



EUROPEAN COMMISSION  
EUROSTAT

Directorate D – Government finance statistics (GFS)

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# **FINAL FINDINGS**

## **EDP Dialogue Visit to Estonia**

**12 – 13 January 2023**

## EXECUTIVE SUMMARY

Eurostat undertook an EDP dialogue visit to Estonia on 12-13 January 2023, as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, data exchanges and institutional cooperation, to review data sources for the EDP/GFS data compilation and to verify the implementation of ESA 2010 methodology, mainly for the sector classification of units, for the accrual recording of taxes and other flows, and for the recording of specific government operations.

First, Eurostat reviewed the institutional responsibilities in the reporting of EDP and GFS data and took note of the project to develop a new compilation system to meet the increasing requirements of the EDP notification and GFS. This IT project would be complemented with an additional staff member of the team in charge of GFS.

Concerning the data sources, Eurostat took note that the main data source for the compilation of EDP figures are the accrual-based Public Sector Financial Statements (PSFS) collected by the State Shared Service Centre (SSSC). Concerning the revision policy, some revisions requested by Eurostat following the dialogue during the EDP notifications are postponed due to the strict revision policy to ensure consistency across statistical domains.

Eurostat also took note that the working balance (WB) reported in EDP Table 2A is determined by the SSSC, while the B.9 is independently determined by the Statistics Estonia (SE), both balances being derived from the accounting system (PSFS). The WB, corresponding to the “Total State budget position” in the State budget implementation, is determined to be as close as possible to the B.9, with the consequence that some adjustments are not disclosed in the EDP table intended to explain the transition between the public accounts budget balance and the central government surplus/deficit. It was agreed that the Estonian statistical authorities will use “State budget revenue minus expenditure and investment” of the State budget implementation, before adjustments, as starting line in EDP T2A and will show the adjustments applied by SSSC in the notification table.

Furthermore, Eurostat reviewed the application of the market/non-market test for the sector classification of entities and requested the Estonian statistical authorities to consider using a coefficient to adjust the inclusion of the consumption of fixed capital from business accounting into the costs of production. Eurostat also requested to reclassify, into the government sector, the units *SmartCap Venture Capital* and *SmartCap Green Fund*, and more generally similar funds of funds which are only financed by government. Eurostat also requested the reclassification inside the government sector of *SA Tartu Eluasemefond* and *Tallinna Soojus AS*. The results of the market/non-market test of *AS Eesti Raudtee* (railways infrastructure manager) will be closely monitored by the Estonian statistical authorities, in order to determine if the operating grants granted to the corporation can be considered as sales or not.

The overall implementation of accrual recording is ensured by the IFRS based accounting system used for preparing the public sector financial statements. Particular attention was given during the discussion to the recording of EU flows. In particular, the revisions of EU flows related to other accounts receivable and payable, made in the

October 2022 EDP notification, were clarified. During the meeting, representatives from the State Shared Service Centre explained the practical arrangements of the flows of funds between the European Commission and government concerning the structural funds.

The accrual recording of taxes is based on the cash figures from the Estonian Tax and Customs Board, instead of the accrual tax recorded in the public financial statements. Eurostat assessed the relevance of the cash data for personal and corporate income taxes.

On the specific government transactions, Eurostat reviewed various measures introduced by the Estonian government in the context of the COVID-19 crisis (i.e., the suspension of the payment to the second-pillar pension scheme and the loans and guarantees provided by *KredEx*), in the context of the high-energy prices (universal service system) and of Russia's invasion of Ukraine.

In relation to the capital injections, Eurostat discussed the capital injections in *Elering AS* and *AS Eesti Energia*. Although the current classification of these capital injections as financial transactions will not be modified, the Estonian statistical authorities will continue to closely monitor capital injections provided by the government to corporations in the energy sector (producers, distributors, or network operators), in the context of investment programs co-financed with the EU.

The recording of emission trading permits (ETS) was also discussed, since the volume of ETS auctioned differs substantially from the number of ETS surrendered, which causes some technical issues in the recording of other accounts payable and in ensuring consistency across different statistical domains.

Eurostat welcomed the transparent and responsible approach of the Estonian statistical authorities and the commitment of the team in charge of EDP/GFS. Eurostat also thanked the representatives of Eesti Pank, the State Shared Services Centre, *KredEx*, *SmartCap AS* and the Ministry of Finance for their participation in the standard EDP dialogue visit, for the clarity of their explanations and their contribution to the discussion.

## FINAL FINDINGS

### Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (the EDP Regulation) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Estonia on 12-13 January 2023.

The delegation of Eurostat was headed by Mr Luca Ascoli, Director of Eurostat Directorate D ‘Government finance statistics (GFS)’. Representatives of DG ECFIN and the European Central Bank (ECB) participated in the meeting as observers. The Estonian authorities were represented by the Statistical Office (Statistic Estonia), the Ministry of Finance, the State Shared Services Centre, and the Central Bank. In addition, representatives from the Estonian Business and Innovation Agency (former *KredEx*) and *AS SmartCap* took part in the discussion of item 4.1.3 of agenda on the classification of public units engaged in financial activities.

The previous Eurostat EDP dialogue visit to Estonia had taken place on 3-4 February 2021.

Eurostat carried out this EDP dialogue visit to assess the institutional cooperation and review data sources for EDP/GFS data compilation. In that context, the discussion focussed on the definition of the working balance and its revision between the April and October notifications. The implementation of ESA 2010 methodology, mainly for the sector classification of units (practical implementation of the market/non-market test, classification of units involved in financial intermediation, classification of *Tallinna Soojus AS* and *AS Eesti Raudtee*) and for the accrual recording of taxes, interest, EU flows (including RRF funds) and military expenditure have been addressed. The discussion followed up with the recording of specific government operations such as capital injections, dividends and guarantees. The EDP dialogue visit also reviewed the recording of government measures undertaken in the context of the COVID-19 crisis and of Russia’s invasion of Ukraine, as well as the measures to mitigate the impact of high energy prices.

Regarding procedural arrangements, the *Main conclusions and action points* were sent to Estonia for review. Then, within weeks, the *Provisional findings* would be sent to Estonia for review. After this, in accordance with Article 13 of the EDP Regulation, the *Final Findings* will be sent to Estonia and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the background material provided by the Estonian statistical authorities prior the EDP dialogue visit. Eurostat also thanked Estonia’s statistical authorities for their good co-operation and productive discussions during the EDP dialogue visit.

For administrative reasons, the numbering of the action points corresponds to the list of action points sent directly after the standard dialogue visit to the Estonian's statistical authorities.

## **1. STATISTICAL ORGANISATIONAL ISSUES**

### **1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**

#### *Introduction*

Statistics Estonia (SE) is responsible for the compilation of EDP tables, except the forecast figures for year t, which are compiled by the Ministry of Finance (MoF). SE compiles annual and quarterly non-financial accounts and quarterly financial accounts, the Maastricht debt and the corresponding ESA 2010 transmission tables. Bank of Estonia (BE) compiles annual financial accounts.

The unit responsible for the compilation of the EDP tables and related questionnaire in SE is the Macroeconomics Team, which belongs to Economic and Environmental Statistics Department<sup>(1)</sup>. The GFS are compiled by three analysts and three leading analysts. Two experts in the group are specialised in EDP issues and compile both the annual and quarterly general government non-financial and the quarterly financial accounts, using in part input from other analysts.

Since last standard EDP dialogue visit, a Memorandum of Understanding (MoU) with the State Shared Services Centre (SSSC) was signed in November 2021, which frames data exchange and relevant timelines. The MoUs was later extended to the provision of data for the IMF (SDDS+).

Another MoU with the BE organises the cooperation on processes, calendar, and data exchange to produce official statistics on foreign trade, financial and national accounts.

There is no formal MoU signed between SE and the MoF, although regular meetings are held on methodology and data availability of macroeconomic statistics. There are no formalised cooperation agreements with the National Audit Office of Estonia although an exchange of information with the Audit Office takes place, through annual meetings to discuss issues of common interest or according to need.

There were no changes in the quality management framework, audit, and internal control arrangements since the 2021 EDP dialogue visit.

#### *Discussion*

To face the increasing requirements of the EDP notification and ESA transmission program due to the changing economic circumstances, SE informed Eurostat of its

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<sup>(1)</sup> From 1 May 2023, the Macroeconomics Team is no longer part of Economic and Environmental Statistics Department, but instead is a separate department.

project to develop a new compilation system. The new system will rely on digitalisation, automatisisation and enhanced controls. This project is funded by the European Commission's technical support instrument and started in November 2022. At the time of the EDP dialogue visit, the preliminary phase of the project was ongoing, with the mapping of needs and the identification of good practices for which three Member States had been consulted (Austria, Denmark, and the Netherlands). In parallel, the need for additional staff resources has been acknowledged by Statistics Estonia and one more staff member should eventually reinforce the current resources allocated to EDP compilation. <sup>(2)</sup> Eurostat welcomed those organisational developments.

Eurostat enquired about the formalisation of exchange of data between the Estonian Tax and Customs Board (ETCB). SE clarified that there was no MoU with the ETCB and that exchanges of information rely on interpersonal relations.

Statistics Estonia recalled more generally that by law it has access for statistical purposes to the ETCB data as well as any data from government and public units included in the Public Sector Financial Statement (PSFS). At the same time, SE mentioned that this possibility is seldom used and that the main data source remains the PSFS (public accounting system). Eurostat recalled that for some specific issues such as energy performance contracts, PPPs or military deliveries, additional information may typically be requested to ensure their correct treatment in EDP/GFS.

Concerning the audit and internal control arrangements, Eurostat asked to receive on a regular basis explanatory note on the revisions to PSFS data sources (working balance) "due to audit process", as reported for example during the October 2022 EDP notification. The SSSC clarified that the change in the working balance between the April and October notifications is primarily due to delayed information at time of the cut-off date for the April notification (25 January). The major adjustment for accrual recording of the working balance takes place before the audit process, therefore the revisions of the working balance resulting from the audit process are limited.

### *Findings and conclusions*

***Action point 1:*** *The Estonian statistical authorities will provide on a regular basis for the October EDP notification, a detailed explanation of the working balance changes, including if due to the regular revisions or due to the audit process of the Consolidated Annual Report of the State.*

*Deadline: recurrent, starting with October 2023 EDP notification*

## **1.2. Data sources and revision policy, EDP inventory**

### ***1.2.1. Availability and use of data sources, revision policy***

#### *Introduction*

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<sup>(2)</sup> After the EDP dialogue visit, SE informed Eurostat that a dedicated GFS team has been created and a team leader appointed.

For the compilation of EDP and GFS statistics, the main data source used by Statistics Estonia is the accrual-based Public Sector Financial Statements (PSFS), collected by the State Shared Service Centre (SSSC). Accounting principles are consistent with the International Public Sector Accounting Standards (IPSAS). These statements are used for the EDP tables 2 and 3 as well as for EDP related questionnaires. They include all subsectors of the general government (including entities not included in the WB). For taxes, detailed cash receipts from the Estonian Tax and Customs Board are used instead of the accrual tax recorded in PSFS.

PSFS is also the main data source for the compilation of the Maastricht debt. Data on long term debt securities are derived from the Centralised Securities database (CSDB), as it is more detailed regarding the information on counterpart sector.

In September 2014, Statistics Estonia and the Bank of Estonia started to implement at national level a harmonized revision policy for balance of payments and national accounts domains that is more restrictive than the common European revision policy. The revision policy for the annual GFS is fully compliant with the revision policy for the whole national accounts. The GFS and EDP data become final for the reference year when the supply and use tables are finalized and published (36 months after the end of the reference year). Based on the revision policy applying to the whole national accounts data framework, revisions are carried out at T+21, T+33 and T+45 months.

The first version of the annual GFS is compiled at T+3 months based on the very preliminary source data, subject to revisions. The second version of the annual GFS data is published at T+9 months (based on the source data that are audited but may be not yet adopted by the Parliament). EDP data of the reference year become final in October T+4 years. Revisions due to the existence of new figures, data sources/details that were not available in the past, changes in methodology or other reasons are carried out at the time of regular revisions. A major revision may be planned if an error has been found or a correction in methodology is needed in finalized data, with significant influence on the main indicators.

### *Discussion*

Eurostat enquired about the reasons for using CSDB data for the compilation of the Maastricht debt instead of direct information from the Treasury. SE explained that the use of CSDB is governed by the need to identify the counterparts to ensure consistency with Balance of payment statistics and financial accounts. Eurostat stressed the need to check the consistency of figures derived from CSDB with direct data sources (Treasury).

Eurostat also enquired about the possibility to calculate the surplus/deficit (B.9) at the level of individual units. The B.9 of extra budgetary units of central government is currently only available at a “sub-sub sector level” (public legal institutions, foundations, hospitals, public corporations). All units are reporting in PSFS alongside the same accounting scheme, which would mean that the bridge table between PSFS and ESA could possibly be applied at the level of the unit. SE explained that the system is technically not designed to calculate the B.9 at unit level and that consolidation is performed on aggregated data, which deters the calculation of B.9 at the unit level. SE also confirmed that it was not possible to provide EDP table 3B split between main state (T.3B.1) and extra-budgetary units (T.3B.2). Eurostat inquired whether the new compilation system, currently under development in the framework of the Technical

Support Instrument, will provide the necessary data to obtain the B.9 for individual units. The Estonian statistical authorities will analyse this aspect and revert back to Eurostat.

Concerning the revision policy, Eurostat noted that some revisions requested by Eurostat following the dialogue during the EDP notifications are postponed due to the strict revision policy in place. For the time being, those revisions have no significant impact. SE confirmed that in case of substantial impact on deficit and debt (0.1% of GDP or more), the revision would be exceptionally applied, implying revisions of other statistical domains as well. The next benchmark revision will be implemented by the October 2024 EDP notification.

#### *Findings and conclusions*

**Action point 2:** *Regarding the new compilation system currently under development in the framework of the Technical Support Instrument, the Estonian statistical authorities will evaluate the possibility of revising the EDP/GFS system in a way in which it would be possible to obtain the B.9 for individual units, as this is currently not available. The Estonian statistical authorities will send a progress report concerning the implementation of the project.*

*Deadlines: end-December 2024, for analyse phase, end-December 2025 for implementation*

### **1.2.2. Compliance with Council Directive 2011/85**

#### *Introduction*

The data on contingent liabilities according to the Council Directive 2011/85 are compiled by the SSSC and are published on the Ministry of Finance website. Those data exhibit some discrepancies with the data reported by SE in the questionnaire on contingent liabilities and EDP questionnaire tables 9.1 and 9.4 on one-off and standardised guarantees.

