

EXPLANATORY NOTE

to the April 2018 reporting on government deficits and debt levels for the excessive deficit procedure

26.03.2018

This document provides information on the first 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 13.12.2017. Spring forecast is in the process of being prepared with planned publishing date on April 16th.

Additional information concerning action points of EDP dialogue visit

Some additional information about action points was requested by e-mail sent to Statistics Estonia on 13 March 2018.

AP4 Council Directive 2011/85 and guarantees

During the visit the verbal assurance was provided by both Statistic Estonia and State Shared Services Centre (SSSC) that the recording of the guarantees according to the Council Directive 2011/87 will be harmonized with the data provided by SE. This harmonization was carried out shortly after dialogue visit.

This harmonization had no effect on the EDP notification data since the differences were caused by SSSC previously including all the guarantees provided by government sector including the ones covering the borrowing of other government sector units. In the data presented by SE such guarantees have always been excluded, since the guaranteed liabilities themselves are already part of the government sector liabilities.

AP5 Estonian Development Fund subsidiaries

In 2017, Estonian Development Fund (EDF) was liquidated and its activities were reorganized. One result of this reorganization was, that all the direct investments made and other available resources were invested into venture capital fund managed by a private fund management company in return for units of the respective venture capital fund. As a result, the government sector direct investments were effectively reorganized to venture capital fund shares and control over the companies was rescinded. Therefore, SE considers that these companies no longer classify as public sector units but private ones.

AP6 Public units in liquidation

There are three public sector units, which entered into liquidation during 2017 and were still in the process at the end of the year. We take note of the request to reclassify them into general government sector in 2018, provided, that their liquidation process is not finalised by 31.12.2018.

Although, we should like to receive some clarifications for the future. It was indicated in the e-mail that “once a company enters into liquidation the market test is not anymore relevant”. At the same time paragraph 15 in MGDD chapter I.2.4.4 describes the relevance of the 50% test in the context of classification of public sector units, indicating that in the normal situation the unit should fail 50% test for three consecutive years to be classified into government sector. The last sentence of the paragraph declares “However, in the case of a public unit under a liquidation process, as it is known from the outset that the unit will progressively cease its productive activity, the reclassification in government should be undertaken **in the year when the unit fails the 50 % criterion** for the first time.” Based on this sentence, our understanding is that if unit enters into the liquidation process in 2017 but still fulfils the 50% criterion in the same year, it is not required to reclassify the unit into government sector in this year, because the test criterion is fulfilled.

Is this interpretation incorrect? If so, then our understanding is that the conditions in MGDD chapter I.2.4.4 needs to be updated, because right now it is nowhere stated that the unit has to be reclassified the moment the official liquidation process begins.

AP8 Factoring

Total amount of the invoices covered by the factoring was 0.6 mEUR **during** the year 2017. It should be noted that this is not the same as effect on the stock of assets at the end of the year since invoices were short-term.

SE has not discussed the issue with SSSC. Nevertheless, we do not expect implementation of any changes in PSFS, considering the diminutive scale of the amounts and non-existent effect on the financial reporting of the state.

AP11 OÜ Transpordi Varahaldus

Based on the very preliminary data the company was profitable in 2017 (total profit was 2.9 mEUR). Audited annual report of the company has to be presented to the Business Register by the end of June. Therefore, Statistics Estonia can present further reliable information only after the report is made available.

AP12 KredEx Krediidikindlustus and credit limits

At present information about credit limits in 2017 is not yet available. Nevertheless, considering that the amount of provisions at the end of 2017 is very close to the amount at the end of the 2016, the credit limits should also be similar to ones at the end of 2016.

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