

EXPLANATORY NOTE to the October 2021 reporting on government deficits and debt levels for the excessive deficit procedure

30.09.2021

This document provides information on the second Estonian reporting for 2021 on government deficits and debt levels.

Please note that Statistics Estonia (SE) is responsible for the historical data for 2017–2020, while the Ministry of Finance (MoF) provided forecasts for 2021. The cut-off date for the preparation of the forecast was 09.09.2021.

EDP tables

Comments to EDP table 1

- According to GNI-based own resource transaction-specific reservations for Estonia social taxes were reclassified from 1999 onwards. In the framework of Eurostat's assessment of the data on Government Finance Statistics (GFS), it was considered that social taxes should be reclassified in the general government accounts from employers' actual social contribution (D.121) into social benefits other than social transfers in kind (D.62) in the Estonian national accounts. This reclassification is reflected in the GNI data for own resources for all the years since the inclusion in the D.62. This transaction-specific reservation was applicable to years from 2010 onwards. However, Estonia made the change from 1999 onwards.
- With reference to EDP 2021 dialogue visit action point 11 SE rerouted KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd) transactions in 2020 through the S.13 accounts the operations of the unit, which are performed on behalf of the government and with its guarantee. Transactions were rerouted through S.1311 accounts from 2020 onwards. For 2020 the rerouted transactions and amounts were as following:

Revenue from insurance 0,4 million EUR D.99REC / F.2A.

Transactions in provisions for guarantees 0,6 million EUR D.99PAY / F.66L stock 0,9 million EUR.

Stock of provisions: 0,9 million EUR AF.66L.

Disbursements 0,02 million EUR D.99PAY / F.2A.

Stock of standardised guarantees: 44,7 million EUR.

- According to Eurostat's Clarification on the time of recording of ANFA and SMP transfers to Greece¹ point 13, ANFA/SMP profits to Greece are to be recorded as current international co-operation D.74 revenue of the Greek government and D.74 government expenditure of the Participating MS. Therefore, based on point 15, at the time amounts are transferred to this account, they should be recorded as financial transactions (increase in other deposits, F.29) of S.13 against S.212, and not as D.74 expenditure. SE corrected the amounts recorded in D.74 government expenditure in 2019, resulting in revision of 1,1 million EUR. SE also revised AF.29 of S.13 against S.212 for the years 2017 onwards based on the amounts in tables 1 and 3 of the clarification note.
- Eurostat asked SE to keep it informed about the development of the Rail Baltic project in the Explanatory note for each EDP notification and include a summary with EDP/GFS implications in these updates. As of 30.09.2021 there are no updates regarding the development of the Rail Baltic project since last update on 29 July 2021.
- SE made the agreed revisions regarding the listing of Tallinna Sadam, to be recorded in accordance with ESA 5.150, as described by Eurostat in the email messages sent on 17 and 22 September 2020. Following the revision, listing is recorded as an issuance of listed shares, and as a redemption of unlisted shares, while de-listing is recorded as a redemption of listed shares, and an issuance of unlisted shares where appropriate. Therefore, the figures for transactions and other economic flows in AF.511 and AF.512 assets in 2018 were revised, as the transformation from AF.512 to AF.511 is now done via transaction and not via Other Economic Flows.
- Revisions of the Working Balance² between April and October reporting are the following:

	Difference (millions)	Clarification
State budget revenues	-17,2	
Non-tax revenues	-17,2	
Sale of goods and services	0,1	Corrections made during audit
Other revenues	-2,0 ³	Corrections made during audit
Other revenue from assets	-4,3	
Other revenues not mentioned above	2,2	
Fines	-0,1	
Other revenues not mentioned above (excluding fines)	2,3	
Financial revenues	-15,3	Estimated losses upon receipt of the annual report
State budget expenditures and investments	-2,5	
Allowances given and other transfers	-2,2	Corrections made during audit
Operating expenditures	0,1	Corrections made during audit
Acquisition and renovation of tangible and intangible fixed assets	-0,4	Corrections made during audit

¹ Clarification on the time of recording of ANFA and SMP transfers to Greece (1 March 2021) <https://ec.europa.eu/eurostat/documents/1015035/12618762/Recording+of+ANFA+SMP+transfers+to+Greece.pdf/6eccc0bb-392a-970d-0c71-d83ac8cdf974?t=1617612447259>

² Please note that the Working Balance is compiled by SSSC.

³ The sum of sub-items differ due to rounding.

State budget revenues minus expenditures and investments	-14,7	
Revenue adjustments in state budget	8,3	Superdividends
Expenditure adjustments in state budget	0,0	
State budget working balance	-6,4	State budget revenues minus expenditures and investments plus revenue adjustments in state budget minus expenditure adjustments in state budget

- The capital increase of AS Eesti Energia is recorded as an equity injection (transaction in F.5 assets), following the result of the analysis in the Note for Action Point 21 of the EDP dialogue visit 2021 which was submitted to Eurostat on 15th of March 2021.
- According to Eurostat's suggestions on 28.09.2021 videoconference, SE revised B.9 and AF.4 liabilities due to the government's suspended payments to the second pension pillar from 01.07.2020 to 31.08.2021. ESA tables are going to be revised retrospectively within EDP notification.

SE was requested to follow up on the relevant action points from the 2021 dialogue visit, in particular:

Action point 6: *Please continue to keep us informed about the development of the reclassification of the public inactive units and the units in liquidation in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

Development of the reclassified units:

Two units (Savelen OÜ, Soval Teenus OÜ) discussed in action point 6 have been reclassified into S.13. The data systems and accounts have been updated accordingly during regular revision.

