced with cash. Regarding D.5, there is no one-month time adjustment by SE and the taxes are recorded cash-based. However, local government sector statements are accrual-based, and the adjustment explains the difference between cash-based D.5 in B.9 compiled by SE and accrual-based transfers of income tax to local governments.

Removal of consolidation and adjustment figures imputed by the SSSC.

SSSC makes consolidation entries to achieve the necessary consolidation logic for the PSFS and working balance. However, the amounts are included as revenue/expenditure in B.9 compiled by SE and therefore the adjustment has been made.

Change in pension provisions.

Expenditures from actuarial changes in pension provisions are replaced with actual pay out amounts and therefore adjustment has been made.

Amortisation. Amortisation is eliminated from the working balance.

Discrepancy. This line includes various amounts of adjustments which are not included in other details.

Therefore, this amount represents unexplained difference (residual).

Questionnaire related to the EDP notification tables

According to EDP dialogue visit in January 2023 and following action point 29, the item other capital injections into public corporations by central government subsector in Table 10.1 of EDP questionnaire for the year 2020 has been corrected.

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