

EXPLANATORY NOTE

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

29.09.2023

This document provides information on the second 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 24.08.2023.

Issues from the 2023 EDP dialogue visit:

AP1: The Estonian statistical authorities will provide on a regular basis for the October EDP notification, a detailed explanation of the working balance changes, including if due to the regular revisions or due to the audit process of the Consolidated Annual Report of the State.

The basis of working balance used for EDP purposes is “State budget revenues minus expenditures and investments” (“Kokku riigieelarve tulud miinus kulud ja investeeringud”, hereinafter referred to as WB), and the following table represents the changes in revenues and expenditures between preliminary and final state budget execution report. The amounts are presented in EUR million. There were no revisions in tax revenues.

	Revision	Comments
State budget revenues	72.3	Revisions are due to delayed information at the cut-off date for April notification (January 25).
Non-tax revenues	72.3	
<i>Sale of goods and services</i>	1.2	
<i>Grants received</i>	74.3	
<i>Other revenues</i>	1.0	

<i>Financial revenues</i>	-4.2	
State budget expenditures	61.4	Revisions are due to delayed information at the cut-off date for April notification (January 25).
<i>Allowances given and other transfers</i>	62.0	
<i>Operating expenditures</i>	-14.7	
<i>Other operating expenses</i>	0.3	
<i>Acquisition and renovation of tangible and intangible assets</i>	13.8	
State budget revenues minus expenditure and investments	10.9	

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.

SE has revised the expenditure recorded in 2020 for loans not expected to be repaid at inception. The impact on B.9 was presented in April 2023 EDP notification Request for Clarification (RfC) under question 9 and is also added to the explanation of revisions of net lending/borrowing between April 2023 and October 2023 in Annex 3 Table 1.1 (under methodological adjustments, other methodological adjustments).

AP8: Concerning the suspension of payment to the second pillar pension scheme in 2020 and 2021, the Estonian statistical authorities will impute interest expenditure on the corresponding debt (F.42L). The amounts of interest to be recorded depend on whether the "average net asset value of units in all mandatory pension funds/mutual investment funds" to be paid to the beneficiaries are linked to a narrow or broad index. The practical implementation of the recording will be discussed with Eurostat. In the meantime, the statistical authorities will monitor the cash outflows related to the suspension payment to the second pillar in order to determine the imputed interest.

The interest expenditure has been imputed for 2020Q3 until 2021Q3, whereas the allocation of expenditure is based on the continuation of pension payment. The amounts are included in the explanation of revisions of net lending/borrowing between April 2023 and October 2023 in Annex 3 Table 1.1 (under methodological changes, time of recording).

AP15: The Estonian statistical authorities will reclassify SmartCap Venture Capital Fund (ex Early Fund II) in the government sector and more generally will reclassify in the government sector similar fund-of-funds where the government is the only provider of funds (for example, the Green Fund). The statistical authorities will perform the capital injection test on the investment in sub-funds or corporations classified outside the government sector.

SE has reclassified SmartCap Venture Capital Fund (from 2020) and Green Fund (from 2022) and performed capital injection tests on the investments in sub-funds or corporations classified outside the government sector. The amounts are also included to the explanation of revisions of net lending/borrowing between April 2023 and October 2023 in Annex 3 Table 1.1 (under methodological changes, sector reclassification).

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.

SE has provided a note on AP17 on 31.03.2023 and will look into Eurostat's feedback after the October 2023 EDP notification.

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.

SE will look into this issue after the October 2023 EDP notification.

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.

The difference between the neutralisation of expenditure made on behalf of EU is still under investigation.

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).

The difference in the stock of other accounts payable related to EU flows reported in EDP Questionnaire Table 6 and in the note on EU funds provided regarding October 2022 EDP notification is still under investigation.

AP25: The Estonian statistical authorities will analyse and report to Eurostat on the possibility to record a tax-subsidy scheme for the renewable energy charge calculated and implemented by Elering AS.

SE has forwarded a note with the analysis to Eurostat on 29.09.2023.

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.

SE has revised the expenditure recorded in 2020-2022 related to revaluations of provisions for standardised guarantees of Maaelu Edendamise SA. The impact on B.9 was presented in April 2023 EDP notification RfC under question 43 and is also added to the explanation of revisions of net lending/borrowing between April 2023 and October 2023 in Annex 3 Table 1.1 (under methodological adjustments, other methodological adjustments).

EDP tables

Comments on EDP T.2A

During EDP dialogue visit in January 2023, Eurostat requested that Estonian statistical authorities would detail the adjustments done by the State Shared Service Centre (SSSC) on the budget execution for the calculation of the WB and will show those adjustments in EDP T.2A. Additionally, in a call between SE and Eurostat on 14th of September 2023, it was agreed that a few minor presentational issues will be eliminated for the October 2023 reporting. Explanations for individual rows in EDP T.2A 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 in non-financial assets. Non-financial transaction in non-financial assets are not included in WB but are included in B.9. Therefore, adjustment has been made in EDP T.2A

Rerouting. The detail includes adjustment for rerouting of AS Kredex Krediidikindlustus, SmartCap Venture Capital Fund and Green Fund.

Adjustment associated with the sale of ETS. According to MGDD2022, the time of recording should be accrual basis, therefore the recording of revenue differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

Adjustment associated with the sale of 5g licenses. According to MGDD2022, the time of recording should be accrual basis, therefore the recording of revenue differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

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 WB or difference in recording of the expense between WB and B.9.

Losses from doubtful receivables. Doubtful receivables are recorded as an expenditure in WB 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 WB 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 WB 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 WB. 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.

Provisions for the temporary suspension of second pension pillar payments (4%). Expenditures from actuarial changes in pension provisions for the temporary suspension of second pension pillar payments (4%) are adjusted.

Depreciation. Depreciation is eliminated from the WB.

Changes in inventories. Changes in inventories are not included in WB but are included in B.9. Therefore, adjustment has been made in EDP T.2A.

Residual value of assets sold. Residual value of assets sold is not included in the WB but according to MGDD2022 the amounts to be recorded in non-financial account are the full amounts of the proceeds of the sale.

Difference in recording loans not expected to be repaid. Delayed revenue approach (MGDD2022 chapter 4.9.2) was applied to the expected losses on loans and therefore an adjustment is made in EDP T.2A.

Difference in recording provisions for standardised guarantees. Delayed revenue approach (MGDD2022 chapter 7.4.3) was applied to the provisions for standardised guarantees and therefore an adjustment is made in EDP T.2A.

Difference in recording interest on suspension of second pension pillar payments. According to MGDD2022, the time of recording should be accrual basis, therefore the recording of expenditure differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

Discrepancy. This line includes various amounts of adjustments which are not included in other details. Therefore, this amount represents unexplained difference (residual).

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