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Directorate D – Government finance statistics (GFS)

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FINAL FINDINGS

EDP Dialogue Visit to Estonia

11 – 13 February 2025

EXECUTIVE SUMMARY

Eurostat undertook an EDP dialogue visit to Estonia on 11-13 February 2025, 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, to review existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of data sources, to examine the classification of some categories of institutional units and to review the recording of specific transactions.

Eurostat acknowledged the exceptional situation existing in Estonia concerning the data sources. Estonia has a uniformed and detailed data source for all public units, i.e., the accrual-based Public Sector Financial Statements database provided by the public accountant. It is supplemented with an automated system that ensures the consistency of intra-government flows, allowing for the elimination of these intra-flows from data presentation when necessary. Eurostat also noted the high frequency nature of the dataset. The statistical authorities compile the ESA accounts of general government using a comprehensive and complex bridge table applied directly to the general ledger, using the chart of accounts at the level of the individual unit (raw data).

On the revision policy, Eurostat reaffirmed its opinion that cross-domain consistency, to which Estonia gives a priority, was important but should not prevail over accuracy of GFS and EDP statistics. The policy to publish data nationally before the EDP notification should not prevent revision of the data, if necessary, followed by a new publication of the revised figures. Eurostat recalled that flexibility was given to Member States to postpone revision for six months and/or allocate the revision to a suitable category, so to have the correct B.9 while leaving other parts of the accounts untouched.

As a follow up of the October 2024 EDP notification, Statistics Estonia and Eurostat continued the discussion on the time of recording of military expenditure. It concerned expenditures recorded as 2023 expenditure in the own accounts of the Ministry of Defence whereas the accounting office as well as the auditors considered that, under the Estonian accounting standards, expenditure should instead be recorded in 2024. In the October 2024 EDP notification, Statistics Estonia revised the recording, recording the expenditure in 2024 in accordance with methodological analysis based on ESA 2010 and MGDD 2022, the opinion of the accounting office and the auditors. This revision led Eurostat to express a reservation about the quality of Estonia's reported EDP data in the October 2024 EDP notification. Eurostat was at that time unconvinced by the arguments exchanged and thought that there was insufficient ground for a change in recording in the October 2024 EDP. The discussion with all the stakeholders during the dialogue visit highlighted the elements to take into consideration to determine the correct (in line with ESA rules) time of recording of those expenditure. Eurostat also recommended improving communication channels between the parties to allow the correct statistical recording of those transactions in the future.

Other discussion concerned the recording of the merger operation between *Tallinna Soojus AS* (S.1313) and *AS Utilitas Tallinn* (S.11). *Tallinna Soojus AS*, a district heating infrastructure company established by the City of Tallinn in 1996 has a rental and operating contract with *AS Utilitas Tallinn*, which took over the complete property of equipment, facilities, and other assets necessary for the production and distribution of heat. In 2023, the City of Tallinn and *OÜ Utilitas* agreed to establish a joint venture in

district heating, *AS Utilitas Tallinna Soojus*, owned in one third by the City of Tallinn and in two thirds by *OÜ Utilitas*. The discussion addressed the question of the sector classification of the new unit created in the merger and its impact on the government accounts. It also explored whether there was any substantive change compared to the previous situation, where infrastructure assets and investments in gross capital formation were rerouted in the government's ESA accounts. Due to the complexity of the case, Eurostat concluded that the analysis of the case needed to be continued both internally and with the Estonian statistical authorities. In the meantime, the concession investments would be rerouted in the accounts of the local government as a conservative approach.

Eurostat also inquired on possible compilation issues in relation to the larger than usual unexplained residual discrepancy between the balance of the execution of budget (working balance) and the ESA deficit (B.9) for the year 2023, as reported in EDP Table 2A during the October 2024 EDP notification.

As regards the recording of taxes, the discussion focused on the existence of a so-called Single Tax Account (STA). Its features and recording in the accounting system was examined based on the documentation provided before the dialogue visit. Eurostat concluded that the characteristics of the STA in Estonia imply a need to recognise a deposit liability. It is due to the ability for the taxpayer to withdraw amounts from their account, as well as to transfer amounts to other account holders.

