

EXPLANATORY NOTE to the April 2022 reporting on government deficits and debt levels for the excessive deficit procedure

Economic and Environmental Statistics Department, Statistics Estonia
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This document provides information on the first Estonian reporting for 2021 on government deficits and debt levels.

Please note that Statistics Estonia (SE) is responsible for the historical data for 2018–2021, while the Ministry of Finance (MoF) provided forecasts for 2022. The cut-off date for the preparation of the forecast was 08.12.2021.

Follow up on the relevant action points from the 2021 dialogue visit, in particular:

Action point 3

In the April EDP notifications, Statistics Estonia will provide the initial EDP tables and EDP Questionnaires, based on the January data, but subsequently will provide revised EDP tables and EDP Questionnaires, to the extent possible (especially if non-negligible revisions are observed) and in any case with updated net lending/net borrowing and debt, as soon as the updated, and more complete, end of March data is available. This revised submission will preferably take place at the same time as the submission of answers to the first request for clarifications and will be accompanied by an explanatory note. Deadline: recurrent.

SE has discussed this issue internally and has decided not to provide revised EDP tables and EDP Questionnaires with updated end of March data due to the following arguments:

Firstly, according to Memorandum of Understanding (MoU) between SE and State Shared Service Centre (SSSC), T-1 year Public Sector Financial Statements (PSFS) data is made available for SE on 01.02.2022. In this case, the dataset comprises data of January 2021 to December 2021 and becomes the basis for ESA tables, EDP tables and EDP Questionnaires, as well as Gross Domestic Product (GDP), Balance of Payments (BoP) and quarterly sectoral financial accounts. This ensures consistency and comparability between all the statistical domains, hence harmonised accounts with other social and economic statistical systems, which is important based on ESA2010 1.20. The data is considered preliminary and will be updated in accordance with SE's revision policy during regular annual revision along with other domains.

Moreover, as it has been said before, such ad-hoc adjustment creates inconsistencies between other domains and is not in compliance with SE's revision policy. National Accounts aims to publish data with as little vintages as possible. This means that majority of data sources are locked in by the time of the publication of GDP and main aggregates at T+2months. Data for sector accounts at T+85/90 days can be

revised as far as it does not impact the main aggregates. This means that only the preliminary BoP is used in the first publication round of National Accounts. While the accounts of the government sector are published later than the main aggregates, there are estimates that will cause vintage issues should they be revised between the deadlines of the different domains. This is due to some of the estimates from the accounts of the government sector being included already within the preliminary BoP. Revising government sector accounts would cause a chain reaction that can possibly have an impact on all data domains already published within the current cycle.

Secondly, we would like to reiterate our explanation from EDP I notification 2021 explanatory note regarding the instructions given in action point 3: "Please also note that such ad-hoc adjustment does not guarantee smaller or no changes in B.9 during revision". In case of the revision of 2020 data, the changes in B.9 of S.13 between April 2021 and October 2021 EDP notifications were still around 0,1-0,2 per cent of GDP (not considering the temporary suspension of second pension pillar payments (4% correction) resolving that action point 3 does not fulfil its initial purpose.

Ad-hoc adjustments during EDP April notification in 2021 caused a lot of confusion for consumers, especially regarding inconsistency of domains. Ad-hoc adjustments were not internally agreed in Eurostat, therefore, validation of the revision policy followed by inconsistency of domains was not understood and needed continuous and ongoing explanations to different units in Eurostat and additionally to main domestic partners (i.e. the Ministry of Finance and the central bank).

Action point 9

Following ESA 2010 par. 2.38 and 2.39, Statistics Estonia will review the reclassification of units outside S.13 due to the loss of government control and the SSSC will provide the relevant information for Statistics Estonia to base such an assessments on. Deadline: recurrent.

Please make the necessary reclassifications (MTÜ Lustivere Hooldekodu, MTÜ Püssi Avatud Noortekeskus, MTÜ Püssi Päevakeskus and MTÜ Virumaa Nõustamis- ja Aktiviseerimiskeskus and Vapramäe-Vellavere-Vitipalu SA, as previously discussed) in the April 2022 EDP notification.

SSSC has been informed about decisions concerning AP9, it plans according actions.