#### *Discussion*

The discrepancies are due to differences in the coverage between the two data sources. The data published by the SSSC concerning standardised guarantees does not cover standardised guarantees provided by *AS KredEx Krediidikindlustus*, rerouted in the accounts of S.1311 from 2020 onwards following action point 11 of 2021 EDP dialogue visit. The liabilities of public corporations and non-profit organisations reported in the questionnaire cover only companies with liabilities exceeding 0.01% of GDP, and the liabilities of two companies are included based on the ‘accounting notion of control’ although they are not controlled by government according to ESA definitions. However, the total stocks of liabilities provided by the SSSC remained significantly higher after adjusting for coverage differences. Eurostat reminded that the coverage of the data provided by the SE and by the SSSC should be consistent.

Eurostat also enquired about the evolution of the stock of non-performing loans which more than doubled in 2020, then decreased in 2021. The SSSC confirmed that those evolutions reflect non-performing loans provided by *KredEx* as part of the COVID-19 related measures.

#### *Findings and conclusions*

**Action point 3:** *The Estonian statistical authorities will remove the discrepancies for guarantees and stocks of liabilities of public corporations reported and published according to Council Directive 2011/85, compared to data provided to Eurostat. The statistical authorities will ensure that the data published by the SSSC are consistent with the data provided to Eurostat.*

*Deadline: end-February 2023* <sup>(3)</sup>

### **1.2.3. EDP inventory**

#### *Introduction*

The final version of the EDP Inventory was provided by SE in May 2022 and published on Eurostat's and SE's websites in June 2022. Annex 1 (the list of government units) refers to 2019 and 2020.

#### *Discussion*

Eurostat thanked SE for providing an update of the inventory and encouraged SE to provide the most recent list of government units.

#### *Findings and conclusions*

**Action point 4:** *The Estonian statistical authorities will update and provide to Eurostat the EDP Inventory including Annex I Register of General government units by Subsector and by NACE with updated data for 2021 and 2022.*

*Deadline: end-May 2023* <sup>(4)</sup>

## **2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT OF 3-4 FEBRUARY 2021**

#### *Introduction*

The previous EDP dialogue visit to Estonia had taken place on 3-4 February 2021. The EDP dialogue visit resulted in 26 action points. Six action points were not closed, either due to ongoing analysis and discussions with Eurostat or to their closing being conditioned to the assessment of the transmission of the questionnaire on government-controlled units, made in December 2022.

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<sup>(3)</sup> Action point 3 is closed.

<sup>(4)</sup> Action point 4 is closed.

## *Findings and conclusions*

Eurostat and the SE agreed that all outstanding action points from the previous EDP dialogue visit in 2021 would be followed up under the relevant points of the agenda and would be followed by new action points if relevant.

### **3. ANALYSIS OF THE PREVIOUS EDP TABLES – FOLLOW-UP OF THE OCTOBER 2022 EDP NOTIFICATION**

Eurostat followed up on the EDP notification transmitted by the Estonian statistical authorities in October 2022. In particular, the discussion focused on the working balance of EDP table 2A.

#### **3.1 Working balance definition**

##### *Introduction*

The WB reported in EDP table 2A for the April EDP notification is drawn from monthly State Budget Execution Reports. The October EDP notification is based on the Consolidated Annual Report of State which is approved by the Parliament. The State Budget Execution Reports and the Consolidated Annual Report of State are compiled by the SSSC based on IPSAS based accounting system (PSFS).

The “State budget revenue minus expenditure and investment” of the State budget implementation is used to determine the WB in EDP T2A. The SSSC is applying a series of adjustment on this balance in order to define a WB as close as possible to the ESA 2010 B.9 concept. Those adjustments consist, *inter alia*, in the replacement of accrual-based taxes by time adjusted cash (TAC) from ETCEB, the adjustment of cash proceeds of ETS sales (TAC+1), the inclusion in expenditures of changes in inventories, the replacement of actuarial changes in pension provisions by the current expenditure linked to pensions, the neutralisation of expenditure for depreciation of fixed assets and the neutralisation of the impact of revaluations of stocks of financial assets and liabilities. Other adjustments are also included in the WB for the reclassification of capital injections recorded as capital transfers and the recording of superdividends or specific transaction (e.g., the temporary suspension of second pillar payment in 2020-2021).

##### *Discussion*

During the discussion, it was clarified that neither a top-down approach, as followed in most Member States, nor a bottom-up approach is followed by SE to determine the B.9. The working balance is determined by the SSSC, while the B.9 is independently determined by SE, both balances being derived from the accounting system (PSFS).

The adjustments shown in EDP T.2A result from a reconciliation exercise between the WB and the B.9. A residual adjustment under “other changes” in EDP T.2A accounts for unidentified differences. This residual adjustment (discrepancies) between the two concepts is positive for every year (averaging 0.1% of GDP for the last four years), indicating that either there could be a structural issue in the measurement of the WB or the B.9, or the adjustments in T.2A are not exhaustive or correct. SE confirmed that it considers that the WB and the B.9 are correctly measured but the adjustments identified in T.2A are not exhaustive. The identification of the difference between the WB and B.9 is still a work in progress.

It was also clarified that the basis of the WB in EDP T.2A is mixed due to the recording of taxes. The accounting-based accrual tax revenues from the PSFS are replaced by time-adjusted cash revenues for the determination of the WB; the time lag applied is one month for most of D.2 taxes and D.6, while D.5 are recorded in the WB on a pure cash basis. No further adjustment is recorded for taxes at the level of EDP T.2A.

Eurostat explained that by adjusting the working balance to be as close as possible to the ESA B.9, this makes EDP T.2A irrelevant for EDP purposes. Eurostat enquired about the possibility to use the State revenue minus expenditure and investment as the WB instead of the Total State Position, which corresponds to the former after adjustments. Such change of concept for the WB would allow to report all adjustments previously impacting the WB in EDP T.2A what would simplify the assessment of the data during the EDP notification.

### *Findings and conclusions*

**Action point 5:** *The Estonian statistical authorities will detail the adjustments done by the SSSC on the budget execution for the calculation of the working balance and will show those adjustments in EDP T.2A. The EDP Inventory will be updated accordingly to describe the adjustment shown in EDP T.2A.*

*Deadline: recurrent, starting with April 2023 EDP notification* <sup>(5)</sup>

## **3.2 Working balance revisions between the April and October EDP notifications and Other adjustments in EDP T2A**

### *Introduction*

A recurring issue is the revision observed in the working balance (WB) reported in EDP T.2A between the April and October EDP notifications. During the October 2022 EDP notification, SE provided some explanations on the revisions of the WB for the year 2021 in an explanatory note sent before the notification. The revisions of the WB were investigated further in the requests for clarification. As a follow up of the notification, two additional documents have been provided by SE on the revisions of the working balance, where SE provided additional explanations on the revisions, and on the adjustments in EDP T.2A.

The revisions of the WB between April and October notifications are twofold. The first factor involved in the revision is the cut-off date for the transmission of data from the SSSC (1<sup>st</sup> February). This deadline implies that some expenditures, typically grants, are not included in the WB because the documentation for them to be recognised as expenditure is not yet available for the April notification. A second factor, is directly linked to the definition of the WB for the October notification, intended to be as closed as possible to ESA B.9, so that some adjustments appearing in EDP T.2A in April are included in the WB of October.

### *Discussion*

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<sup>(5)</sup> Action point 5 is closed.

It was clarified during the discussion that the revision relating to the revaluation of losses on loans of *KredEx* was related to the revision of the provisions for COVID-19 related loans granted by *KredEx* not expected to be repaid at inception which were recorded as an expenditure in 2020. As the revision of the amount of loans not expected to be repaid took place within a year, Eurostat reminded SE that the revision downwards should be reflected in the expenditure recorded in 2020 and not as an increase in the revenue of 2021. After one year, the delayed revenue approach should be followed if another (downward) revision of provisions is to be recorded in the accounts, in application of the new MGDD chapter on loans not expected to be repaid at inception.

As some loans have been granted in 2021, an estimation of the loans not to be repaid relating to those new loans must be done to impute an expenditure in 2021. The overall reduction in provision recorded in the account of *KredEx* will then be partitioned between an expenditure recorded in 2021, for loans granted in 2021, and a reduction of the expenditure recorded in 2020 due to the revision of the rate of loans not expected to be repaid on loans granted in 2020.

It was also clarified that the revisions for 'foreign grants' (revenue) correspond to the neutralisation of expenditures financed from EU flows, the declaration of which was delayed. The remaining revisions in expenditure correspond to domestic grants, the recording of which as expenditures was also delayed. Expenditures relating to grants are recorded in the non-financial accounts when the documentation backing the use of funds are provided. For the 'delayed expenditure', the payment claims to the implementing agencies do not meet the cut-off date for the WB of the April notification. Advances made in relation to the domestic grants are recorded as financial transactions, and their total decreases once the expenditure is eventually recorded in the non-financial accounts. The delayed declaration is a regular occurrence.

Concerning the adjustments for capital injections reclassified as non-financial transactions, Eurostat enquired about the recording of the capital injection in *AS Tallinna Lennujaam* (Tallinn Airport) and in *Lennuliiklusteenninduse AS* (Estonian Air Navigation Services) in 2021, and the related revision in EDP T.2A between the April and October 2022 notifications. In the April notification, the capital injection (EUR 34 million, 0.1% of GDP) was partitioned: 14 million were recorded as a non-financial transaction in the WB, the remainder was considered by SE as a financial transaction. Following Eurostat's advice of February 2022, the full amount was considered as non-financial (capital transfer) and an additional 20 million was recorded under the adjustment "Capital injection" during the October 2022 notification. The second capital injection, in Estonian Air Navigation Services (EUR 10 million) was initially considered as a financial transaction by SE. Eurostat disagreed with this view and requested the reclassification of the transaction, hence the adjustment in EDP Table 2A in the April 2022 notification. It was nevertheless explained by SE that the capital transfer might have been already included in the WB in April, which would have potentially resulted in the capital transfer being counted twice. In the October notification, the adjustment for the capital injection was removed from EDP T.2A without the possibility to check the recording at the level of the WB. Eurostat took note of the explanation provided by SE.

In relation to the government's measure, taken in the framework of the COVID-19 crisis, of suspending the cash payment from the Estonian Tax and Customs Board (4% of social tax) to the second pension pillar (other employment related pension scheme) from 1 July 2020 until 31 August 2021, it was recalled that during this 'suspension' period, the tax authority kept collecting from the employers the pension contributions but did not

pass them on to the pension scheme and that Eurostat and SE had agreed to record the government's suspended payments to the second pension pillar as a loan liability of the central government towards the pension scheme. In this context, Eurostat reminded that an adjustment must be recorded for the imputed interest on the (imputed) debt. The contributions to the second pillar recorded in the accounts of the government are considered as third-party funds for the ESA accounts of government. In line with principal party recognition (see ESA 1.78), the collection of (third party) funds by the Estonian Tax and Custom Board must not enter the non-financial accounts of government. The initiative to suspend the payments was with government. The suspension occurred for government to finance itself, rather than through any operational delay. For these reasons, among others, the liability was recognised in the account as a long-term loan liability. There is nevertheless an issue on how to calculate the amount of interest to be imputed. It was agreed that, by derogation, the amount of interest to be accrued each year can be determined a posteriori once all payments would have occurred, due to the complexity of the issue.

Concerning the adjustment for "revaluation in financial assets-liabilities" in 2020-2021, SE clarified that it corresponds to the revaluation of shares and other equity instruments of the trading portfolio held by *KredEx* or managed by SmartCap venture (a subsidiary of *KredEx*) that are included in the WB. The sign of the adjustment (positive) seems to indicate that holding losses are included in the WB. However, according to the SSSC, such revaluations do not enter the WB. Eurostat took note of the perceived discrepancy and requested a clarification of this point for the next EDP notification.

#### *Findings and conclusions*

**Action point 6:** *In relation to the revaluation of expected losses on loans granted by KredEx in the context of the COVID-19 pandemic (included in the working balance for 2021), the Estonian statistical authorities will revise the expenditure recorded in 2020 for loans not expected to be repaid at inception, instead of recording a revenue in 2021. From 2023 onwards, the statistical authorities will apply the delayed revenue approach for downwards revisions of expected losses. The EDP annex 8 on measures taken in the context of the COVID-19 pandemic will be adapted accordingly.*

*Deadline: April 2023 EDP notification <sup>(6)</sup>*

**Action point 7:** *Regarding the impact of the valuation of equities included in the working balance, the Estonian statistical authorities will provide a note clarifying under which component of the working balance the revaluation of equities for 2021 has been recorded and for which amounts. The note will clarify why adjustments in EDP T.2A related to the revaluation of assets are recorded only for 2020 and 2021. The statistical authorities will also confirm that the revaluation impact included in the working balance is adjusted in EDP T.2A under the item "other adjustment – revaluations of financial assets-liabilities" and will consider renaming the item as "revaluation of assets".*

*Deadline: April 2023 EDP notification <sup>(7)</sup>*

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<sup>(6)</sup> Action point 6 remains open.

<sup>(7)</sup> Action point 7 is closed.

**Action point 8:** Concerning the suspension of payment to the second pillar pension scheme in 2020 and 2021, the Estonian statistical authorities will impute interest expenditure on the corresponding debt (F.42L). The amounts of interest to be recorded depend on whether the “average net asset value of units in all mandatory pension funds/mutual investment funds” to be paid to the beneficiaries are linked to a narrow or broad index. The practical implementation of the recording will be discussed with Eurostat. In the meantime, the statistical authorities will monitor the cash outflows related to the suspension payment to the second pillar to determine the imputed interest.

*Deadline: October 2023 EDP notification <sup>(8)</sup>*

### **3.3 Discrepancy and split of EDP T.3B**

#### *Introduction*

The “allocation of the discrepancy” referred to in the EDP Inventory and the possibility to split EDP T.3B have been briefly discussed.

