

EXPLANATORY NOTE

to the October 2020 reporting on government deficits and debt levels for the excessive deficit procedure

30.09.2020

This document provides information on the second Estonian reporting for 2020 on government deficits and debt levels.

Please note that Statistics Estonia is responsible for the historical data for 2016–2019, while the Ministry of Finance (MoF) provided forecasts for 2020. The cut-off date for the preparation of the forecast was 07.09.2020.

EDP tables

Comments to EDP table 1

According to Eurostat's decision¹ on 23 December 2019 on the matter of statistical recording of euro coins, the issuance of euro coin is excluded from government AF.2 liabilities and assets for the period 2016 onwards.

Following MGDD 2019 guidelines in chapters 8.2.1 and 8.2.2.1 as well as ESA 2010 paragraph 20.132, long-term trade credits and advances (AF.8) are classified as long-term loans (AF.42). This change was implemented, according to SE's revision policy, for the data from 2016 onwards.

In June 2019 the State Treasury of Estonia issued 200 million EUR in treasury bills. The Treasury auctioned 100 million EUR worth of treasury bills for six months with an average yield to maturity of -0,063% and another 100 million EUR for 12 months with an average yield of -0,19%. Therefore, AF.31 at the end of the year 2019 is 100,2 million EUR.

In April 2019 MoF mobilised 215 million EUR of loan resources from the European Investment Bank (EIB) to co-finance projects supported by the European Union (EU) which resulted in an increase of AF.42 liabilities in 2019.

According to SE's decision to classify Maaelu Edendamise Sihtasutus (Rural Development Foundation) in central government sector (previously S.12), the changes in 2016 data were implemented in non-

¹ "Decision of Eurostat on government deficit and debt. The statistical recording of euro coin."
<https://ec.europa.eu/eurostat/documents/1015035/2041337/ESTAT-decision-Recording-of-euro-coins.docx/30ebd86d-e0fa-7dc3-ec06-3cc2eaea1830>

financial accounts in 2020 revision. Changes related to the reclassification were implemented in financial accounts in October 2019 EDP notification.

In 2019 there was a change in General Rules of State Accountancy² regarding the reporting of foreign aid data in Public Sector Financial Statements (PSFS). Consequently, this led to a need for an update in bridge tables used to reach ESA2010 concepts, since these followed the logic of earlier reporting. Bridge tables were updated and 2019 foreign aid revised during 2020 revision.

Working balance in EDP table 2A

The working balance used for the S.1311 subsector is drawn from the state budget execution reports. These reports were cash-based until the end of 2016 and are accrual based from 2017 to 2018. These reports were once again changed for 2019 reporting period in February and are mixed based mainly due to taxes.

For October EDP notification the state budget execution report integrated into Consolidated Annual Report of State³ (*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 follows the logic used in ESA2010 based government sector deficit figures. 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.

There were also considerable changes in main accrual data source due to auditing.

Adjustments in EDP table 2A

Explanations for adjustments in table 2A are following:

No superdividends have been taken into account in state budget execution report. However the superdividend test carried out by SE resulted in 12,6 MEUR of superdividends and is adjusted accordingly.

² General Rules of State Accountancy changing act (in Estonian) <https://www.riigiteataja.ee/akt/127112018005>

³ Consolidated Annual Report of State for 2019

https://www.rahandusministeerium.ee/system/files/force/document_files/riigi-2019-majandusaasta-koondaruanne.pdf?download=1

Non-financial transactions in non-financial assets are not included in working balance, but are included in B.9 and adjusted accordingly.

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

Adjustment for capital injections (financial transactions classified as capital transfers) shows the difference between capital injections included in working balance and capital injections included in B.9.

Adjustment for losses from doubtful receivables are recorded in source data as an expenditure after the bills are not paid by deadline and predefined amount of time has passed. These movements are not included in expenditures in GFS.

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. Tax liabilities not paid by deadline are incurring interests, which in ESA 2010 context are more in line with definition of penalties. Due to the accounting rules the number of such fines are reported as doubtful receivables in PSFS. Some of the amounts are later retrieved and reported as negative amounts in doubtful receivables. As a result, doubtful receivables are volatile over time. In addition, the share of doubtful receivables from tax interests is high. Therefore, pure cash data is deemed more reliable in this instance. No time-adjustment is implemented because data is available only for tax interest as total and not for each tax separately.

Accrual based transfers made to local government are replaced with cash; therefore, the adjustment shows the difference between accrual and cash based figures.

Working balance in EDP table 2C

The working balance used for the S.1313 subsector is purely accrual based starting from 2019. Aggregated report is compiled by MoF based on the reports presented by local governments.

Comments to EDP table 3B

Difference between interest (D.41) accrued and paid is revised, compared to April 2020 EDP notification due to the inclusion of interest accrued on EFSF loans from 2016 onwards.

Changes in sector classification (K.61) in 2016 is 34,1 million EUR due to the reclassification of TS Laevad in S.13 as well as due to the removal of issuance of euro coins from government AF.2 assets and liabilities and to the implementation of MGDD 2019 guidelines in chapters 8.2.1 and 8.2.2.1.

Implementation of MGDD 2019 guidelines in chapter 2.6.3 had an impact on transactions in AF.89 liabilities in 2016.

Questionnaire related to the EDP notification tables

Changes in Table 4

The split in AF.8 receivables and payables was corrected for the period 2016-2018. This affected mostly transfers and gross capital formation, as a part of AF.8 transactions related to an entity's purchase of new ferries was previously included in transfers instead of gross capital formation.

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