Eurostat also inquired about the recording of EU flows, their reporting in the EDP questionnaire table and the consistency with the ESA transmission program table 2. Eurostat also investigated the recording of other accounts receivable and payable related to EU flows, and particularly the large stocks raising a possible grossing up issue of intraflows between subsectors of government.

Concerning the recording of the Emission Trading Scheme (ETS), the discussion focussed on the situation under the fourth trading period (2021-2028) where Estonia started surrendering less permits than issued domestically, becoming a net exporter of ETS for sizeable amounts. This situation led the statistical authorities to record the full government revenue from proceeds of sales of ETS as taxes (D.29) counter-parted in the ESA accounts almost entirely in S.2, with a temporary arrangement for GNI purposes where the amounts are netted from the taxes transferred to EU, resulting with negative taxes vis-à-vis the rest of the world. Eurostat recalled the discussion taking place in the framework of the revision of the international statistical standard stressing the challenges of recording a multi country scheme. Eurostat encouraged the statistical authorities to take part in those discussions.

Eurostat appreciated the documentation provided by the Estonian statistical authorities prior to the EDP dialogue visit and thanked them for cooperation during the discussions, which were transparent and constructive.

FINAL FINDINGS

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an Excessive Deficit Procedure (EDP) dialogue visit to Estonia on 11-13 February 2025.

The delegation of Eurostat was headed by Mr Gabriele Semeraro, 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 (Statistics Estonia), the Ministry of Finance, the State Shared Service Centre (financial reporting service), and the Central Bank (Eesti Pank). In addition, representatives from the Ministry of Defence, the Estonian Centre for Defence Investments, the National Audit Office and the Estonian Tax and Customs Board participated in parts of the meeting relevant to their respective areas.

The previous Eurostat EDP dialogue visit to Estonia took place on 12-13 January 2023.

The visit aimed to review existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of data sources and the revision policy applied to the GFS, to examine the classification of some categories of institutional units and to review the recording of specific transactions.

Regarding procedural arrangements, the *Main conclusions and action points* were sent to Estonia for feedback. 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 relevant background material provided by the Estonian statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Estonian statistical authorities for the good cooperation and for the productive and transparent discussions during the EDP dialogue visit.

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) informed Eurostat that there has been no change in the institutional responsibilities related to the EDP notification and government finance statistics since the last visit in 2023. 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. Eesti

Pank (EP) compiles annual financial accounts. SE remains the ultimate responsible for data reported in all the EDP tables.

Discussion

SE explained that in May 2023, the statistical office underwent a restructuring. The Macroeconomic Statistics team was separated from the Economic and Environmental Statistics Department and a dedicated Government Finance Statistics team was created inside the new department. The GFS team has a team leader, four leading analysts and four analysts. Two members of the team are specialised in EDP related issues.

Concerning the distribution of responsibilities for the ESA transmission programme between SE and EP, small inconsistencies have been observed between the quarterly financial accounts of the general government (ESA Table 27, compiled by SE) and the annual financial accounts (ESA Tables 6/7, compiled by EP). SE explained that these inconsistencies arise from the counterpart information used in compiling the annual financial accounts. Eurostat enquired how the allocation of the differences is imputed to ESA Table 27 or to Tables 6/7. While quarterly accounts are used for the compilation of the annual accounts, the counterpart information is determined during the preparation of the sectoral annual financial accounts, except for debt securities, where the holder information is determined when compiling the quarterly financial accounts. SE also confirmed that for the counterpart of debt securities transactions, they follow the debtor/creditor principle, recognising as counterpart the issuer and not the transactor (consistently with the balance of payment statistics).

Eurostat finally enquired about the project to develop a new compilation system presented during the 2023 visit to automatise the statistical production. The analysis phase of the requirements in terms of digitalisation and automation of the processes has been completed with the funding of the European Union via the Technical Assistance Support Instrument (TSI). Regrettably, the implementation of the recommendations issued in the analysis phase has been put on hold for budgetary reasons.