#### *Discussion*

Since the financial and the non-financial accounts are compiled based on the PSFS data, it should be assumed that the discrepancies between B.9 and B.9F should remain quite small, unless some adjustments on the PSFS do not follow the principle of double entry accounting system. The differences between B.9f and B.9 are tracked down at the level of subsector but not further, as financial accounts are not compiled on a more disaggregated level. Eurostat enquired about the action taken when the discrepancy observed is large. Eurostat noted that the EDP Inventory mentioned that, in case of very large discrepancy (especially in the case of the April notification), part of it is allocated either to the financial or non-financial account depending on the direction of the discrepancy. SE mentioned that this practice was not applied anymore. Eurostat asked to update the EDP Inventory accordingly.

#### *Findings and conclusions*

Eurostat took note the feedback provided by SE.

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<sup>(8)</sup> Action point 8 remains open.

## 4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

### 4.1. Delimitation of general government, application of market/ non market rule and the qualitative criteria in national accounts

#### *4.1.1. Practical implementation of the market / non-market test and qualitative criteria*

##### *Introduction*

The market/non-market test for public corporations classified outside the general government is performed on an annual basis using information from the PSFS. Three issues were discussed in relation to the implementation of the market/non-market test (MNM test). The first issue relates to the lack of details provided to Eurostat concerning the components of the sales and the production costs used in the test. The second issue is that the test is performed at the group level based on the consolidated financial statement and not at the level of the subsidiaries (unit level). The third issue concerns the use of the business accounting concept of depreciation of assets as a proxy of the consumption of fixed capital. Additionally, the results of the MNM test are provided in the list of public units classified outside the government, which only includes units exhibiting debt above 0.01% of GDP.

SE follows their own decision tree for the classification of units (departing from the MGDD) where the quantitative market test is performed before the analysis of some qualitative criteria (e.g., if there are other providers of similar services to government or if the contract is concluded on competitive terms). The information for the compilation of the ratios is automatically derived from the PSFS, using a bridge table to reach ESA 2010 concepts.

##### *Discussion*

SE explained that they use a decision tree where the ratio of sales receipts excluding sales to S.13 (ratio 2) is compared to the total cost of production. If this ratio is above 50%, then the unit is considered a market producer. A second ratio is compiled based on total sales divided by the production costs (ratio 1). A qualitative analysis is carried out for units whose ratio 2 is equal to or less than 50% but ratio 1 is higher than 50%. In the case of such units, if they were not selling goods or services to the government sector, they would not fulfil the criterion of being a market producer. Therefore, it is necessary to assess whether the sales receipts from the government sector can be treated as the sales of a market production. In particular, the question on how to differentiate the true sales of market output (P.11) from subsidies was raised by Eurostat, as well as how to differentiate subsidies on product (D.31), entering the sales in the ratios, from subsidies on production (D.39), excluded from sales based on the information of the PSFS. During the discussion, SE confirmed that the correct nature of the subsidy can only be assessed based on a case-by-case analysis by SE.

SE provided a table with the details (ESA transactions) of the production costs calculation for large public corporations. The only details provided for sales receipts concern the split between sales to government sector and other sales. SE mentioned that, from their recollection, there was no subsidy on product (D.31) for the public corporations for which details were provided. Nevertheless, Eurostat enquired about the

possibility to obtain the details of sales (P.11 and D.31) when, in the future, details of the calculation of the MNM test are requested.

SE also confirmed that the classification of large subsidiaries is examined independently from their group on a regular basis, based on additional information not directly available in the PSFS. Eurostat also required to include, in the annual public corporation questionnaire, the subsidiaries controlled by the government according to ESA.

Lastly, the concept used for consumption of fixed capital (CFC) was discussed. SE confirmed that the CFC used for the MNM test is the depreciation from the PSFS (business accounts). As a follow-up of the last EDP dialogue visit, SE examined possible methods to calculate CFC reflecting average service life and economic depreciation of the assets for the MNM test instead of using the depreciation from business accounting. SE concluded that, for the most part, ratios stayed roughly the same and do not affect the units' current sector classification. Hence, SE proposed to keep using CFC reported in the PSFS since the values are similar to CFC used in national accounts while, in some cases, using a coefficient of 0.5 if further analysis shows that the unit is using a shorter service life than in PIM (as it seems to be the case for some units). Eurostat reminded that Member States using depreciation from business accounts applied coefficients or calculate the economic depreciation according to PIM, at least for some specific units. SE reinstated that they were not in favour of departing from the PSFS depreciation and asked Eurostat to provide examples of coefficient used by other Member States

#### *Findings and conclusions <sup>(9)</sup>*

**Action point 9:** *Concerning the consumption of fixed capital included in the production costs for the market/non-market test, the depreciation used in business accounting may underestimate the economic depreciation of assets due to the fact that the business accounting may reflect the value of assets at historical costs. The Estonian statistical authorities will consider using a coefficient to adjust the depreciation from PSFS for the calculation of the consumption of fixed capital for the purpose of the quantitative market/non-market test as already used by other Member States. Eurostat will provide information on the coefficients used by other countries.*

*Deadline: end-June 2023 <sup>(10)</sup>*

**Action point 11:** *The Estonian statistical authorities will report all subsidiaries of public corporations in the Questionnaire on government-controlled units classified outside general government. Tallinna Vesi AS will be reported in the same questionnaire.*

*Deadline: end-December 2023*

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<sup>(9)</sup> The numbering of the action points 10 to 18 corresponds to the numbering of the action points of the "Main conclusions and action points" transmitted to the Estonian's statistical authorities shortly after the visit.

<sup>(10)</sup> The contribution of Eurostat was sent on 30 May 2023 and the deadline for SE contribution was extended to end-August 2023. The note of SE has been provided on 28 August 2023. The issue is under evaluation.

#### **4.1.2. Changes in sector classification since the last EDP dialogue visit**

##### *Introduction*

The authority responsible for the sector classification of units according to ESA 2010 is SE. Since the 2021 EDP dialogue visit, there have been no units reclassified outside the general government sector (S.13), while 13 units were reclassified inside, most of them based on action points from the previous EDP dialogue visit. For some units, the lack of data implies that the reclassifications are not reflected in general government accounts. However, the liabilities and B.9 of those units are not deemed material.

##### *Discussion*

Eurostat reminded that the inclusion in the list of government unit is the first step for the compilation of the accounts and encouraged SE to collect information on all units included in the list.

#### **4.1.3. Public units engaged in financial activities (*SmartCap venture capital Fund, SmartCap Green Fund, EstFund, KredEx Krediidikindlustis AS, SA Tartu Eluasemefond*)**

##### **4.1.3.1. *EstFund, SmartCap venture capital and Green Fund***

Representatives of *KredEx* joined the discussion about the classification of the funds.

##### *Introduction*

The classification of these funds is a follow-up of the EDP notification of October 2021, when it appeared that the revision of the WB in EDP T.2A, between April and October, was related to 'financial revenues' corresponding to revaluations of assets held in venture capital funds. The classification of Early Fund II (since 2022, *SmartCap venture capital Fund*) was also addressed during the EDP notifications of April and October 2020, following a capital injection of 10 million in 2019 recorded as a financial transaction. The *Green Fund* was created in December 2021, and was capitalised in 2022 from RRF grants.

The financial activities of the government are managed by *KredEx* (founded by the Ministry of Economic Affairs and Communication - MEAC – and classified in S.1311). Those activities cover four fields: housing and energy efficiency, entrepreneurship, venture and private capital, and start-up. The instruments used by *KredEx* are loans, venture capital (equity injections) and guarantees. In the field of venture capital, *KredEx* participates directly in the financing of funds of funds (holding equities in the funds) or acts as an asset management company through its subsidiary *SmartCap* (S.1311) for the two funds whose founders' shares are held by the MEAC (*SmartCap venture capital Fund* and *Green Fund*). Currently, the funds are recorded outside the general government: S.124 for *SmartCap venture capital Fund* and *Green Fund*. The government assets are recorded as investment fund shares or units (ESA F.52).

Prior to the visit, SE provided the list of capital injections (F.52) in the funds, showing capital injections in the Baltic Innovation Fund (BIF) for all years in the period 2018-2021, Early Fund II and *EstFund* (in both cases during 2019).

### *Discussion*

Eurostat enquired first about the amount of capital injections into BIF, particularly in relation with the information reported in the 2021 Annual Report of the *KredEx*, implying that government injected EUR 24 million in BIF II (established in 2019) in 2020. It was clarified that the amount corresponded to a payment, from the State Budget to *KredEx*, to cover the financial commitments of the government towards BIF II. As those funds had not been paid-in to the fund in 2020, *KredEx* recorded a corresponding liability vis-à-vis the State, whereas no corresponding capital injection was recorded in EDP questionnaire T.10.B (F.52).

### ***SmartCap venture capital Fund (until 2022, Early Fund II)***

*SmartCap venture capital Fund* (“SmartCap VC”), created in 2012, is a closed-end alternative investment fund that operates as a venture capital fund-of-funds, which assets are invested in Estonian venture capital funds that invest together with other private investors in early-stage research and technology-intensive micro, small and medium-sized enterprises (SMEs) located mainly in Estonia.

Representatives of *KredEx* explained how the functioning of *KredEx* and dedicated funds are organised. Each fund acts as a separate unit and has an IFRS based set of accounts. In the State accounts, the capital held by government in each fund is appearing under a single line, reflecting the net present value of the shares held in the fund which corresponds closely to the value of the assets of the fund, subject to holding gains and losses.

Eurostat explained that the current classification of the SmartCap VC as a non-monetary market fund (S.124) is incorrect because the fund is not a collective scheme engaged in financial intermediation - the fund is 100% financed by the MEAC. The fund is seen as lacking the autonomy of decision to be considered an institutional unit, and it is more an accounting tool or an artificial unit to segregate some assets on the balance sheet of the government. As the fund is not providing services to government, classification as an ancillary unit could be excluded. If the fund would be considered as an institutional unit, its classification in the government sector could be justified based on the control of the entity - that is taking investment decisions and that provides the funds. In that case, the fund would be considered as having the features of a financial captive to be classified with its parent. In both cases, only the assets held by SmartCap VC in the sub-funds/project must appear on the balance sheet of the government (and be capital tested when an investment in units classified outside the government takes place). Eurostat concluded that the fund is acting as an investment trust, that passively manages assets. The management activities performed by SmartCap consist solely in selecting the (private) managers of sub-funds via a call for interest.

The reclassification of SmartCap VC in the government sector does not change the ESA accounts of the government. It is a matter of where to draw the line separating the government sector from the non-government sector. As the value of the shares held by government in SmartCapVC reflects the value of the assets held by the fund, the amounts recorded under F.52 in the accounts will be the same. What is changing is the level at

which the capital injection tests should be performed. Instead of performing the capital injection test at the level of SmartCap VC, the reclassification of the fund implies that the test should be performed at the level of the investment done by the fund in the sub-funds.

### ***SmartCap Green Fund***

In autumn 2021, the EUR 100 million *SmartCap Green Fund* was approved as one of the measures of the Estonian Recovery and Resilience Plan (RRP). In December, SmartCap's Supervisory Board approved the fund's statute (or term sheet) and SmartCap signed a subscription agreement with the State to finance *SmartCap Green Fund*, with a view of making contributions by the end of 2022.

*KredEx* representatives confirmed that *SmartCap Green Fund* has been created along the same structure as SmartCap VC.

Eurostat reminded that in the framework of the RRF regulation, the final beneficiary of the RRF grants is deemed to be the government implementing the RRP. Therefore, the fund is financed by the government and should, for the same reason as SmartCap VC, be classified in the government sector if the government is the only provider of funds.

The RRF recording of grants used to capitalise the new fund should follow the same rules as the financial instruments financed from the regular EU flows, that is, be B.9 neutral for general government (as a beneficiary). Normal capital injection rules, as described in ESA 2010 and the MGDD, when deciding on the statistical classification of the equity and venture capital instruments should apply.

### ***Findings and conclusions***

***Action point 15:*** *The Estonian statistical authorities will reclassify SmartCap venture capital Fund (former Early Fund II) in the government sector and more generally will reclassify in the government sector similar fund-of-funds where the government is the only provider of funds (for example, the Green Fund). The statistical authorities will perform the capital injection test on the investment in sub-funds or corporations classified outside the government sector.*

*Deadline: October 2023 EDP notification <sup>(11)</sup>*

### ***Classification of EstFund***

*EstFund* has been created in 2016 as a risk capital fund-of-funds. *EstFund* was launched by the European Investment Fund (EIF) in co-operation with the *KredEx* and the Ministry of Economic Affairs and Communications (MEAC) to stimulate equity investments into innovative and high growth-focused enterprises in Estonia.

*EstFund* was financed from the European Regional Development Fund (commitment of EUR 48 million) and the European Fund for Strategic Investments (commitment of EUR 12 million). *EstFund* is managed by the EIF, on behalf of MEAC, and *KredEx*. It is classified in the sector S.2. SE had explained prior to the visit that the flows regarding

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<sup>(11)</sup> Action point 15 remains open.

*EstFund* are recorded in the accounts of *KredEx* following the MGDD provisions concerning EU financial instruments. The co-investment by EIF in *EstFund* was recorded in S.1311 accounts as a capital transfer (D.99) in 2016, with a matching revaluation of AF.52 assets of S.1311.

The SSSC first clarified that the 48 million of EU grants provided by the European Regional Development Funds were committed to the fund in 2016. The EU grants received correspond to an advance payment of grants in the accounts (AF.89L) not affecting the WB. It is only when the capital is paid in, which occurs at a later phase (EUR 12 million in 2016, 2019, and 2022) that an acquisition of equities is recorded in the government accounts.

Eurostat enquired about the statistical treatment of the co-investment by the EIF in *EstFund* in 2016, recorded as a capital transfer for the full amount of the commitment. Eurostat concluded that the recording of the co-investment of EIF in 2016 as capital transfers revenue (from S.2 to government) is not correct as the EIF financing is earmarked for *EstFund*, which is considered as the final beneficiary, the EIF received shares in exchange of the considerations provided to the fund (implying a financial transaction) and the EIF considered that the investment in *EstFund* is a profitable investment and wanted to join the initiative.

