

## EXPLANATORY NOTE to the October 2018 reporting on government deficits and debt levels for the excessive deficit procedure

21.09.2018

This document provides information on the second Estonian reporting for 2018 on government deficits and debt levels.

Please note that Statistics Estonia is responsible for the historical data for 2014–2017, while the Ministry of Finance provided forecasts for 2018. The cut-off date for the preparation of the forecast was 11.09.2018.

### Working balance in EDP table 2A

Accounting basis for State Budget was changed from cash to accrual in 2017. This was accompanied with changes in state budget execution reporting. One outcome of the new reporting practices is that working balances in EDP table 2A April and October notifications are compiled differently and therefore list of adjustments presented in two notifications are not the same.

For April EDP notification regular monthly state budget execution reports are used. Monthly reports are based on financial accounting data and are purely on accrual basis. These reports are published on the website of Ministry of Finance.

For October EDP notification the state budget execution report integrated into Consolidated Annual Report of State (*henceforth Annual Report*) is used, because it is approved by the Parliament. Annual Report is compiled and presented to the auditing usually by the end of May but no later than the end of June. After auditing but no later than the end of August the Annual Report is presented to approval to the Parliament.

Annual Report is accrual based financial statement and is following IPSAS standards. However, it also includes the state budget execution report, which differs from monthly reports, as it is aspiring to follow the logic used in ESA2010 based government sector deficit figures. As such, the report differs from the monthly reports used as working balance in April EDP notification. Despite these differences the execution report in question is used in October EDP notification because it is approved by the Parliament.

Main adjustments made to the state budget execution report included into the Annual Report 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) revaluations in financial assets-liabilities are excluded from expenditures;
- 4) in expenditures accrual figures are replaced with time-adjusted cash where taxes are collected by Tax and Customs Board and then transferred to other government sector units outside State Budget (for instance income tax transferred to local governments);
- 5) changes in inventories recorded in balance sheet are included in expenditures.

Because of these differences, adjustments reported in EDP table 2A in April notification differ considerably from the ones in October notification.

## **Additional information concerning action points of EDP dialogue visit**

At present AP2 Updating EDP inventory has not been resolved. We foresee that draft of the updated inventory will be presented to Eurostat by the end of October 2018.

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