Action point 10

Statistics Estonia will regularly do the quantitative 50 % MNM test for subsidiaries. As a priority, the quantitative 50% MNM tests will be done for large subsidiaries (with non-negligible potential impact on government B.9 and debt) and for the units where the results of the quantitative 50% MNM test were close to 50 % for the previous years. Deadline: recurrent.

Please implement the reclassifications following the quantitative 50% MNM test during the compilation of Eurostat's Questionnaire on Government Controlled Entities (linked to previous exchange). Please describe in the Explanatory note and include a summary with EDP/GFS implications in these updates.

Quantitative 50% MNM test for public sector units on a consolidated level is performed by SE once a year during the compilation of Eurostat's Questionnaire on Government Controlled Entities. However, SE does not regularly do the quantitative 50% MNM test for subsidiaries for the reasons already mentioned in the 2021 EDP dialogue visit preparatory document "Market/non-market test at a consolidated level of units according to the Accounting Act" submitted to Eurostat on 06.01.2021. Quantitative 50% MNM tests carried out for large subsidiaries in 2021 according to action point 10 was considered as an exceptional test exercise, since there is not regular and exhaustive data sources such as PSFS.

Action point 12

Statistics Estonia will monitor the sector classification of the Nordic Aviation group. Its ability to service the liabilities and the government support for the group will be checked.

Please provide an update regarding Nordic Aviation Group AS and its subsidiaries' 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. Please include a summary with EDP/GFS implications in this update.

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.

Action point 15

Statistics Estonia will reclassify into S.13 OÜ Võru valla Veevärk (Võru municipality Waterworks) based on the quantitative 50% MNM test (or confirm that the unit has been merged with another unit and therefore reclassification is no longer necessary). Moreover, SE will check the classifications of the other waterworks companies.

Please provide an update concerning the classifications of the other waterworks companies based on the quantitative 50% MNM test for public sector units for the year 2020 during the compilation of Eurostat's Questionnaire on Government Controlled Entities in December 2021.

Public sector units specifically waterworks companies' (NACE 36 and 37) MNM tests for the year 2020 were over 50% as also presented in Questionnaire on Government Controlled Entities in December 2021.

Action point 19

Statistics Estonia will analyse the measures implemented by the government and the other public units in the context of the COVID-19 pandemic. In particular, Statistics Estonia will:

- *analyse the tax and the social contribution deferrals and, if necessary, implement ad hoc corrections to the time adjusted cash data,*
- *follow up on the suspension of the pension contribution payments, especially in the context of the discussed compensation of employees,*
- *estimate, in co-operation with the Ministry of Finance, the losses on the guarantees and loans and reflect on the proper booking in the GFS/EDP,*
- *analyse the capital injections and the acquisitions of shares in order to assess if the transactions are financial or non-financial,*
- *analyse the sale and lease back operations,*
- *ensure a proper recording in the GFS/EDP of the measures implemented by the units other than the core government, in particular by KredEx, MES and EAS.*

Deadline: recurrent.

Please keep us updated regarding any additional information about the Covid-19 measures in the Explanatory note to further facilitate analysing the Covid-19 table. Moreover, please confirm whether you plan to develop quarterly information. Furthermore, please clarify whether the estimates of the suspended payments to the second pension pillar has been updated or not.

Update regarding information about the COVID-19 measures:

The annual and quarterly data presented in Annex 8 is provided by MoF, if not indicated otherwise. 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 PSFS, exact amounts by transaction cannot be provided by SE.

The suspended payments to the second pension pillar have been taken into account in 2020 as well as in 2021.

Action point 20

With a view to Action point 3 above and to the fact that it has not been possible to perform capital injection and superdividend tests for the April EDP notifications, Statistics Estonia will explain to Eurostat what was recorded as capital transfers (government expenditures) and superdividends (withdrawal of equities) in the April EDP notifications. Deadline: 15 March 2021.

Please provide an update in the Explanatory note and include a summary with EDP/GFS implications in these updates.

Preliminary capital injection and superdividend tests for the April EDP notification have been performed and reported in ESA and EDP tables. The amounts are reported in EDP Questionnaire tables 10.1 and 10.2 accordingly.