Eurostat also questioned the classification of the *EstFund* as a S.2 unit. Eurostat understood that the current classification is based on the classification of the EIF, acting as manager of the fund. As it was clarified that the government and EIF both held shares in the fund in proportion of their financial commitment in the capital of the fund. Eurostat reminded that the classification must be based on the control criteria. Broadly speaking, control over an entity could be seen as “control of people who are taking decisions for the concerned entity”, therefore it should be established if the EIF management is extended to the investment decisions into sub-funds and the appointment of their managers.

SE and Eurostat agreed to further discuss bilaterally the statistical recording and the classification of the fund.

**Action point 16:** *Regarding EstFund (fund-of-funds initiative launched by EIF, KredEx and the Ministry of Economic Affairs and Communications), it was clarified that the fund was capitalised by the government and by the EIF, both holding shares or units (F.52) in the fund. The statistical authorities will correct the recording of the capital transfer (D.99exp) in 2016Q2 corresponding to the capital provided by the EIF (EUR 12 million). The statistical authorities will verify if the capital transfer has been neutralised and will correct the revenue accordingly.*

*Deadline: October 2024 EDP notification (benchmark revision)*

#### **4.1.3.2 AS KredEx Krediidikindlustus**

##### *Introduction*

AS KredEx Krediidikindlustus was established in 2009 by the Ministry of Economic Affairs and Communications (2/3 of shares) and the KredEx (1/3 of shares). The main

activity of the company is the provision of credit insurance and guarantee insurance services to corporations.

During the discussion of the 2021 EDP dialogue visit, it was agreed that SE would reflect on the sector classification of *AS KredEx Krediidikindlustus* having in mind in particular the government control over the unit, the constraints on the assets side and the constraints on the liability side and would reroute through the S.13 accounts the operations of the unit, which are performed on behalf of the government and with its guarantee.

According to SE's analysis, the company does not fulfil all the conditions for having the features of a captive financial institution controlled by government and should not be reclassified in the government sector. A major part of the activity of the company is not carried out on the narrow conditions set by government, the government sector does not influence the asset side of the company and the unit behaves like a 'normal' commercial entity since the aim, set at the time of the creation of the company, was profitability. The company has been showing profit in all its years of existence, except the year of creation.

### *Discussion*

SE explained that risks covered by the company are re-insured. In cases specified in the State Export Guarantees Act, the reinsurer is the State (providing a government guarantee). The government guarantee is provided on short term credit insurance for Estonian enterprises to manage the commercial risks as well as the political risks of the buyer's home country. This service is provided for exporting enterprises and for enterprises selling to domestic buyers. The State guarantee is applicable on the short-term contracts only in the cases where the insurance risk is temporarily non-marketable risk according to the EU competition rules. The government guarantee is also provided on long-term trade credit insurance for export transactions with payment period of over 24 months.

SE informed Eurostat that guarantees provided by *AS KredEx Krediidikindlustus* on behalf of the government sector were recorded as standardised guarantees in the accounts of government since 2020. The corresponding provisions are recorded as provisions for calls under standardised guarantees (AF.66) liabilities and guarantee calls as expenditure, as well as transactions in AF.66 liabilities of the government sector in case the payments are made from the provisions.

The discussion mainly focussed on the provisions. It was clarified that there is a legal act for government to "provision" the future calls by transferring some cash on a deposit to *AS KredEx Krediidikindlustus*, which is managing the pay-out of calls on behalf of the government. The cash provided by government is considered in the PSFS as a financial transaction because the calls must be incurred to be "expensed" in the PSFS. Eurostat questioned the ESA classification of the asset of government - liability of *AS KredEx Krediidikindlustus* – excluding the possibility of a deposit because it does not meet the features of deposit and loans (no withdrawal possibility and no repayment foreseen). The classification as an equity investment may be possible considering that it should pass the capital injection test. The provision may not be depleted as some guarantee fees are collected and recoveries may replenish the provision. Lastly, it was clarified that *AS KredEx Krediidikindlustus* is paying dividends to *KredEx* and to the MEAC.

### *Findings and conclusions*

**Action point 17:** *The Estonian statistical authorities will clarify the classification of the funds transferred by the government to AS KredEx Krediidikindlustus (currently classified as a deposit) to cover the call of standardised guarantees counter-guaranteed by the State. Statistics Estonia will provide a note explaining how those guarantees are rerouted in the accounts of the government, detailing financial and non-financial transactions and stocks of assets and liabilities rerouted in the government accounts for the years 2020-2022. Additionally, Statistics Estonia will indicate how the rerouted non-financial transactions are recorded in EDP T.2A. Eurostat and Statistics Estonia will dialogue in order to determine the correct recording of the rerouted guarantees.*

*Deadline: note to be provided for end-March 2023, implementation October 2023 EDP notification. <sup>(12)</sup>*

### **4.1.3.3. SA Tartu Eluasemefond**

#### *Introduction*

SA Tartu Eluasemefond was established in 1992 with the aim of enabling the citizens of Tartu city to improve their living conditions. It grants loans to households for the purchase, repair, and construction of housing, for the financing of connection to the district heating of Tartu and to the water supply and/or sewerage system (from 2001) and the financing of renewable energy installations. The fund also grants loans to apartment associations for the reconstruction of dwellings.

Some of the features of the loans activity of the fund indicate that it is acting for public policy objectives: it is targeted to some categories of residents of Tartu, the “returned dwellings” loan conditions foresee the write-off of part of the principal under some conditions, the possibility of applying for non-repayable aid for the purchase of new housing (Purchase subsidy) for the tenants of the “returned” dwellings, and a system of payment holiday for failing customers.

The activities of the fund are financed by the interest margin, the results are reinvested, and the financing is largely made from own funds. However, given the rise in property prices in recent years, the annual amount of resources available in the range of EUR 600-800 thousand remains modest in addressing housing problems. The fund needs additional resources to finance the loans and therefore it is considering mobilising additional resources in the form of a loan from Tartu Kultuurkapital SA (Tartu Cultural Capital) (S.1313).

#### *Discussion*

Currently, the unit is classified in S.12 and is controlled by S.1313 (city of Tartu). In its analysis of the classification of the unit, SE indicated that the unit is a non-profit institution, providing loans to households which are controlled by the city of Tartu. The logical conclusion should be that the unit belongs to the local government sector. The amounts (debt, loans granted) are not material for EDP purposes.

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<sup>(12)</sup> The note was provided on 31 March 2023. The issue is under evaluation.

## *Findings and conclusions*

**Action point 18:** *The Estonian statistical authorities will reclassify inside the local government sector SA Tartu Eluasemefond.*

*Deadline: October 2024 EDP notification (benchmark revision)*

### **4.1.4. Government controlled entities classified outside the general government sector (public corporations)**

#### **4.1.4.1. Foundations and non-profit organisations**

##### *Introduction*

According to the Republic of Estonia consolidated annual report of the State for 2021, in 2021, 735 entities belonged to the public sector, with 572 units belonging to the general government sector. There were 163 other public entities, of which 139 were corporations, 23 foundations and non-profit organisations, and one public-law legal entity (the Bank of Estonia).

##### *Discussion*

Eurostat enquired first about the criteria for classifying the non-profit organisations inside or outside the government sector. SE explained that the classification is based on the result of the MNM test. Eurostat indicated that it would be interesting to have the units' results of ratio 2 to determine if their activity is essentially with the government sector. If this is the case, the NPI could be considered as having the characteristics of ancillary units of the government.

## *Findings and conclusions*

**Action point 10:** *The Estonian statistical authorities will analyse the classification of public foundations and NPIs. In this context, they will analyse and report to Eurostat whether such entities are financed exclusively or mostly by the government.*

*Deadline: end-June 2023 <sup>(13)</sup>*

#### **4.1.4.2. Tallinna Soojus AS**

##### *Introduction*

The classification of *Tallinna Soojus AS* was briefly discussed during the 2021 EDP dialogue visit. This unit was established by Order of the Tallinn City Administration in 1996; the City of Tallinn is the sole shareholder. The unit is engaged since 2001 in a rental and operating contract (lease) of 30 years (as lessor) with *AS Utilitas Tallinn* (S.11) (as lessee). With this contract, the lessee took over the complete property of equipment, facilities, and other assets necessary for the production and distribution of heat, which is required to be maintained and preserved. The main revenue for *Tallinna Soojus AS* is the

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<sup>(13)</sup> An excel file detailing the level of government financing of each public foundation and NPIs and their current classification has been provided on 22 June 2023. The issue is under evaluation.

rental fee, while the leased asset is recognised as a “receivables and prepayments of fixed assets” in its balance sheet.

### *Discussion*

The discussion of the classification of *Tallina Soojus AS* (Tallinn Heat) clarified some features of the unit, namely whether the contract represents or not a financial lease of assets that were once the ownership of the city of Tallinn and were transferred in 1996 to the unit by a City Order. *Tallina Soojus AS* is operating with two employees. The supervisory board, chaired by the mayor of Tallinn, only executes the allocation of the dividends following a decision taken by the Tallin City authorities. SE argued in an action point of the previous dialogue visit that *Tallina Soojus AS* was neither to be considered as a head office, nor a holding company. It also argued that it was not an ancillary unit because it does not provide ancillary activities for the City of Tallinn (such as transportation, financing and investment, purchasing, sales, marketing, computer services, communications, cleaning, and maintenance based on the list of examples provided in ESA 2010). SE concluded that *Tallinna Soojus AS* does not have the characteristics of captive institutions or artificial subsidiaries and in this respect, it cannot be seen as a special purpose entity of government. Eurostat explained that several features point towards a reclassification of *Tallina Soojus AS* in local government either because it lacks autonomy of decision to be a unit, or because it is considered to provide ancillary activities for the city of Tallin. It further recalled that the list presented in ESA 2010, paragraph 3.12, is not exhaustive. In relation to whether the contract represents an operation or a financial lease, Eurostat requested the Estonian statistical authorities to perform further analysis, including clarifying whether the assets had been sold or transferred to the unit, back in 1996.

### *Findings and conclusions*

**Action point 13:** *Tallinna Soojus AS (Tallinn Heat) will be reclassified in the government sector due to its nature of ancillary unit of government. The Estonian statistical authorities will analyse whether the lease contract with AS Utilitas Tallinn is to be considered as an operating or a financial lease. A note on the reclassification will be provided to Eurostat detailing the recording of transactions and stocks (amounts and economic classification) related to the reclassification since the creation of the unit. The note will also mention how the assets of Tallinna Soojus AS were transferred or sold by the City of Tallinn at the time of creation of the unit in 1996.*

*Deadline: June 2023 for the note, October 2024 notification for implementation (benchmark revision) <sup>(14)</sup>*

#### **4.1.4.3. Maali Üürimaja OÜ**

##### *Introduction*

*Maali Üürimaja OÜ* was established at the end of 2017 with the aim of developing the Housing Fund in the municipality of Lääne-Nigula. Its field of activity is renting out own real estate (NACE 68). The main source of revenue of the unit is rent for apartments in its ownership. The MNM test of *Maali Üürimaja OÜ* (Maali Rental House) were below 50 % (ratios 1 and 2) for the years 2019-2021, although increasing.

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<sup>(14)</sup> Action point 13 is closed.

## *Discussion*

As it is a new unit, Eurostat agreed with maintaining its current classification while asked SE to closely monitor the evolution of the MNM test.

## *Findings and conclusions*

**Action point 14:** *The Estonian statistical authorities will monitor the market/non-market test for Maali Üürimaja OÜ, currently at under 50%. The year 2021 was the first year where the entity has carried out its main economic activity of renting of real estate.*

*Deadline: on-going*

### **4.1.4.4. AS Eesti Raudtee**

#### *Introduction*

AS Eesti Raudtee is a company owned by the Republic of Estonia (MEAC), established in 1992, which is responsible for the development, maintenance, and administration of the railway infrastructure. The company is classified outside government, while the public passenger carrier (AS Eesti Liinirongid) is classified inside.

#### *Discussion*

The company passes the market test, although ratio 2 (sales excluding sales to government divided by production costs) is below 50% for 2019-2021, and ratio 1 (total sales divided by production costs) is just above 50%. This means that the current classification relies on the payments made by a government unit to use the infrastructure. The sales to government are supposedly made at the same price as the sales to the private company. Besides the commercial revenue of AS Eesti Raudtee corresponding to proceeds of sales, other operating revenues are made of grants paid by government to cover operating costs. Eurostat recalled the importance of determining the substantive nature of such payments to determine whether they correspond to subsidies on product or on production. Finally, as the main expenditure of this unit is the consumption of fixed capital, a particular attention should also be paid to the depreciation recorded in the financial reports. Eurostat and SE agreed that the classification of this unit must be closely monitored. If reclassified in the government sector, the reclassification would not impact the deficit due to the existing agreement with the Ministry of Economic Affairs and Communication to ensure the financing of the operating costs of the company to ensure the balance of revenues and cost over a period of 5 years. The impact on the debt will be limited since most of the liabilities are equities held by government and “grants”.

#### *Findings and conclusion*

**Action point 12:** *Regarding the classification of AS Eesti Raudtee (railways infrastructure), the Estonian statistical authorities will closely monitor the results of the market/non-market test of the corporation. The Estonian statistical authorities will clarify if the grants received for operating costs can be considered as subsidies on products or on production (D.31 or D.39) and will reflect on the impact of the economic nature of subsidies on the result of the market/non-market test. The statistical authorities will consider using a coefficient to adjust the depreciation from PSFS for the calculation of the consumption of fixed capital (see action point 9).*

*Deadline: end-June 2023 <sup>(15)</sup>*

## **4.2. Implementation of accrual principle**

### **4.2.1. Taxes and social contributions**

#### *Introduction*

The data source used for calculating the most significant taxes is a detailed receipt report from Estonian Tax and Customs Board (ETCB) for both EDP notifications. The data source becomes available in T+1 month. The method of recording value added taxes, excise duties and social taxes is time adjusted cash (TAC) with a time lag of 1 month, while taxes on personal income (PIT) and on corporate income (CIT) are recorded on pure cash basis.

#### *Discussion*

The first issue being raised during the discussion was referring to the reimbursements included in the monthly cash data. According to the EDP Inventory, *if reimbursement exceeds the average share of tax receipts, then the tax is recorded by estimation on the basis of the average reimbursement share.* It was clarified that this is not relevant anymore and that the EDP Inventory should be revised accordingly.