According to the documentation provided before the visit, there were no changes in the quality management framework, audit, and internal control arrangements since the 2023 visit.

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources

Introduction

For the compilation of EDP and GFS statistics, SE relies on an arrangement, rare in the EU, where the main data source is a very comprehensive accrual-based Public Sector Financial Statements (PSFS) database provided by the public accountant, the State Shared Service Centre (SSSC). The accounting principles underlying the PSFS are mostly consistent with the International Public Sector Accounting Standards (IPSAS). The PSFS database contains the general ledger of all units belonging to the government

sector and to the public sector. ⁽¹⁾ The financial statements of each unit (profit and loss, balance sheet and cash flows statements) can be derived automatically from the general ledger at the consolidated level.

The general ledger of all units is processed by the SSSC, which establishes the consolidated annual report of the State. The report is audited by the National Audit Office (before 31 August). The report includes consolidated and unconsolidated annual accounts (balance sheet, statement of financial performance, cash flow statement and statement of changes in net assets) of S.1311 and S.1313, as well as the State Budget implementation report. Consolidated accounts refer here to the accounts of an entity with all its subsidiaries and eliminating the intralinks. The report also presents the accounts (balance sheet, statement of financial performance, cash flow statement and statement of changes in net assets) of the general government and of the public sector.

The General Rules of State Accountancy include a uniform chart of accounts based on several dimensions comprising an account number, counterpart codes, codes of function, source code for revenue (e.g., used to distinguish EU funds from domestic or other foreign aid), and cash-flow codes.

Discussion

Eurostat remarked the exceptionally favourable source data situation existing in Estonia, with a uniformed detailed source data for all public units, and an automatised way to ensure the consistency of intra-government flows as well as to present data eliminating these intra-flows when needed. Eurostat also remarked the high frequency information of the dataset and noted that this dataset was also used to verify the market/non-market test.

SE compiles the ESA accounts of the general government using a comprehensive and complex bridge table applied directly to the general ledger, using the chart of accounts at the level of the individual unit (raw data). SE is responsible for coding the bridge table to ESA transactions. The PSFS data received from the SSSC are stored in the Oracle database and processing is generally carried out in Excel.

Given the unique source data situation, Eurostat wondered what could explain the significant data gaps that occasionally led to significant statistical discrepancies and what could justify the missing ESA accounts for the largest units or groupings of units (i.e., in routine ad-hoc table to be provided for the visit). Eurostat also enquired how SE was actually ensuring that the existing bridge between the source data and ESA codes was complete and/or not entailing a double count.

Findings and conclusions

Action point 1: *In order to verify that the bridge table used for the compilation of the central government accounts is not creating gaps or double counting, Statistics Estonia will perform a reconciliation exercise, at a suitable aggregated level, between the ESA net lending/net borrowing (B.9) of selected units of central government and the balance of the Statement of the financial performance of the annual accounts, calculated from the (unconsolidated) general ledger, for 2023.*

⁽¹⁾ A few units are not included in the PSFS database while being included in the ESA accounts via other data sources. These exceptions have marginal impact on the general government balance and the general government gross debt.

Deadline: October 2025 notification for a preliminary result

Action point 2: *In parallel, Statistics Estonia will examine the possibility to “reverse engineer” in future the calculation of B.9 at the level of individual units (applying the reverse bridge table) to detect any large discrepancy between the statement of financial performance calculated starting from the B.9 and the balance of financial performance of PSFS.*

Deadline: December 2026

The other central government subsector units (OCGB) are divided in Estonia into four categories: public-legal institutions (S.13112), foundations (S.13113), hospitals (S.13114), and enterprises (S.13115). SE provided information on the ESA non-financial accounts (requested by large units or grouping of units) only for total of OCGB and for the four categories listed above.

