

EXPLANATORY NOTE to the October 2019 reporting on government deficits and debt levels for the excessive deficit procedure

30.09.2019

This document provides information on the second Estonian reporting for 2019 on government deficit and debt levels.

Please note that Statistics Estonia is responsible for the historical data for 2015–2018, while the Ministry of Finance provided forecasts for 2019. The cut-off date for the preparation of the forecast was 09.09.2019.

Summary and additional information related to the notable revisions in GDP and GNI data is available at SE's website¹.

According to suggestions made during April 2019 EDP reporting cycle, following changes have been implemented:

- 1) The following units were classified into S.13:
 - a. TS Laevad OÜ (previously S.11)
 - b. Maaelu Edendamise Sihtasutus (Rural Development Foundation, previously S.12)
 - c. Estonian Bar Association, Chamber of Notaries of the Republic of Estonia, The Estonian Chamber of Bailiffs and Trustees in Bankruptcy and Estonian Association of Auditors (previously S.15)
- 2) Implementation of the primary advice for recording EU financial instruments as referred to in the April 2019 notification.

We would like to stress here that the availability and usability of the information has not changed (also mentioned in April 2019 EDP notification). As a result, the transactions related to the reduction in payables are based on our best estimates.
- 3) Auction fees from the sale of UMTS licences have been spread out over time starting from 2017. We estimated the duration for national accounts purposes to be 10 years.
- 4) Starting from the year 2018, Distributable Income is used instead of Operating Profit while carrying out superdividend test.
- 5) Amounts recovered from Versobank are recorded as net sums in 2018.
- 6) Student loans are recorded as long-term loans (AF.42) under assets.
- 7) Payables related to EU financial instruments held at the Treasury were reclassified from other accounts receivable/payable, excluding trade credits and advances (AF.89) liabilities to other deposits (AF.29) liabilities.

¹ “The methodology for calculating the national accounts data changed”, <https://www.stat.ee/news-release-2019-102>

EDP tables

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 the 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 the Parliament for approval.

Annual Report is an 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 in 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.

In addition, 2018 working balance does not take into account the reclassifications of TS Laevad OÜ and Maaelu Edendamise Sihtasutus (Rural Development Foundation) due to disputes and late notifications about SE's classification decisions.

Adjustments in EDP table 1

In comparison with the April 2019 notification, transactions in the long term loans (AF.42) under liabilities increased, mainly due to the reclassification of TS Laevad OÜ from S.11 to S.13.

Adjustments in EDP table 2A

Following substantial adjustments have been made:

- 1) Superdividends are reported under the item of *Equities, sales (-)*. Changes are derived from superdividend test results carried out after April 2019 notification. Regarding AS Tallinna Sadam, superdividends were already excluded from state budget execution report. As a result, the amount that is adjusted represents the change between dividend revenues reported in state budget execution report and statistics.
- 2) Time adjustments for social security contributions (social security part), VAT, excises and changes in pension provisions are not necessary in October 2019 notification for the reasons mentioned in previous chapter.
- 3) From 2017 onwards, WB is accrual based and therefore there are no accrual adjustments associated with military equipment.
- 4) Sales of ETS have already been excluded from state budget execution report, hence there was no need to adjust this sum contrary to April 2019 notification.
- 5) Net lending/net borrowing of other central government bodies, particularly public legal institutions, decreased due to current international co-operation and transfers between general government.
- 6) Capital injections decreased due to reclassification of Maaelu Edendamise Sihtasutus (Rural Development Foundation) but the amount is reported under item *Adjustments in intra-sectoral transactions* as it is included in expenditures in working balance.

Adjustments in EDP tables 2C-D compared to April 2019 notification were under threshold of 0,05% of the GDP and therefore not further explained.

Adjustments in EDP table 3B

Due to the reclassification of TS Laevad OÜ from S.11 to S.13, other accounts receivable (F.8) increased significantly in the year 2016 and decreased in the year 2017, compared to April 2019 notification.

Changes in the sector classification (K.61) in the year 2017 were revised and, therefore, the rough estimates regarding TS Laevad OÜ were corrected.

Questionnaire related to the EDP notification tables

Threshold for changes in questionnaire related to the EDP notification tables is 0,05% of GDP.

Changes in Table 7

With reference to April 2019 notification, it was explained that deliveries reported in this table should only consist of military equipment assets. Thus, it was advised that P.2 should be excluded. Consequently, the decrease in deliveries in table 7.1 is a result of exclusion of P.2.

Please note that the figures reported in ESA table 11 include all of the P.51 of armed forces, among other things land, buildings, facilities, etc. Figures reported in EDP table 7 include P.51 expenditures only on military equipment.

Changes in Table 9.1, 9.3-9.4

Due to reclassification of Maaelu Edendamise Sihtasutus in S.13, debt guaranteed by government increased in 2017 and 2018.

Changes in Table 10.1A and 10.2

Capital injections into public corporations decreased due to reclassification of Maaelu Edendamise Sihtasutus (Rural Development Foundation). It is also shown as a decrease in capital injections adjustment in EDP table 2A.

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