The discussion focused on the pure cash recording used for PIT and CIT. The assessment of taxes on personal income was clarified. A withholding tax is calculated in T+1 month based on the income of the previous month. The declaration of income starts in February and finishes in April of year T+1. As soon as the declarations are filled, the assessment of taxes is performed by the administration leading to reimbursements to or additional payments from the taxpayers. The deadline for the reimbursements and additional payments is fixed on 1<sup>st</sup> October of T+1. Therefore, cashflows relating to the assessment observed in T+1 relates to income in T. The SSSC confirmed that the amounts payable (reimbursements) and receivable (additional payments) compensated more or less each other during the last three years (2019-2021). The impact on B.9 of recording taxes on a pure cash basis is therefore not material, unless something unusual happens. The SSSC confirmed that the COVID-19 crisis had no impact on the pattern of payments of taxes because the withholding taxes are based on the income of the previous month and not on the income of the previous year. This means that the prepayment of taxes follows closely the income evolution. This system is applicable to employees and self-employed persons.

Concerning the corporate income tax, SE clarified that CIT is payable on distributable profit (dividend). CIT is recorded on a pure cash basis, meaning that taxes paid in T+1 relate to profit generated in T.

#### *Findings and conclusions*

Eurostat concluded that PIT should normally be recorded with a time lag of one month but acknowledged that this change will not have a material impact on B.9 and agreed that PIT can be recorded on a pure cash basis. As concerns CIT, the imputation of taxes to the

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<sup>(15)</sup> A note regarding the economic nature of grants received to cover operating loss was provided on 22 June 2023. Additional information on the market/non-market test of *AS Eesti Raudtee* has been provided under action point 9. The action point is under review.

exercise where the activity generates the profit would require an estimation. As dividends are by derogation recorded when they are paid, the recording of taxes on dividend may follow the same principle.

#### **4.2.2. Interest and consolidated interest**

##### *Introduction*

The data source used for recording interest expenditure is the PSFS, collected by the SSSC from all public sector units. No adjustment is applied on the interest recorded in the PSFS, since this data source is on an accrual basis, and the accounting rules are in line with ESA 2010 requirements on interest. In EDP tables 3A-3E, the difference between interest accrued and interest paid is recorded based on the information available from the PSFS. The same rules apply for the recording of interest revenue (accrual recording). Eurostat thanked SE for providing the table on interest covering S.13 sector.

##### *Discussion*

The discussion was based on the table of interest that SE provided to Eurostat in advance of the meeting. The aim of the table on interest is to facilitate the monitoring of adjustments for interest in EDP tables 3 and their consistency with interest recorded in ESA T.2 (D.41PAY). The table also aims at facilitating the reconciliation of valuation of the Maastricht debt instruments (face value) with the valuation at nominal value of the debt. Although internally consistent (by construction), there are some issues with the table provided by SE as described below. Those issues have no impact on the B.9 (recording of D.41 expenditure).

The table is filled after imputation of FISIM, the consistency of the table being assured by calculating the interest paid as a residual item. Allocation of FISIM has no impact on the financial accounts. The allocation of FISIM (imputation in the non-financial accounts) consists in partitioning the interest between an intermediate consumption of intermediary service and a “true” interest component. The allocation of intermediate consumption of FISIM by S.13 has no impact on the interest accruing under the instrument in the financial accounts (recorded as transactions). Therefore, the adjustment in EDP Table 3 for interest accrued minus paid is not affected by any allocation of FISIM. Likewise, the table on interest must be filled before imputation of FISIM. The headings D.41+FISIM must be equal to D.41GPAY of ESA Table 2 extended template.

Another issue is related to the breakdown of interest accrued between coupons accrued and amortisation of discounts; both are reported under interest accrued. It was also reminded that short term debt securities should be recorded at their market/nominal value in GFS Table 27 and not at face value as it is currently the case.

Those issues are not material and have no impact on the recording of interest expenditure, but they must be addressed in view of the forthcoming reporting of large issuances of debt securities in 2022 and 2023. Eurostat and SE agreed to discuss those issues bilaterally after the dialogue visit.

##### *Findings and conclusions*

**Action point 19:** *The Estonian statistical authorities will correct the table on the recording of interest provided prior to the visit. The corrections concern (1) the reporting of coupons accrued before imputation of FISIM, (2) the reporting of discount*

*on long term debt securities and SURE loans under line 9 of the table (instead of line 10) and (3) the reporting of amortisation of discounts separately from the accrued coupons for long term debt securities. Statistics Estonia will also consider reporting short term debt securities at their market/nominal value in ESA Table 27, and report accordingly the interest accrued related to those instruments in the table on the recording of interest.*

*Deadline: April 2023 EDP notification (<sup>16</sup>)*

#### **4.2.3. EU flows, including EU financial instruments**

##### *Introduction*

EU flows reporting has already been extensively discussed during the latest EDP notifications. The public sector financial accounting and reporting principles underlying the PSFS insured that the neutralisation of EU flows is correctly applied for the compilation of ESA accounts and EDP reporting. The expenditures financed from EU flows are neutralized at the level of the WB of S.1311. The revisions observed between notifications are due to delayed declaration of expenditure, or to errors in the source coding for revisions in other accounts receivable/payable.

##### *Discussion*

The discussion started by clarifying that the inflows and outflows in the working balance of EDP T.2A reported in EDP questionnaire T.6 are covering expenditures of S.1311 as final beneficiary financed by EU flows. The SSSC explained that all inflows and outflows, relating to final beneficiaries either classified in government or outside government, are recorded in the budget execution report on an accrual basis. Expenditures and revenues are recorded for the same amounts by application of the accounting rules. For ESA accounts, SE applies some netting on the budget execution report to exclude from the accounts flows relating to final beneficiaries outside the government sectors. It was also confirmed that EDP T.6 excludes any co-financing which is identified with a different code source in the accounting system. Eurostat enquired about the consistency of EDP T.6 inflows included in the WB and the figures relating to transfers received from EU in ESA T.2 which are considerably lower. As the subject is rather technical, it was agreed to follow-up on this issue bilaterally.

The cash flows related to EU flows are not reported in EDP Table 6, which means that the consistency of revenue/expenditure and transactions in other accounts receivable/payable cannot be checked. It is nevertheless presumed that the SSSC checks that the accounting rules are followed and that the expenditures of S.1311 financed by EU flows are correctly neutralised.

During the discussion, it was clarified that the SSSC filled the annex on EU flows based on the cash flows available in the accounting system, since those cash flows are not available in the PSFS used by SE as data source. This may explain why the information provided in the annex on EU flows is difficult to reconcile with information provided in EDP T.6. First, the SSSC acknowledged the difficulty to understand the table since the table has been primarily designed to capture accrual adjustment of the cash-based WB. The second issue is that the SSSC may have included in the annex flows related to expenditures of final beneficiaries outside the government.

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(<sup>16</sup>) Action point 19 remains open.

The distinction between cash flows relating to receivables or payables is necessary to determine the transaction since (cash) advances paid by EU increase the stock of other accounts payable, while reimbursement of expenditure already incurred will decrease stocks of receivable. The SSSC explained that there are three types of payment in relations to EU flows from the Structural funds, prepayments (advances) for the whole period covered by a programme, usually paid the first and the second year of the programme, annual prepayments, and payments for expenditure based on the payment application transmitted by final beneficiaries, to which a co-financing rate is applied. When a payment is assessed and made following the transmission of the payment application, the European Commission retains 10% of the amount declared. The full amount of expenditure eligible to EU fund is nevertheless paid to the final beneficiary, of which 10% are paid from the advances. The final balance of expenditures made by the final beneficiaries and the EU flows received from the Commission are balanced only at the end of the programme.

Eurostat enquired about the time of recording in the PSFS of the expenditure corresponding to the co-financing of the programme. The SSSC clarified that the time of recording is the same as the time of recording of the expenditures eligible to the EU financing and co-financing. As for EU flows, the time of recording of the co-financing could be different from the time of the effective payment leading to recording of other accounts payable in the accounts of government.

Eurostat also enquired about the (apparent) inconsistencies between the revision in inflows and outflows included in the WB for the year 2021 in October 2022 notification and the revision observed in other accounts payable/receivable as reported in EDP T.6. The revision of inflows and outflows in 2021 has been explained by SE as resulting from delayed declaration by the final beneficiaries. The revision of other accounts receivable and payable (both increase), much higher than the revision of inflows and outflows in the WB, was explained as stemming from a source code issue. As the revisions in other accounts payable/receivable reported in EDP Table 6 seems to explain most of the revision of other accounts payable/receivable in EDP T.3A, it seems that the code source issue may not be the explanation of the revision.

The SSSC explained that, for the year 2021, the auditors found a major issue with the recording of expenditure financed from EU flows which led to a revision of other accounts receivable with a counterpart in the payables. From the recollection of the SSSC, to be confirmed, the correction implied the recognition that a reimbursement was due to the Commission <sup>(17)</sup>. The reimbursement was paid out in June 2022. No adjustment of the expenditures was recorded because it was considered as a postponement of payment by the Commission. Eurostat enquired about the occurrences in the past of repayments of EU flows, and the SSSC clarified that it was the first time that a repayment of such amounts was recorded, while it happened in the past that small amounts have been repaid (so-called “financial adjustments”).

The SSSC also clarified why a decrease in transactions in other account payable were observed in 2021 by comparison with 2020 (from -162.6 million to -22.6 million) in EDP

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<sup>(17)</sup> It was clarified in the note provided by SE for the action point 20 that the amount received from European Commission was not a prepayment, but instead a reimbursement of receivables. Therefore, the amounts for receivables and payables were corrected by SSSC during the finalisation of the PSFS for the year 2021. The correction was introduced in the notification of October 2022.

Table 6 transmitted in October 2022. Based on the information received from the SSSC and MoF, SE explained that the decrease in payables (smaller than in 2020) was due to a temporarily increase the EU co-financing rate to 100%, reducing the retain amount on the payment assessment based on the returned payment application. The same increase in this will also apply for the year 2022.

Following the requests for clarification of October 2022, Eurostat asked a list of stocks of other accounts payable/receivable by EU funds as end-2021. The explanation of the practical arrangements of prepayment and payments of EU flows also explained why stocks of other accounts payable and receivable are observed at the same time for structural funds. Eurostat asked to check the list of stock of other accounts payable, since a difference of 20 million was observed with the stock reported in EDP T.6.

#### *Findings and conclusion*

**Action point 20:** *Concerning the recording of EU flows in the Table 6 of the EDP questionnaire, the Estonian statistical authorities in cooperation with the SSSC will check the amounts of other accounts receivable/payable related to EU flows in 2021 in order to ascertain why the transactions in those accounts changed between the April 2022 and the October 2022 notifications. The statistical authorities will provide a detailed explanation of the topic in a note on this issue and will reflect on the possibility of the recurrence of the issue.*

*Deadline: April 2023 EDP notification <sup>(18)</sup>*

**Action point 21:** *The Estonian statistical authorities will also clarify the difference between the neutralisation of expenditure made on behalf of EU as reported in the extended template of ESA Table 2 and the neutralisation recorded in Table 6 of the EDP questionnaire.*

*Deadline: April 2023 EDP notification <sup>(19)</sup>*

**Action point 22:** *The Estonian statistical authorities will investigate and report to Eurostat on the difference observed for 2021 in the stock of other accounts payable related to EU flows reported in EDP Questionnaire Table 6 and provided in the note on EU funds regarding October 2022 EDP notification (question 34).*

*Deadline: April 2023 EDP notification <sup>(20)</sup>*

#### **4.2.4. Recovery and Resilience Facility**

##### *Introduction*

The table on RRF is filled based on the PSFS data, which are accrual based. RRF transactions are recorded according to public sector financial accounting and reporting principles applicable to EU flows. SE reported expenditures financed from RRF grants,

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<sup>(18)</sup> Action point 20 is closed.

<sup>(19)</sup> Action point 21 remains open.

<sup>(20)</sup> Action point 22 remains open.

for the first time, during the October 2022 EDP notification. The amount of expenditures in 2021 is nonmaterial (EUR 1.9 million).

According to the RRF Regulation, 30% of the RRF financial contribution was based on the GDP forecast for the years 2020 and 2021. Therefore, the RRF maximum financial contribution per Member State has been updated (in June 2022) based on GDP actual outturn data. Estonia was allowed a provisional amount of maximum grants of EUR 969,3 million at inception of the facility. Based on GDP actual outturn data, the maximum amount has been revised to 863,5 million (coefficient of 89,1%).

Following the 2022 MGDD, in case the Member State does not undertake an amendment of the RRP (Recovery and Resilience Plan), in government accounts a decrease in the overall RRF envelope could be reflected as a lower rate of RRF financing, thus neutralising for consistency reasons only a lower share of the expenditure actually incurred.

### *Discussion*

Eurostat explained that in the case of the RRF, the government is deemed to be the final beneficiary of the EU, because it determines the use EU grants received. Eurostat took note that a new RRP will be submitted following the revision of the maximum financial contribution allocated to Estonia.

Eurostat made some comments on the RRF table transmitted in the October 2022 EDP notification. SE is encouraged to provide the breakdown of current expenditure by economic function based on estimations if the information is not available in the PSFS. The reporting of table 1.3 (EDP T.2 recording) should be filled with the inflows and outflows recorded in the WB and zero, L or M used according to the usual reporting conventions. There is a consistency issue between tables 1.3 and 1.4 (EDP T.3 recording). If there is no impact on the B.9 (resulting from the principle of neutralisation of the expenditures), there must be no impact on the change in debt. It means that an imputation of F.2A (-) corresponding to the expenditures must be recorded to insure the consistency. The RRF foresees that, when requested by the Member State, after the approval of the RRP by the Council, the Commission will make a pre-financing payment amounting to 13% of the financial contribution (grants). In government accounts a pre-financing on RRF grants has to be reflected, either as F.8 payable (financial advance) or F.8 receivable (in those cases when RRF related expenditure incurred until that point is higher than the pre-financing amount). The stocks of other accounts payable corresponding to the received advances will be first used as counterpart of the neutralisation before accumulating stocks of other accounts receivable.