Action point 3: *Statistics Estonia will complete the table presenting the ESA non-financial and financial accounts of other central government bodies (Annex 1 of the 2025 EDP dialogue visit), for 2024, showing the largest/most relevant entities individually and by groupings of the remaining units by similarly types (hospitals, etc...).(2)*

Deadline: October 2026

Action point 4: *Statistics Estonia will update the EDP Inventory to reflect the findings of the dialogue visit, notably providing a more detailed/precise description of the PSFS database (reference to general ledger, etc..) and of processes applied when bridging the accounting data into the GFS accounts.*

Deadline: end 2025

Action point 5: *Statistics Estonia will clarify which adjustments in EDP T.2A are provided by SSSC and which are calculated by Statistics Estonia, based on the EDP T.2A transmitted in October 2024.*

Deadline: 31 March 2025

1.2.2. Revision policy

Introduction

(2) SE provided feedback on the action points 2 and 3. SE expressed its concern that the action points were requesting SE to compile the statistics at a more detailed level than necessary for the reporting in ESA and EDP tables: B.9 at the level of individual units and financial accounts of other central government bodies. SE argued that given the current technical situation and resource constraints, it privileges the securing of all AS-IS production of statistics in all domains prior to engaging in development projects. Eurostat did not ask SE to compile statistics at the level of individual units but rather aimed at investigating the possibility of “reverse engineering” of the B.9 calculation to help identify large discrepancies between the financial performance reported in the ESA accounts and that reflected in the PSFS. Furthermore, Eurostat requested that the existing table presenting ESA financial and non-financial accounts (currently based on four groupings of units) be expanded to include the largest and most significant individual units. This exercise could add an important quality layer to the compilation process and enhance the understanding of the public accounting system. At the same time, Eurostat acknowledge current resource constraints and proposed a longer implementation period.

SE and the Eesti Pank implement a harmonised 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 aligned to the revision policy of the whole national accounts. The revision policy covers both, non-financial and financial accounts (including government debt).

This revision policy currently in place in Estonia, implies no revision of the GFS/EDP data for years T-4, T-3 and T-2 during the April notification in the year T. In addition, in October, when the four years of the notification are in principle open to revision, the figures notified are already published by SE. In practice, those figures are then less likely to be subject for revision during the clarification rounds (unless exceptional circumstances/deviations appear). As a result, revisions of data for the year T-2 identified in April T cannot be implemented in the accounts until October T+1 (i.e., awaiting 1 year and a half).

Discussion

Eurostat reaffirmed its opinion that cross-domain consistency was indeed very important but should not prevail over accuracy of GFS and EDP statistics. The policy to publish data nationally before the EDP notification should not prevent a new publication if the figures need to be revised. Eurostat recalled, as discussed already during the 2023 visit, that flexibility was given to Member States to postpone revision for six months and/or allocate the revision to a suitable category, so to have the correct B.9 while leaving other parts of the accounts untouched (e.g. GDP relevant), having in mind the size of the corrections in question (i.e., with more flexibility for smaller amounts). Eurostat thus discussed with SE how to implement a less strict revision policy to the GFS/EDP domain, allowing flexibility by temporarily using D.9/D.7 transactions, so to avoid GDP revisions.

Eurostat acknowledged that the solutions proposed could nonetheless require a revision in ESA Table 801 or accepting some inconsistencies between ESA Table 801 and ESA tables 2/25. This point would require internal discussions with Eurostat's unit C.2.

Findings and conclusion

Action point 6: *Statistics Estonia will review their current revision policy, which emphasizes aligning government finance statistics with national accounts and balance of payments data at the cost of accuracy of the data (with excessively long postponement of the release of correct GFS/EDP data). Specifically, this review will reaffirm that data revisions can be made for the four EDP years in both annual EDP notifications. At the same time, it will allow flexibility in applying the policy, such as temporarily implementing revisions in an account that does not affect GDP or postponing minor revisions to the following EDP notification.*

Deadline: July 2025 for a note on the issue; end 2025 for an adapted GFS/EDP revision policy statement to be inserted in the updated EDP inventory ⁽³⁾

1.2.3. Compliance with Council Directive 2011/85

Introduction

⁽³⁾ Action point 6 is under assessment of Eurostat.