According to Regional Jet OÜ annual report of 2020, plan for 2021 is to increase the unit's competitiveness and sustainability in the aviation market. Unit is planning to invest in new planes to increase flexibility and operating ability. Unit is expecting an increase in flights in the second half of 2021 when vaccinating process allows more travel restrictions to be cancelled. Unit is also continuing to develop maintenance capabilities by adding new stations to its network. By the end of 2021 the unit intends to do most of the aircraft line maintenance activities in-house. In addition, the unit is planning to launch its maintenance service in the market to external customers in 2022. In conclusion, there are clear evidence that the unit has resumed its activity as soon as the situation allowed it. This is also expected from Nordic Aviation Advisory OÜ even though there is currently no information in the unit's annual report about further plans.

Action point 8: *Please continue to keep us informed about the development of the reclassifications of units in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

Development of the reclassified units:

Units discussed in action point 8 have been reclassified into S.13. The data systems and accounts have been updated accordingly during regular revision. Hence, the revised data, including units classified into S.13, are reported in EDP tables of this notification round.

Action point 10: *Please continue to keep us informed about the development of the quantitative 50% MNM test for subsidiaries in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

Quantitative 50% MNM test for largest subsidiaries is performed by SE once a year during the compilation of Eurostat's Questionnaire on Government Controlled Entities.

Action point 12: *Please keep us updated regarding the units' further plans (the parent company Nordic Aviation Group AS (Nordica) and the subsidiaries Regional Jet OÜ and Nordic Aviation Advisory OÜ) in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

Update regarding Nordic Aviation Group AS and its subsidiaries further plans:
Nordic Aviation Group AS has not disclosed any further plans in annual report or on their website. Please see updates regarding subsidiaries on action point 6 above.

Action point 18: *Please revise years 2017-2019 in October 2021 EDP notification.*

The years 2017-2019 have been revised in Annex 3 tables 7 and 4.

Action point 19: *Please keep us updated regarding any additional information about the Covid-19 measures in the Explanatory note for each EDP notification to further facilitate analysing the Covid table*

Update regarding information about the COVID-19 measures:
Annex 8 was renewed with updated data provided by MoF. Cut-off date for the data presented in Annex 8 is 31.12.2020. SE would also like to stress that due to lack of detail in main data source Public Sector Financial Statements (PSFS), exact amounts by transaction cannot be provided by SE.

Action point 24: *Please keep us updated regarding the new investments in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

There are no updates regarding PPPs, concessions, EPCs and the like. Government cancelled the planned PPP for the construction of the Libatse-Nurme motorway and further developments regarding PPP projects have been frozen.

Action point 28: *Please keep us updated regarding the new 5G licences in the Explanatory note for each EDP notification. Please include a summary with EDP/GFS implications in these updates.*

Update regarding the new 5G licences is that due to organization of a public consultation Consumer Protection and Technical Regulatory Authority extended the deadline for submitting applications to the open competition of 5G frequency licenses. New due date for submitting applications is 5th of November 2021.

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 State⁴ (*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) 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);
- 4) changes in inventories recorded in balance sheet are included in expenditures.

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

Adjustments in EDP table 2A

Explanations for adjustments in table 2A are following:

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 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.

⁴ Consolidated Annual Report of State for 2020

https://www.rahandusministeerium.ee/system/files_force/document_files/riigi_2020_aasta_majandus_aasta_koondaruanne.pdf?download=1

Adjustment for revaluations in financial assets-liabilities are reported in working balance as a reduction of revenues whereas not recorded in B.9 and therefore adjusted accordingly. The biggest contributors to this revaluation were SA Kredex and Maaelu Edendamise SA (Rural Development Foundation).

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

In addition to the regular revision of 2020 data, central government gross debt level has been revised compared to April 2021 EDP notification mostly due to the inclusion of government's suspended payments to the second pension pillar from 01.07.2020 to 31.08.2021. Based on Eurostat's guidance on 28.09.2021, the suspension is treated as a loan liability of the central government sector and not as revenue. Therefore, the suspended amount for the period 01.07.2020 to 31.12.2020 is now included in the loan liabilities of 2020.

Transactions in other accounts payable (F.8) have been revised from 2017 onwards due to the application of Eurostat's guidance note on Mobile phone licences, exploration rights and other licences⁵. Hence, proceeds collected by government on such sales of licences or permits are recorded, at inception, as a payable of government (F.8) and as a receivable of the buyer/user. There was no need for a revision in non-financial accounts as this guidance to record proceeds as rent D.45 (with a B.9 impact spread over the life of the contract) was already applied in non-financial accounts.

Comments to EDP table 3D

Changes in sector classification (K.61) for the year 2019 and 2020 have been revised due to reclassification of units regarding action point 8 of the EDP dialogue visit 2021.

Questionnaire related to the EDP notification tables

Table 4

The split in AF.8 receivables and payables was revised for the period 2017-2019 due to the revision regarding action point 18 of the EDP dialogue visit 2021.

Table 7

Transactions and stocks in trade credits and advances F.81 (gov. assets) as well as (gov. liabilities) have been revised for the period 2017-2019 due to the revision regarding action point 18 of the EDP dialogue visit 2021.

Table 13

Regarding EDP 2021 dialogue visit action point 11, KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd) transactions re-routed through government accounts impacting government deficit and debt do not exceed the threshold of 0,05% of GDP as defined below table 13.

⁵ Mobile phone licences, exploration rights and other licences (27 March 2017)

<https://ec.europa.eu/eurostat/documents/1015035/7959867/Mobile-phone-licences-exploration-rights-and-other-licences.pdf>

Contact for EDP related issues:

Evelin Ahermaa

Economic and Environmental Statistics Department

Statistics Estonia

51 Tatari Str, 10134 Tallinn

ESTONIA

Phone: +372 625 9348

E-mail: evelin.ahermaa@stat.ee