### *Findings and conclusions*

**Action point 23:** *Regarding the EDP annex related to the RRF, the statistical authorities will provide the inflows and outflows included in the working balance, and fill parts 1.3 and 1.4 of the annex. An imputation of a F.2(-) corresponding to the expenditures financed from RRF grants shall be added in part 1.4 in order to neutralise the impact on the change in debt. The Ministry of Finance in charge of the planned data for the current year will provide an estimation of grants received on a cash basis (part 1.1 of the annex). Additionally, the Estonian statistical authorities will inform Eurostat about any amendments to the RRP negotiated with the European Commission, following the revision of the amount of maximum grants (coefficient of 89.1%).*

*Deadline: April 2023 EDP notification <sup>(21)</sup>*

#### **4.2.5. Military expenditure**

##### *Introduction*

The data source for recording military expenditure is the PSFS. There are no assets/liabilities of a long-term nature reported in EDP Questionnaire T.7, because based on the information made available to SE, the main way of financing the acquisition of military equipment are short-term prepayments.

##### *Discussion*

SSSC confirmed that all deliveries are to be made within one year from the payment of the advances. If this is not the case, a correction should be made in the public accounts via a reclassification as long-term advances.

During the October 2022 EDP notification, SE confirmed that it cannot identify the cash payments related to military equipment in the financial statements, thus the cash payments in the EDP table are calculated as residual, and by construction there is no discrepancy in the table. Any updates in the PSFS data have a counterpart in the cash payments. SE confirmed that the time of recording of military expenditure is the time of delivery of equipment.

##### *Findings and conclusions*

Eurostat took note of the information provided by the SSSC and SE.

### **4.3. Implementation of accrual principle**

#### **4.3.1. Pension reform in Estonia (suspended payments)**

##### *Introduction*

The second pillar reform came into force in January 2021. From the 1st of January 2002 to the 1st of January 2021, contributions to the second pillar were compulsory for the persons who were born in 1983 and later but was voluntary for other employees up to the age of 60, on certain conditions. The pension reform transformed the second pillar into a voluntary scheme. The new voluntary second pillar allowed people to decide if they wanted to continue to participate or enter the scheme, suspend their contribution to the second pillar or withdraw their capital. Young people are automatically enrolled in the second pillar but will have the ability to choose if they want to stay in that scheme. However, if the employee decided to withdraw his/her capital, then there is a ten-year period during which the employee has the right to resume the contribution to the second pillar scheme. Only after the ten years period, the beneficiary can decide what to do with the capital: either to reinvest it into a pension investment account or to withdraw and invest the capital himself (third pillar system). The government and the employees are both contributing to the second pillar.

##### *Discussion*

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<sup>(21)</sup> Action point 23 is closed.

One of the COVID-19 related measures was the temporary suspension of government's contributions (4%) to the second pillar pension funds from 1 July 2020 until 31 August 2021. Under normal circumstances (without suspension), the government collected (4%) contributions from employees, which are transferred to the second pillar. Additionally, employees are contributing directly to the second pillar for an additional 2%. The contributions to the second pillar are third party funds and should not enter the government accounts. The measure of suspension of payment concerns the payment by the government to the second pillar; the initiative to suspend the payments was with government. The suspension occurred for government to finance itself, rather than through any operational delay. It was agreed with SE that the suspended payment was to be recorded as a long-term loan to government.

SE confirmed that the suspended payments (4%) will be paid-out in the period 2021-2023, whereas the exact timing depends on whether a person stays or leaves from the second pillar pension fund during the period. According to SE (based on Ministry of Finances information), in 2021 about 149.000 persons in working age left the second pension pillar, whereas in 2022 the number was 52.000. In January 2023 there will be about 8.900 leavers, whereas the number of leavers in 2023 will probably exceed the expectations (15.000) of the MoF. The suspended payments were paid out to the leavers when they left the second pillar – in 2021 the sum was EUR 80 million, in 2022 EUR 24 million. While the payment for employees remaining in the scheme were postponed to 2023, the amount to be paid will depend on the yield applicable to the capital, which will be known in January 2023.

Eurostat enquired about the monitoring of the paid-out payments to the second pillar. SE confirmed that the information about the payment was provided by the pension funds.

#### *Findings and conclusion*

Eurostat took note of the information provided.

Cf related Action point 8 under agenda item 3.2

#### **4.3.2. Government measure in response to the COVID-19 crisis and Russia's invasion of Ukraine**

##### *Introduction*

Starting from the 2022 State budget, the expenditures related to the COVID-19 pandemic are planned in the State's activities but are not listed as separate measures. A reserve fund of EUR 148 million has been allocated in the 2023 State budget, which is planned to be used to cover both additional costs related to COVID-19 and costs related to refugees regarding Russia's invasion of Ukraine.

##### *Discussion*

##### **COVID-19 crisis**

SE provided, in advance of the meeting, an updated EDP Annex 8 on COVID-19 measures. The data for the Annex 8 are provided by Ministry of Finance, complemented by annual reports of public corporations such as *KredEx*. The quarterly data were not provided during the 2021 EDP notifications, as MoF did not provide quarterly

information on COVID-19 measures. The situation improved during 2022 EDP notifications.

SE confirmed that there were no tax deferrals related to taxes or social contributions in the context of COVID-19. Eurostat also enquired about the measure consisting in the increase in provisions of *Maaelu Edendamise SA* (MES), and *KredEx* for losses on doubtful loans, reported as having a negative impact. SSSC mentioned that the negative sign may reflect the adjustment in the provision due to the expectation of losses being revised downwards or a clerical mistake in the reporting (negative instead of positive sign). If it was the case, the negative figure should only be reported in 2021. SE agreed to check the recording in Annex 8.

Concerning the financing of the measures, the stock of indirect liabilities reported in the Annex 8 amounted EUR -2.102 million in 2020 because the issuances of Treasury bills and 10 years notes have been considered as being issued to finance the measures reported in the annex. Eurostat questioned this reporting, since it seems to be out of proportion with the expenditures and acquisition of assets related to COVID-19 measures.

### **Russia's invasion of Ukraine**

SE did not provide information prior to the visit about measures taken in the context of Russia's invasion of Ukraine (assistance to refugees, military aid, supply of financial assistance or support to companies involved in Ukraine's conflict). Estonia is providing sizeable supports to Ukraine. According to OECD data, Estonia is the country which had the largest number of refugees per thousand inhabitants.

SE acknowledged the general lack of information about the amounts of support provided. SE clarified that there was a supplementary budget for refugees voted in 2022. Although budgetary codes are missing for those expenditures, SSSC confirmed that the expenditures were recorded under specific codes in the accounting system (SAP), allowing to monitor how the supplementary budget was executed. When discussing possible other sources to provide an estimation of the support provided, the Ministry of Finance recalled that the expenditures were incurred by several ministerial departments, which makes more difficult their tracking.

Eurostat enquired about the existence of trilateral arrangements for delivery of military equipment and the implication in terms of recognition of the principal party in the arrangements and the time of recording of transactions. SE confirmed the existence of at least one arrangement but acknowledged the difficulties to gather information herein.

### *Findings and conclusions*

Eurostat took note of the explanation provided on the COVID-19 table. Eurostat also took note that SE is currently not specifically monitoring the impact of the measures taken in response of Russia's invasion of Ukraine.

#### ***4.3.3. Government measures to mitigate the impact of high energy prices***

##### *Introduction*

SE provided a detailed list of measures taken by the government to mitigate the cost of energy prices before the dialogue visit. The list is based on the information published by the Ministry of Finance on its website.

The Estonian government introduced five schemes to protect households, businesses and institutions against the effects of high energy prices. The duration of the individual schemes was two to six months during the period of September 2021 until April 2022. The schemes cover all households and all or most corporations, except one scheme targeted to low-income households. The price cap or price reduction schemes are implemented via a deduction on invoices for consumers, with a direct compensation to the producer or network management corporations, except for the low-income household's scheme for which the reimbursement is subject to the submission of an application to the local authorities.

New measures for the 2022/2023 heating season differ significantly from the previous measures, in the sense that they are only applicable to households. The support mechanisms starting from the October of 2022 are automatic, i.e., the seller reduces the unit price of electricity, gas or district heating on the energy bills that are received by household consumers. The measures for domestic consumers approved by government are foreseen to be financed from the proceeds of the sales of the CO<sub>2</sub> quotas (ETS).

The government support schemes related to 2021-2022 are recorded as subsidies on production (D.39) because energy measures, either directed at households or businesses, are not distinguishable in the PSFS.

##### *Discussion*

During the discussion, it was clarified that the measures are implemented indifferently through both energy producers, either private or public, and network management corporations (all public) which are fully compensated. It was also clarified that the consumers receive separate bills for the distribution cost and the consumption of energy.

The current recording based on the PSFS (D.39) reflects the compensation by government to the energy producers and network corporations which act as a conduit to distribute the subsidy to the consumers. The economic reality is that the beneficiaries of the subsidy are the households and the corporations benefiting from the price cap. The current recording is therefore not correct.

SE explained that they face an issue with the availability of data to identify the total amount of the subsidies related to the energy measures, and the final beneficiaries of subsidies. The SSSC added that, although not directly identifiable in the PSFS, special funds have been allocated in the budget for the energy measures and that some information can be retrieved from SAP. The total amount of subsidies should be nevertheless known since they correspond to specific measures, even if they are not

directly available in the PSFS, and the breakdown by beneficiaries can be based on estimates. Technically, the measures should be considered as tax-subsidy schemes in the specific reporting of energy measures. Nevertheless, it does not require any imputation of taxes since the financing of the measures (taxes) are already recorded in the accounts of the government.

On the other hand, the renewable energy subsidy scheme organised by *Elering AS*, the public network management company (S.11), is not rerouted through the accounts of government. Eurostat explained that a tax-subsidy scheme should be recognised, implying the rerouting of the taxes (surcharge imposed by *Elering AS*) and the subsidy in the accounts of government.

Finally, the Ministry of Finance enquired about the recording of the universal service price system (fixed price contract for consumers opting for such type of contract) where the price of energy is administered by the Estonian competition authorities. With the increase in production costs, this type of contracts has generated losses for the public producers who are by law forced to propose this kind of contract, while private producers can offer those contracts on a voluntary basis. As public corporations are classified outside the government sectors because they are supposed to behave like private producers, the obligation to sell energy at an administered price (potentially distorting competition between producers and impacting the profitability of public corporations) should be reflected in the government accounts. The fact that the administered price (fixed price) may become high enough by comparison to market price so to generate profits due to the evolution of the market price and entice private corporation to offer the fix-priced contract is just circumstantial. The scheme should be analysed *ex ante*, i.e., ascertaining what was the intention of government when they imposed to the public corporation to offer fixed-priced contracts while this remained voluntary for private company.

#### *Findings and conclusions*

**Action point 24:** *In the context of the high energy prices measures, government provides price cap or price reduction schemes with direct compensations to the producer/network management corporations. The schemes are targeted to all households and corporations, except for a scheme targeted to low-income households. The compensations are currently recorded as D.39. The Estonian statistical authorities will gather information from the Ministry of Finance to recognise the beneficiary of the scheme (households and corporations as consumer of energy) and to record the payments under the correct economic code (D.632, D.31 or D.39). The statistical authority will analyse and report to Eurostat the possibility to recognise a tax-subsidy scheme for the cap price scheme for households (for the period October 2022-March 2023) financed from the sale of CO<sup>2</sup> quotas.*

*Deadline: April 2023 EDP notification <sup>(22)</sup>*

**Action point 25:** *The Estonian statistical authorities will analyse and report to Eurostat on the possibility to record a tax-subsidy scheme for the renewable energy charge calculated and implemented by Elering AS.*

*Deadline: October 2023 EDP notification <sup>(23)</sup>*

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<sup>(22)</sup> Action point 24 is closed.

#### 4.3.4. Government guarantees and guarantee calls

##### *Introduction*

The MoF offers one-off guarantees to other central government units and public sector enterprises. Most of these one-off guarantees have been provided to units that are classified in the S.13 sector. In addition, four units provide standardised guarantee schemes: the Ministry of Education and Research (student loans), *KredEx* (housing loans and loans to enterprises), *Maaelu Edendamise SA* (loans to enterprises) and *AS KredEx Krediidikindlustus* (credit export guarantees on behalf of the government).

The main data source for the recording of standardised guarantee schemes is the PSFS, where the stock of provisions, decrease in provisions due to payments for calls of guarantees and other changes in provisions are available. SE records the stock of provisions provided in the PSFS directly as a stock of AF.66 liabilities in GFS, while “other changes in provisions” in the PSFS are recorded as capital transfers (D.99) expenditure in government sector accounts.

##### *Discussion*

Eurostat reminded SE that the guarantee provided for the SURE loans and the Pan-European Guarantee Fund (PEGF) must be reported in EDP questionnaire Table 9.1.

SE confirmed that detailed information from the financial statements of the units granting the guarantees, provide information on the total amounts of guarantees provided. Those financial statements are available approximately six months after the end of the fiscal year (they provide the same overall figures as the PSFS, but due to the format of the statements, several transactions and assets/liabilities are presented in much more detail).

Concerning the student loans guarantees provided by the Ministry of Education and Research, SSSC confirmed that there are no provisions imputed, but the student loans defaulting rate is very small due to a system of additional collateral provided by the debtor. In the event of a default, the government is buying the debt from the bank providing the loans (guarantee) and recover the amounts paid from the collateral.

The recording of the standardised guarantee scheme developed by *KredEx* and MES in the context of the COVID-19 pandemic follows the same recording principles as other schemes. Eurostat reminded that, as for the revision of provisions for loans not expected to be repaid at inception (discussed in section 3.2), any revision of provisions recorded in 2020 due to a downward revision of the rate of default on standardised guarantee granted in 2020 will be recorded as a reduction of expenditure recorded in 2020 if the revision takes place within a year, instead of recording a revenue in 2021. After one year from granting the guarantees, the statistical authorities will apply the delayed revenue approach for downwards revisions of rate of default. The provisions of the guarantee schemes related to COVID-19 pandemic is not distinguished in the PSFS, but the information is available in the accounts of *KredEx* and MES.

##### *Findings and conclusions*

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(<sup>23</sup>) Action point 25 is closed.