At the time of the visit, the latest publication on contingent liabilities according to the Council Directive 2011/85 was dated October 2024 and the data were available on the SSSC's website. SSSC published all data required covering the guarantees provided to units classified outside general government, the liabilities of public corporations and non-profit organisations classified outside general government, the off-balance sheet PPPs, the non-performing loans (NPLs), the participation of government in the capital of corporations/non-profit organisations and the monthly fiscal data (on an accrual basis).

Discussion

Eurostat first enquired about the consistency of the data published on SSSC's website with data provided by SE (in the questionnaire transmitted in December 2024) for the liabilities of public corporations classified outside the government. The difference was partly explained by the accounting for debt of partially own entities, for which only the part of the liabilities corresponding to the government participation is taken into account.

The discussion then focussed on the reporting of non-performing loans according to Council Directive 2011/85/EU. The loans are identified based on the definition of PSFS, which can differ from the ESA definition. More importantly, the valuation of the loans reported seems to correspond to the written-down value instead of the 'face value', although the general ledger apparently contains information on both values.

The recording of NPLs in PSFS follows the lower nominal value. This is because NPLs in PSFS also include interest accrued but not paid, which refers to the nominal value in ESA 2010 paragraph 7.39. The valuation of NPL in PSFS use an approximation method, where claims for which the payment deadline is overdue 90-180 days, are discounted by 50%, meaning only 50% of the original nominal value is recorded under NPLs. When the payment deadline is overdue by more than 180 days, the claim is discounted by 100%. The allowances to provisions corresponding to write-down of loans are recorded in PSFS in the account 103101 in Class 1 (assets) with a negative sign, with a counterpart in the profit and loss account (expenses) 605000.

According to ESA 2010 a loan is non-performing ⁽⁴⁾ when payments of interest or principal are 90 days or more past their due date or has been capitalised, refinanced, or

⁽⁴⁾ SE reminded in the documentation provided before the visit that at the EDPS WG of December 2023 the NPLs reporting was discussed under item C.8 (Reporting of government NPL assets: coverage and valuation, results of the questionnaire). The main aim of the document was to present the results of the questionnaire on the reporting of government non-performing loan assets that Eurostat sent out to Member States (MS) in November 2023.

In the questionnaire, the following definition of NPLs based on banking terminology developed in the EU was provided: NPLs are defined as the sum of three subcategories of non-performing assets:

- i. Bad loans are exposures to debtors that are insolvent or in substantially similar circumstances;
- ii. Unlikely-to-pay (UTP) exposures (aside from those included among bad loans, in (i) above) are those in respect of which banks believe the debtors are unlikely to meet their contractual obligations in full unless action such as the enforcement of guarantees is taken; and
- iii. Overdrawn and/or past-due exposures (aside from those classified among bad loans and unlikely-to-pay exposures) are those that are overdrawn and/or past due by more than 90 days and for above a predefined amount.

In the document C.8 of the December 2023 EDPS WG, based on the MSs replies to the questionnaire, Eurostat made proposals regarding the recording of NPLs. One of these proposals was that loans that are not in default, but which are unlikely to be repaid (UTP loans) are considered fulfilling the ESA

delayed by an agreement; or the payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full. ESA 2010 NPLs are valued at face value without discount and are considered contingent liabilities. SE clarified that they are recording loans at the written down value in ESA accounts and record a capital transfer expenditure at the time of the write-down. A reversal of write-down leads to a symmetrical recording of a revenue (or a negative expenditure).

In the business accounting, the write-down of a loan for its full value does not correspond to the write-off of the loan, which corresponds to a decision from the accountant to remove the loan from the balance sheet. ESA follows the rule of recording loans at their full value, and loans are eliminated from the ESA balance sheet (with corresponding capital transfer) when written off what is arbitrary, depending on the decision of the accountant. Write-off does not mean that the claims were irrevocably abandoned since accountant can record a reversal of write-off. The arbitrariness about the decision to record a write-off means that data are not easily comparable, while the written-down values are much more comparable due to the consistency of treatment.

