

EXPLANATORY NOTE

to the April 2024 reporting on government deficit and debt levels for the excessive deficit procedure

28.03.2024

This document provides information on the first Estonian reporting for 2024 on government deficit and debt levels.

Please note that Statistics Estonia (SE) is responsible for the historical data for 2020–2023, while the Ministry of Finance (MoF) provided forecasts for 2024. The cut-off date for the preparation of the forecast was 08.12.2023.

Issues from the 2023 EDP dialogue visit:

No action points were due to be resolved by April 2024 notification.

EDP tables

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 working balance (WB) and will show those adjustments in EDP T.2A. Explanations for individual rows in EDP T.2A are listed below. Additionally, explanations for adjustments in EDP T.2C and T.2D are provided.

Comments on EDP T.2A

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.

Reclassification. The detail includes adjustment for reclassification of SmartCap Venture Capital Fund and Green Fund.

Adjustment associated with the sale of ETS. According to the Manual on Government Deficit and Debt (MGDD) 2022, 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 and other provisions. Expenditures from actuarial changes in pension and other 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).

Comments on EDP T.2C

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.

Net lending/net borrowing of other local government bodies. Details are added because these units are classified inside the subsector, but not reported in the WB of local government accounts. B.9 figures of groups of other local 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.

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

Comments on EDP T.2D

Gross capital formation. The adjustment includes the part of gross capital formation recorded only on balance sheets and not in profit-loss accounts.

Differences between taxes recorded as social contribution. The adjustment shows the difference in government sector accounts and tax revenues recorded in the reports of units included into current subsector.

Depreciation. Depreciation is eliminated from the WB.

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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