**Action point 26:** *The Estonian statistical authorities will include in Table 9.1 of EDP questionnaire, the guarantees related to the SURE loans and the Pan-European Guarantee Fund (PEGF).*

*Deadline: April 2023 EDP notification <sup>(24)</sup>*

**Action point 27:** *In relation to the standardised guarantees granted during the COVID 19 crisis, the Estonian statistical authorities will revise the expenditures recorded in 2020 for provisions related to standardised guarantees granted in 2020 if the rate of default has been revised downwards, instead of recording a revenue in 2021. After one year from granting the guarantees, the statistical authorities will apply the delayed revenue approach for downwards revisions of rate of default.*

*Deadline: April 2023 EDP notification <sup>(25)</sup>*

### **4.3.5. Government claims, debt assumption, debt cancellations and debt write-offs**

#### *Introduction*

Prior to the dialogue visit, SE provided a list of government claims (stocks, transactions, other economic flows) and recalled that there were no debt assumptions, cancellations, or write-offs in the period 2018-2021. The list covers loans granted to public units, which are available in the PSFS. SE provided additional information on loans granted to some financial corporations and to S.2.

#### *Discussion*

The discussion clarified the coverage of the list of claims, compared with EDP questionnaire T.8. Eurostat also clarified that the EFSF loans should be reported as foreign claims in EDP T.8. It was also clarified that the revaluation reported in EDP T.8 corresponds to the accounting concept of write-off (and reversal of write-off).

Transactions in loans to private corporation in 2020 are reported aggregated for an amount of 242 million (0.9% of GDP), including the COVID-19 support package of *KredEx* and *Maaelu Edendamise SA*. Eurostat reminded that those loans should be recognised as a lending scheme where part of the loans are not expected to be repaid at inception (cf. MGDD 2022 4.8) as already mentioned during discussion of agenda item 3.

#### *Findings and conclusions*

**Action point 28:** *Concerning the reporting of claims in Table 8 of the EDP questionnaire, the Estonian statistical authorities will clarify the coverage of the table (S.13 or S.1311). The EFSF loans rerouted in the Maastricht debt of Estonia will be reported under “foreign claims” instead of currently being reported under “other claims”. ESA Table 27 will be adapted accordingly.*

*Deadline: April 2023 EDP notification <sup>(26)</sup>*

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<sup>(24)</sup> Action point 26 is closed.

<sup>(25)</sup> Action point 27 is closed.

<sup>(26)</sup> Action point 28 is closed.

### **4.3.6. Capital injections in public corporations**

Representants of Ministry of Finance joined to the discussion of capital injections in public corporation.

#### **4.3.6.1. Consistency of the list of capital injections and EDP table 10.1A**

##### *Introduction*

In advance of the meeting, SE provided a list of capital injections broken down by economic nature (D.921, D.922, D.99 and F.5), for the years 2018-2022. The largest capital injections and their classification in ESA government accounts in public corporations are *AS Operail* (21,9 million in 2020 - F.51), *Elering AS* (40 million in 2018 - F.51), *AS Eesti Energia* (125 million in 2020 - F.51), *Lennuliiklusteeninduse AS* (Air navigation service) (10 million in 2021 - D.99), *Nordic Aviation Group AS* (22 million 2020 - D.99), *Tallinna Lennujaam AS* (Tallinn Airport) (34 million in 2021 - D.92) and *AS Eesti Raudtee* (10 million in 2020 - D.99). Those capital injections had been discussed during the corresponding EDP notifications, and Eurostat provided a bilateral advice on the capital injection in *Tallinna Lennujaam AS* in February 2022 <sup>(27)</sup>.

The capital injections recorded as financial transactions in EDP T.10.1A are broadly consistent with the list of capital injections provided, while capital injections in public corporation recorded as expenditure exhibit significant differences. SE signaled before the dialogue visit that a correction should be applied in 2020 on total capital injections in public corporations in EDP questionnaire Table 10.1A.

##### *Discussion*

It was first clarified that the list of capital injections provided by SE only includes capital injections in public corporation because the list is established based on the PSFS, therefore it does not include detailed information regarding capital injections in private corporations. Eurostat reminded that the MGDD provisions on capital injections in public corporations apply to a capital injection in a private corporation which consequently becomes a public corporation (controlled by government). In such a case, which remains theoretical for the time being, the information would be collected from the Ministry of Finances.

Eurostat took note that the list of capital injections in public corporations was consistent with EDP questionnaire T.10.1, although there were some issues. The first concerned the nature of larger than usual “other capital injections” recorded as expenditure in 2020 and 2021. It was decided to come back on this issue bilaterally. The second question raised was about the other capital injection recorded as financial transactions in 2021. It was clarified that it corresponds to the capital injection in the joint venture *AS Tallina Vesi*, where Tallinn City increased its share to 51 percent. Eurostat then enquired about the recording of the capital injection in *EarlyFund II (SmartCap venture capital)* and *EstFund* in 2019. It was clarified that the capital injection (F.52) is recorded in EDP questionnaire T.10.1.B. The last point was about the update of the table for capital injections first reported under “rearranged transactions” then are incorporated in the WB (recording of 52.2 million in 2020 under “other” capital injections into public corporations by central government subsector eventually included in the working balance in subsequent notification).

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<sup>(27)</sup> [Statistical treatment of the capital injection into AS Tallinna Lennujaam – 04/02/2022](#)

### *Findings and conclusion*

Eurostat thanked SE for the detailed information provided to prepare the mission and agreed to follow up on the discussion of T.10.1A on a bilateral basis on technical issue.

**Action point 29:** *Concerning the reporting of capital injections in Table 10.1 of the EDP questionnaire, the reporting of 52.2 million in 2020, reported under “other” capital injections into public corporations by central government subsector, must be reported under capital injection recorded in the working balance of EDP T.2A, if they are eventually included in the working balance in subsequent notification. The statistical authorities will correct Table 10.1 of EDP questionnaire accordingly.*

*Deadline: April 2023 EDP notification* <sup>(28)</sup>

**Action point 30:** *The Estonian statistical authorities will investigate the difference between the capital injections considered as expenditure provided in the list of capital injections in public units prior to the visit and the corresponding amounts reported in Table 10.1 of the EDP questionnaire.*

*Deadline: end-February 2023* <sup>(29)</sup>

#### **4.3.6.2. Capital injection in Elering AS (40 million in 2018)**

##### *Introduction*

*Elering AS* is a national transmission system operator for electricity and natural gas. The company is owned by the Republic of Estonia (MEAC). *Elering AS* has been profitable throughout its activity without any accumulated losses due to the regulated activities as network service provider which allows to fix network charge to cover the costs of distribution plus a margin.

##### *Discussion*

SE reminded that the qualification of the capital injections, made in 2016 and 2018, as financial transactions, occurred because the capital injections were not intended to cover accumulated, exceptional, or future losses. The purpose of investing the funds through equity capital was to increase the company’s net profit in the future. Based on the explanatory memorandum of the government’s regulation, the guaranteed return earned on investments was approved by the Competition Authority.

As regards the freedom to decide the use of the funds and the possible earmarking of the capital injection, SE argued that *Elering AS* was planning to use the capital to fulfil its investment plans. It was free to use the funds provided to it and was not obliged to use the capital to acquire an asset as a condition on which the transfer is made. Therefore, SE concluded that there was no earmarking of the capital injections for gross fixed capital formation purposes. In addition, the payment was made to strengthen the company's

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<sup>(28)</sup> Action point 29 is closed.

<sup>(29)</sup> Action point 30 is closed.

equity capital structure within the permitted limits to implement a long-term investment plan in the periods 2015-2019 and 2018- 2020.

Eurostat put forward the argument that the absence of loss is due to the network charge (fee), set to cover the costs of distribution. Additionally, the capital injection may be seen to mitigate the impact of investments on the future network charge paid by customer. The existence of a multiyear investment plan (to separate the Baltic States' electricity system from Russia and build the capacity to operate a self-contained electricity system) could be considered as an earmarking of investment. The financing of the investment through own funds and their replenishment by the capital injection can be considered as a capital transfer, the alternative to this capital transfer would have been to allow *Elering AS* charging higher fee to the consumer.

The Ministry of Finance clarified that *Elering AS* is a service provider to the producers of electricity and not to the final consumers. The price mechanism follows the EU regulation setting that the public service provider should apply a tariff to cover the costs and allows a margin like what would be expected by a private operator. The financing of investment plans cannot be upfronted, which means that the investments must be financed from own funds. The tariff is adapted *ex post* to ensure the rentability of investment.

It was also clarified during the discussion that the synchronisation project (to separate the Baltic States' electricity system from Russia) are partly financed from EU funds (Connecting Europe Facility) and funds earned from the interconnection of services between Estonia, Lithuania, Latvia, and Finland. Eurostat enquired about the nature of the funds provided by the EU. If those funds are recorded as EU grants or loans, with *Elering AS* as final beneficiary, any capital injection which would be allocated to the co-financing of the same project should be considered as investment grants as well, based on substance over form principle of national accounts. Partitioning the financing of the project between equity – coming from the State budget – and grants – provided by EU - would be considered as artificial especially for a capital injection in a 100% State owned corporation. The Ministry of Finance recalled that the main difference between a capital injection and a grant is the possibility to increase the tariff for the use of the grid with a capital injection.

### *Findings and conclusions*

Eurostat thanked the Ministry of Finance for the clarification provided and concluded that SE is responsible for the analysis of the capital injections. It was decided not to come back on the current classification of the capital injections in 2018 as financial transactions. As the main concern is for the future investment plans, this issue will be monitored closely by Eurostat. No capital injections in *Elering AS* are foreseen in 2022.

Cf. action point under 4.3.6.3.

### **4.3.6.3. Capital injection in AS Eesti Energia**

#### *Introduction*

*AS Eesti Energia* is operating in the markets for electricity and gas sales in the Baltic States, Finland, and Poland, as well as on the international market for liquid fuels. The company is active in three market segments (distribution of electricity, production of

electricity and extraction and distribution of shale oil). The company is 100% owned by the Republic of Estonia (MEAC). According to the annual reports, *AS Eesti Energia* has been profitable in the previous six years. *AS Eesti Energia* received a capital injection from government in 2020, of EUR 125 million. Since the company had been profitable in the last years, the capital injection was not made to cover accumulated, exceptional or future losses. The capital has been injected in the shale oil subsidiary even though carbon neutrality action plan foresees ceasing the use of shale oil for electricity production by 2030.

#### *Discussion*

Eurostat enquired about the earmarking of the capital injection. The capital was increased to implement the investment plan proposed by the company, which was to establish a new shale oil plant. The investment was funded by equity and loans. The Ministry of Finance further explained that the rationale for a capital injection is to keep the proportion of capital to loans at a certain (reasonable) level, and that there is no legal link between the capital injection and the use of funds. Government did not decide about the investment plans of the corporation.

Eurostat enquired about the decision process, i.e., who takes the initiative for the capital injections. The initiative comes from the public corporation who sets an investment plan which is financed either on own funds, on loans or capital injection. The choice of financing is based on the ratio loans to equity to be maintained on the balance sheet. If the investment plan requires additional equity, the government will check the profitability of the equity injection for equity injection to be done at market condition.

#### *Findings and conclusion*

**Action point 31:** *Following the discussion on the capital injections in Elering AS and AS Eesti Energia, the Estonian statistical authorities will continue to closely monitor capital injections provided by the government to “energy corporations” (producers, distributors or network operators), in particular, in the context of the investment programs co-financed with the EU. Statistic Estonia will analyse and report to Eurostat large capital injections (10 million and above).*

*Deadline: recurrent, starting with April 2023 notification <sup>(30)</sup>*

#### **4.3.6.4. Capital injection in AS Operail (21,9 million in 2020)**

##### *Introduction*

The company has three subsidiaries: *Operail Finland OY* (100%), which operates on Finnish railways, *Operail Leasing Finland OY* (100%) and *Operail Leasing AS* (100%), which are the freight wagon rental companies. According to the market/non-market test *AS Operail* is a market producer and, therefore, classified in S.11 The company is 100% owned by the Republic of Estonia (MEAC). The structure of the Operail group has been changed as of 1 July 2021, with two new subsidiaries added to the Group. The Group’s parent company *AS Operail* will only be engaged in freight transport on the Estonian railway infrastructure. All the other business areas of the Group will be transferred to the newly created enterprise – *Operail Holding OÜ*.

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<sup>(30)</sup> Action point 31 is closed.

Based on information provided on 11 March 2022 by SE, the government plans were to privatize 51% of the shares in Operail during summer 2022. Among the outstanding issues in view of the October 2022 EDP notification, SE informed Eurostat that, based on the information from Ministry of Finance, *AS Operail* was not privatized at the time of the visit, but the privatization was work in progress.

### *Discussion*

According to the analysis done by the company and by the Ministry of Economic Affairs and Communications, the capital injection in *AS Operail* was considered a financial transaction based on the fact that the capital injection was done to finance an expansion of its activities on the Finnish freight transport market, that it was expected that the expansion of activities to the Finnish market would be profitable, and that the markets for freight transport in Estonia as well as in Finland are open and the activity of wagon rental is a competitive market.

*AS Operail* posted on its website in September 2022, that the Estonian State started the process of the partial privatisation of *AS Operail* in April 2021 (exiting of non-strategic business areas was already decided in 2016). It was decided to privatise the business areas that were non-strategic and operate without market failure: the rental business of wagons, the locomotive construction and repair business and the Finnish freight business. The plan was to sell the business to a strategic or financial investor and there was no intention to go public. Due to the start of the war in Ukraine in February 2022, the sale of companies was suspended, and instead, the sale of assets was deemed the best strategy.

Eurostat enquired about the timeline of events. The capital injection was made in 2020 to expand the activities to the Finnish freight transport market and the decision to exit this market was taken in April 2021.

The Ministry of Finance explained that the capital injection of 2020 was pursuing two objectives, the financing of the expansion of activities in the freight transport market in Finland and increase the value of the company in view of a partial privatisation. In the meantime, a new government coalition was formed, and the decision has been taken to focus the activities of *AS Operail* on strategic businesses providing services that are vital for Estonia, hence the decision to exit from the freight transport market in Finland.

In 2022, Russian's war in Ukraine affected the selling process. It was consequently decided to change the plan. Before Russia's invasion of Ukraine, the most appropriate method of exiting the business was the sale of a 51% shareholding in subsidiaries. However, because of the war, the approach was to start the process of exiting the business areas by selling the assets of the wagon rental business. During the last quarter 2022, the condition of the sales of wagons was agreed between the parties.

