

## EXPLANATORY NOTE

### to the October 2022 reporting on government deficit and debt levels for the excessive deficit procedure

30.09.2022

This document provides information on the second Estonian reporting for 2022 on government deficit 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 is 23.09.2022.

#### EDP tables

##### Comments to EDP table 1

Eurostat encouraged SE to analyse, together with the State Shared Service Centre (SSSC), changes in the state budget execution reports the SSSC compiles, in order to be able to explain revisions of the Working Balance between April and October reporting in the explanatory note sent with the EDP data.

Revisions of the Working Balance between April and October reporting are the following:

	Difference (million euros)	Clarification
State budget revenues	-46,4	
Non-tax revenues	-46,4	
Sale of goods and services	-2,5	
Revenue from economic activities	-1,7	Delayed recording of sales revenue
Sale of other goods and services	-0,9	Delayed recording of sales revenue
Grants received	-7,2	
Foreign grants	-6,6	Delayed recording of grants received
Other revenues	-1,9	
Financial revenues	-34,8	

Interest and other financial revenues	-34,8	Revaluation of losses of loans given from special-purpose funds
State budget expenditures and investments	-55,7	
State budget expenditures	-56,6	
Allowances given and other transfers	-50,1	Delayed recording of expenditures
Operating expenditures	-6,1	
Labour costs	-0,6	
Operating expenses	-5,5	
Other operating expenses	-0,3	
Other operating expenses not mentioned above	-0,3	Delayed recording of expenditures
Acquisition and renovation of tangible and intangible fixed assets	0,9	Delayed recording of acquisition of fixed assets
State budget revenues minus expenditures and investments	9,5	
Expenditure adjustments in state budget	-0,2	
Changes in inventories	0,8	
State budget working balance	9,4	State budget revenues minus expenditures and investments plus revenue adjustments in state budget minus expenditure adjustments in state budget

**Issues from the April 2022 EDP notification:**

**Please align the description of mirroring adjustments in the tables 2A and 2C**

The description has been aligned for detail 8 in table 2A and detail 3 in table 2C.

**The capital injection of 10 million euros to Estonian Air Navigation Services in 2021 should be recorded affecting B.9 in the table 2A. Please make corresponding records in the Annex 3 and Annex 8**

The capital injection of 10 million euros to Estonian Air Navigation Services in 2021 is recorded as D.9 expense, affecting B.9. Corresponding records have been made in the Annex 3 and Annex 8.

**The additional contributions to the EU budget stemming from the under valuated imports of textiles and footwear from China should be recorded in 2021 data.**

Based on the information from MoF, the additional contribution to the EU budget is made in 2022 and is, therefore, recorded in 2022 GFS data in order to avoid a discrepancy with the working balance. Additionally, as the amount is regarded very small (0,00489% of GDP) it would not have any significant impact on B.9

**Please check and explain the time of recording of the Brexit Adjustment Reserve.**

Based on the information from SSSC, the first prepayment from the Brexit Adjustment Reserve arrived in 2022 and no expenses have been reported by the units yet. Hence, this issue does not concern the years covered by October 2022 EDP notification, i.e. the years 2018-2021.

**Please revise the data on standardised guarantees for 2020.**

The data on standardised guarantees has been revised for 2020. See also explanation below to Annex 3 table 9.4.

**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 for 2018. Reports are mixed based mainly due to taxes starting from 2019.

For October EDP notification the state budget execution report integrated into Consolidated Annual Report of State<sup>1</sup> (*henceforth Annual Report*) is used, because it is approved by the Parliament, hence it is finalised. 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.

The working balance for 2020 was changed by the SSSC in 2021 by 147,5 million euros as the provisions for the temporary suspension of second pension pillar payments (4%) were reclassified. In 2020, it was assumed that the payments are funded by social tax and the provision reflected the cost of passing on the social tax. However, in 2021 separate funds were allocated from the state budget to cover the amounts of suspended payments and social tax was therefore not used.

**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.

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<sup>1</sup> Consolidated Annual Report of State for 2021 <https://www.fin.ee/media/7365/download>

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 (Kredex Foundation) and Maelu 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 (S.1311) other accounts receivable as well as payable (F.8) for 2021 decreased in October 2022 EDP NF compared to April 2022 EDP NF mainly due to updates made in the main data source Public Sector Financial Statements (PSFS) regarding EU flows.

### **Comments to EDP table 3D**

Local government's (S.1313) changes in sector classification (K.61) for 2020 changed in October 2022 EDP notification compared to April 2022 EDP notification due to units reclassified to S.1313 following the results of the quantitative 50% market/non-market (MNM) test and EDP dialogue visit action point 15.

## **Questionnaire related to the EDP notification tables**

### **Table 9.4**

The total stock of standardised guarantees for 2020 and 2021 changed in October 2022 EDP NF compared to April 2022 EDP NF due to update of re-routed guarantees of KredEx Krediidikindlustus AS (KredEx Credit Insurance Ltd). Additionally, the total stock of standardised guarantees for 2020 and 2021 changed due to the inclusion of the guarantee concerning the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE).

### **Table 10.2**

The table is updated with data concerning capital injections, dividends and superdividends in 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.

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