Action point 22

Statistics Estonia will calculate superdividend tests already in the April EDP notifications based on the partial information available, for the biggest companies, for the companies paying biggest dividends and for the companies for which superdividend payment has been observed in previous period(s). Deadline: April 2021 EDP notification and thereafter, recurrent.

Please provide an update in the Explanatory note and include a summary with EDP/GFS implications in these updates.

Preliminary superdividend test for the April EDP notification have been performed and reported in ESA and EDP tables.

Action point 24

As a follow up to the Action point 15 from the previous EDP dialogue visit, Statistics Estonia will continue to monitor the new investments in order to identify PPPs, concessions, EPCs and the like. Deadline: continuous.

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 are still frozen.

Action point 26

Statistics Estonia will deliver to Eurostat a detailed timetable as well as data about planned and executed GFCF for the Rail Baltic project. The national and the EU financing will be shown. Moreover, Statistics Estonia will keep Eurostat informed about the progress concerning the Rail Baltic project. Deadline: recurrent.

Please keep us updated regarding the new developments in the Explanatory note and please include a summary with EDP/GFS implications in this update.

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. SE informed Eurostat on 11.03.2022 via email that in 2021 increase in share capital (3 million euros, recorded as F.5), transfers (D.7) made, and grants (D.92) given 3,5 million euros and 13,9 million euros respectively (of which 16,1 million euros from EU).

Action point 28

Statistics Estonia will monitor the auctioning of the 5G licences and ensure their proper recording in the GFS / EDP. Deadline: continuous, with any new information notified during the April and the October EDP notifications.

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.

Consumer Protection and Technical Regulatory Authority resumed the open competition of 5G frequency licenses within frequencies 3410-3800 MHz. Respective regulations became in force in 01.02.2022. Licences are divided into three and are given to the highest bidder. The starting price for each licence is 1,597 million euros. Deadline for submitting applications to the open competition is 04.04.2022 and licences are issued no later than in June this year.

EDP tables

Comments to EDP table 1

- SE reports SURE loan (230 million euros) in 2021 under AF.42 liabilities;
- Verify the situation concerning the payment of tax liabilities in instalments (whether it can be considered as tax deferrals or not and should be included in Table 8);
Payment of tax liabilities in instalments is not considered as tax deferrals. For further explanation please see EDP October 2021 request for clarification point 50;
- 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. SE reports the corresponding SMP amounts in D.74 government expenditure in 2021 Q2 and 2021 Q4.

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>

Working balance in EDP table 2A

The working balance used for the S.1311 subsector is drawn from the monthly state budget execution reports. These reports are accrual based from 2017 to 2018. Reports are mixed based mainly due to taxes starting from 2019.

In April the figure for working balance is based on regular monthly state budget execution reports. Monthly reports are based on financial accounting data and are aspiring to follow the logic used in ESA2010 based government sector deficit figures starting from 2019. These reports are published on the website of MoF. It should be stressed that the data available in April is still preliminary and will be audited by the end of May.

According to SSSC, the main adjustments made to the monthly state budget execution report for 2020 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. changes in inventories recorded in balance sheet are included in expenditures;
4. sales of ETS have already been time-adjusted.

Adjustments in EDP table 2A

Explanations for adjustments in table 2A are following:

Pursuant to EDP 2021 dialogue visit action point 22, superdividend and capital injections test was carried out on preliminary data available at the time of compiling 2021 data. Test results have been taken into account in B.9 and B.9f. However, the superdividend and capital injections test has not been included in the working balance in the same amount as in B.9 and is therefore adjusted accordingly.

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 reported 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.

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

Central government (S.1311) consolidated gross debt in 2021 increased mainly due to loan incurrence from the SURE instrument, from the CEB and due to the government's suspended payments to the second pension pillar from 01.07.2020 to 31.08.2021, which, according to Eurostat's guidance, is recorded as a loan liability (AF.42) of the central government sector (S.1311).

Central government's increase in other accounts receivable (F.8) as well as in other accounts payable (F.8) in 2021 compared to 2020 is mainly due to an increase in receivables and prepayments from the European Union.

Questionnaire related to the EDP notification tables

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.

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