Eurostat made three general comments. First, the decision to treat a capital injection as a financial transaction based on profitability must be assessed without considering the impact on profitability of grants provided by the government. It was clarified that *AS Operail* did not receive grants. Second, in the case of a capital injection with the expectation of a privatisation, if the privatisation takes place within a year of the capital injection, the capital injection is considered as a financial transaction even in the event that the corporation was loss-making before the capital injection (within the limit of the amount of privatisation proceeds). Last, if instead of a privatisation, a public corporation

is selling some assets, the proceeds of the sale of asset should be excluded from the calculation of the super-dividend test.

Eurostat acknowledged that those cases are theoretical and do not apply to the *AS Operail* transactions. In particular, the decision to sell some assets was not taken to improve the B.9 of the government sector.

#### *Findings and conclusion*

Eurostat took note of the explanations and clarifications provided by the Ministry of Finance.

#### **4.3.6.5. Capital injection in units controlled by local governments**

##### *Introduction*

The list of capital injections in public corporations transmitted by SE includes the capital injections in units controlled by the local government. Some capital injections take at the same time the form of capital transfer and injection of equity.

##### *Discussion*

Although the amounts are not material, Eurostat enquired about the nature of those transactions. Eurostat asked if those transactions are two separate operations or if they are linked. The Estonian statistical authorities agreed to further investigate.

##### *Findings and conclusion*

It was agreed that this question can be dealt bilaterally.

#### **4.3.7. Dividends, super dividends**

##### *Introduction*

The issue of superdividends was already discussed during the last EDP dialogue visit. Two action points were issued following the discussion. These action points are still open.

SE explained that the data source for the recording of dividends is the PSFS. The dividends are super-dividend tested twice a year: in March with preliminary information available and in September based on public corporations' annual reports which should be submitted via Commercial Register within six months after the end of the year. In exceptional cases the super-dividend test is also implemented on a continuous basis when additional information is available (e.g., from Ministry of Finance). SE explained in the document provided before the dialogue visit that some information on distributable profit may not be available in February when SE compiles the preliminary annual data.

##### *Discussion*

It was first clarified that SE is responsible for performing the super-dividend test. Eurostat enquired where the adjustments for super-dividend are incorporated in the EDP. SE recalled that the objective is to define the WB to be as close as possible to the ESA B.9, with the consequence that super-dividend recorded in the adjustment of EDP T.2A

in April are incorporated in the WB in October notification. The SSSC stressed the importance for the MoF of a WB (accounting concept) to be in line with the ESA 2010 B.9 (statistical concept). Eurostat reminded that the EDP T.2 is used to assess the B.9 during the notification, but the table is also published by SE.

The SSSC explained that one type of adjustment performed by the SSSC on the WB is the adjustment for dividend in kind corresponding to a dividend paid by the transfer a building. This non-monetary dividend was recorded in the revenue in the State budget execution and was adjusted for the determination of the WB. The non-monetary dividend took place between two units of government, so it consolidates. Eurostat explained that if the transaction should have been taking place between the government and a public corporation, the dividend received would have been compensated by a gross capital formation, with no impact on B.9. The fact that it enters or not the WB is not relevant.

On the availability of data for the April EDP notification, Eurostat clarified that the super-dividend test on dividend paid in T-1 should be performed using the distributable profit of Year T-2, and therefore the information is available for April notification of the year T.

#### *Findings and conclusions*

Eurostat took note of the explanations provided. In relation with the list of dividends received in 2022 (as end-June), not yet tested, Eurostat raised the attention of SE on two elements to take into consideration when analysing the dividend: any change in the policy of dividends distribution should be examined, as well as the existence of interim dividends (dividend paid the year the profit has been generated). Eurostat also reminded the rules applicable for dividends received by a parent company from its subsidiaries, which should not be considered as operating income of the parent company (relevant for dividend paid by Eesti Energia AS).

#### **4.3.8. Public Private Partnership, concessions, and energy performance contracts**

SE informed that there were no concessions, new PPP projects or energy performance contracts (EPC) undertaken by government in the period 2018-2021. There are no planned projects or contracts. As PPPs are used quite rarely in Estonia, there is no specific unit dealing with PPPs.

There are two on-going PPP contracts related to school renovations in Tallinn which are both recorded off government balance sheet. The two contracts were signed by the local government at the end of 2006. The construction phases of both ended in 2008. According to the legislation, local governments should inform the MoF about the PPPs they are carrying out and the MoF has the right to request to receive specific contracts. As of November 2021, developments regarding PPP projects have been frozen, as they are not prioritised by the current government.

#### **4.3.9. Emission trading permits (ETS) and sale of renewable energy rights**

##### *Introduction*

SE uses a TAC method to record revenue received from ETS in the accounts of the government (D.29 tax in year T+1 corresponds to the ETS cash raised in the auctioning

during year T). The time of surrendering of ETS permits is assumed to approximate the actual tax event, which in practice takes place during the first four months of the year following the year of pollution.

The government revenue from ETS allowances in 2021 recorded as D.29 ETS was EUR 142.4 million. The cash flow from ETS auction was EUR 248.6 million (0.8 % of GDP). At the end of 2021, the stock of other accounts payable from ETS was 248.6 million. The accrual adjustment for ETS included in the WB amounted 106.2 million.

Estonia started to sell permits in the third trading period 2013-2020. From 2013, the number of surrendered permits has exceeded the number of granted permits. It implied Estonian corporations buying permits from other countries. However, at the beginning of the fourth trading period (2021-2028), Estonia started surrendering less permits than issued domestically. 2021 was the first year where permits surrendered were lower to the permits auctioned.

#### *Discussion*

SE explained that, when the surrendered permits exceeded the number of permits issued, the tax revenue was determined by the number of permits surrendered instead of the number of ETS auctioned during the period. As a result, the tax revenue was equal to the value of surrendered permits and the stock of payables (F.89) was exhausted. From 2021, the number of permits auctioned was higher than the permits surrendered, and the tax is calculated based on the permits auctioned. This implies that part of the proceeds of the tax must be imputed to S.2. with the corollary that stock of payable F.89 will not be exhausted by the tax. SE informed that for that reason an ad hoc adjustment will be applied in the benchmark revision of 2024.

#### *Findings and conclusions*

SE and Eurostat agreed to discuss this issue bilaterally before the benchmark revision.

#### ***4.3.10. Others: mobile phone licenses, sale and leaseback operations, Rail Baltica, financial derivatives, privatization, etc.***

##### ***4.3.10.1. Derivatives***

SE transmitted the annex on derivatives before the EDP dialogue visit. Interest swap contracts are reported only for local government. The interest streams correspond to the amounts reported in the 2021 State annual report. The stocks of derivatives are cumulated transactions. Stocks and transactions are reported as liabilities of government. The corresponding notional values are not available. There are no off-market swaps reported, neither hedging of the debt. The PSFS is the source of information. Eurostat indicated that it would expect the fair value of derivatives to be available in the balance sheet in the PSFS, although the amounts were likely not material.

##### ***4.3.10.2. Mobile phone licenses***

The auction of the 5G licenses took place in 2022. The first 5G license was sold in 2022Q2 for EUR 7.2 million, the second in 2022Q3 for 8.5 million and the final license, also sold in 2022Q3, for 1.6 million. The proceeds collected by government on these sales are recorded in GFS and EDP, at inception, as a payable (AF.89) and as rent (D.45) for the central government (S.1311) spread over 10 years, in accordance with the 2017

Eurostat Guidance and the MGDD provisions. The adjustment for accrual recording is done at the level of the WB.

### **4.3.10.3. Rail Baltica**

#### *Introduction*

*Rail Baltic Estonia OÜ* (RBE) (classification is S.1311) is a 100 % owned company of Estonia established on 10 October 2014 in connection with the Rail Baltica (RB) project, which consists of the construction of a new route with a European gauge of 1 435 mm from Tallinn to the Lithuanian-Polish border. RB will provide the missing rail link with the countries of the European Union. Following the completion of RB, Estonia will be linked to the North Sea-Baltic corridor of the *TEN-T rail network* with both passengers and freight. *Rail Baltic Estonia OÜ* will become the railway infrastructure manager of the Rail Baltica railways infrastructure to be built in the territory of the Republic of Estonia.

The RB project was discussed during the EDP dialogue visit of 2021. There was an action point issued with the aim to follow up on the progress concerning the RB project SE sent to Eurostat the detailed information about the implementation of the project (Estonian part). The overview of main activities shows that, over the period 2010-2020, investments of around EUR 62 million have been made in Estonia. Current forecast for the State budget strategy foresees an additional total investment of EUR 1.2 billion over the period 2022-2025. This includes disbursement of the already committed Connecting Europe Facility (CEF) 2014-2020 support as well as of the CEF 2021-2027 period support. Around 81% of the costs are CEF funding, the rest comes from State Budget contribution.

#### *Discussion*

The main financing started in 2022. In this context, it is important to understand how EU flows are recorded in the accounts of *Rail Baltic Estonia* (as the main financing comes from EU Connecting Europe Facility). During the October 2022 EDP notification, Eurostat expressed a doubt on whether the recording of flows from the EU funds in *Rail Baltic Estonia* have an impact on B.9. No confirmation has been received from SE. According to the annual report, *Rail Baltic Estonia* had a profit of 11.6 million in EUR 2021 and EUR 7.5 million in 2020.

During the discussion, SSSC clarified the accounting rules concerning the EU funding of the expenditures of *Rail Baltic Estonia*, which means that revenue is recorded to neutralise the expenditure financed by EU funds. It was also clarified that the EU funds are transiting via *RB Rail AS*, the joint venture formed between the Baltic States. The joint venture main activities being to channel those funds to the State's unit in charge of the construction of the infrastructure.

Eurostat enquired about the partitioning of *RB Rail AS* between the three Baltic States, as discussed at the EDPS WG of December 2022. SE asked Eurostat how it should be done. Eurostat indicated that the "ESA accounts" of the joint venture should be partitioned according to the share of each partner in the joint venture and imputed to the accounts of central government. SSSC mentioned that the share in the joint venture is recorded in PSFS as a participation in a S.2 unit, which is correct from the point of view of the financial statement of the State. The imputation is done for the purpose of the national

accounts. The Estonian statistical authorities will further discuss this issue with their Lithuanian and Latvian counterparts and come back to Eurostat.

#### *Findings and conclusion*

**Action point 32:** *The Estonian statistical authorities, in close cooperation with the Lithuanian and Latvian statistical authorities, will investigate and report to Eurostat about the possibility of partitioning the joint venture of RB Rail AS.*

*Deadline: end-December 2023* <sup>(31)</sup>

#### **4.3.10.4. Privatisation**

SE provided a note mentioning the project for the restructuring/privatisation of the following corporations: *AS Operail* (work in progress, discussed under agenda item 4.1.4 and 4.3.6); *Enefit Green AS* and *Elektrilevi OU* (both subsidiaries of *Eesti Energia AS*, no specific plans or foreseen timeline); *AS EEsti Post* (no specific plans or foreseen timeline), and *AS Nordic Aviation Group* (“Nordica”) (no specific plans or foreseen timeline, discussed under agenda item 4.1.4.). The restructuring of Nordica is pending the consultations with the European Commission regarding State aid.

Eurostat took note of the information provided.

#### **4.4. Important issues concerning year 2022 relevant for the April 2023 EDP notification**

None.

#### **5. ANY OTHER ISSUES (MGDD 2022)**

None.

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<sup>(31)</sup> Action point 32 is in progress.

## EDP dialogue visit to ESTONIA

12 - 13 January 2023

### Agenda

1. Statistical organisational issues
  - 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation
    - 1.1.1. Institutional cooperation and EDP processes
    - 1.1.2. Quality management framework
    - 1.1.3. Audit and internal control arrangements
  - 1.2. Data sources and revision policy, EDP inventory
    - 1.2.1. Availability and use of data sources, revision policy
    - 1.2.2. Compliance with Council Directive 2011/85
    - 1.2.3. EDP Inventory
2. Follow-up of the EDP dialogue visit of 3-4 February 2021
3. Analysis of EDP tables and the related questionnaires – Follow-up of the October 2022 EDP notification
4. Methodological issues and recording of specific government transactions
  - 4.1. Delimitation of general government, application of market / non-market rule in NA
    - 4.1.1. Practical implementation of the market / non-market rule and qualitative criteria in national accounts
    - 4.1.2. Changes in the sector classification since February 2021 EDP visit
    - 4.1.3. Public units engaged in financial activities (*SmartCap venture capital Fund, SmartCap Green Fund, EstFund, AS KredEx Krediidikindlustus, SA Tartu Eluasemefond*)
    - 4.1.4. Government controlled entities classified outside the general government sector (public corporations)
  - 4.2. Implementation of accrual principle
    - 4.2.1. Accrual taxes and social contributions
    - 4.2.2. Accrued interest
    - 4.2.3. EU flows, including EU instruments
    - 4.2.4. Recovery and Resilience Facility
    - 4.2.5. Military expenditure
  - 4.3. Recording of specific government transactions
    - 4.3.1. Pension reforms in Estonia (suspended payments)
    - 4.3.2. Government measure in response to the COVID-19 crisis and of Russia's invasion of Ukraine
    - 4.3.3. Government measures to mitigate the impact of high energy prices

- 4.3.4. Government guarantees and guarantee calls
  - 4.3.5. Government claims, debt assumptions, debt cancellations and debt write-offs Guarantees
  - 4.3.6. Capital injections in public corporations
  - 4.3.7. Dividends, super dividends
  - 4.3.8. Public Private Partnership, concessions, and energy performance contracts
  - 4.3.9. Emission trading permits and sale of renewable energy rights
  - 4.3.10. Others: mobile phone licenses, sale and leaseback operations, Rail Baltica, financial derivatives, privatization, etc.
- 4.4. Important issues concerning year 2022 relevant for the April 2023 EDP Notification
5. Any other issues (MGDD 2022)

## **List of participants**

### **National Statistical Office**

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Mr Andres Lauba, Economist-statistician, Statistics Department

### ***KredEx* and SmartCap AS**

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Helen Kapp, financial manager of SmartCap AS (formerly CFO of *KredEx* AS)

### **Eurostat**

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