During the discussion, SE revisited the revision of provisions for COVID-19 loans granted by SA KredEx in 2020. This topic, previously discussed during the 2023 dialogue visit, pertained to the adjustments made to the account of year 2021 of KredEx to reflect the changes of the provisions for the expected losses. During the discussion in 2023, Eurostat recommended that the downward revision of expected losses be reflected in the expenditure recorded in 2020 and not as an increase in the revenue of 2021. Eurostat queried if it was possible to check, based on the monthly data reported by KredEx to the SSSC, if the provisions were recorded at the same time as the loans were granted (indicating loans not expecting to be repaid at inception), or with a delay of a few months, when the loans became “non-performing”. It was also confirmed that the strict rule of revising the past for reversal of write-down within a year, can be extended to two years given the accounting rules followed by SE for write-down/write-up when the amounts are substantial. Eurostat has not requested any change to the recording agreed with SE as a follow-up of the action point 6 of the 2023 dialogue visit.

Findings and conclusion

Action point 7: *Regarding the reporting requirements for non-performing loans under Council Directive 2011/85/EU, Statistics Estonia will review the data currently reported and clarify with Eurostat whether it reflects amounts written-down or not. If so, they will correct the data and report the face value of the non-performing loans instead (as currently required) – unless these would cover rare cases of loans acquired at reset value (e.g. defeasance) or of loans not expected to be repaid or fully repaid at inception (i.e. with a capital transfer recorded in both cases).*

Deadline: December 2025

Action point 8: *Statistics Estonia will clarify whether, in their view, the impairments recorded in 2020 (-54 million, reduced to -38 million in 2021) on loans provided in the framework of COVID-19 by KredEx in 2020 (180 million) correspond to the MGDD 2022 definition of loans not expected to be repaid at inception, or rather to impairments that were unforeseeable/not expected when the loans were granted and were recorded*

2010 paragraph 7.101c definition of NPLs and hence should be reported as such in the Contingent Liabilities Questionnaire.

later on by the accountant. The observation of the monthly (or quarterly) general ledger may help in this respect ⁽⁵⁾.

Deadline: March 2025

Action point 9: *By reference to the action point 8, Statistics Estonia will take this opportunity to clarify its general approach regarding write-downs on assets. As these are reported in the general ledger, the issue is whether these are routinely coded in the bridge table to ESA as capital transfer expenditures and, if yes, whether reversals (write-up) are then deduction to D.9 expenditure, or D.9 revenue, or not considered. Eurostat recalled that write-downs/ups are generally not to be recorded as ESA expenditure/revenue, but that a certain practice could be accepted, as long as (significant) reversals are not impacting B.9 at time of reversal (but instead neutralised or allocated across periods: as a revision to past write-downs or postponed to the future). An estimate of the amounts concerned will be provided for 2021-2024.*

Deadline: April 2025 notification ⁽⁶⁾

1.2.4. EDP Inventory

As a follow up of the 2023 visit, SE provided an update of the EDP Inventory, including the Annex 1 on the Register of General government units by Subsector and by NACE. The new Inventory was published on the website of Eurostat in November 2023 ⁽⁷⁾.

⁽⁵⁾ SE, in the feedback on the main conclusion and actions points, questioned the relevancy of the action point as well as the changes triggering the issuance of a new action point relating to a discussion during the 2023 dialogue visit. Eurostat is of the opinion that there is no duplication or contradiction between this action point and action point 6 from the 2023 dialogue visit. The 2023 discussion focused on the time of recording of the revision to loss estimates made between the April and October 2022 EDP notifications (i.e., in ESA accounts). In contrast, during the 2025 dialogue visit, the inquiry concerned the nature of the overall losses recorded in public accounts, specifically whether the state accountant recorded any losses based on actual data or not (and how does it compare with the initial estimates in ESA accounts).

⁽⁶⁾ Action point 9 is under assessment of Eurostat.

During the discussion with SE, Eurostat understood that the write-downs/ups were recorded as D.99exp/rec and that the loans were recorded at their written downs/ups value. That was accepted, particularly as the amounts involved (outside the COVID-19 loans) were non-significant (as confirmed with a note provided for the action point):

The note clarifies that reversals (write-up) are deductions to D.9 expenditures. The fund, which is created with EU assistance is used to record losses on doubtful loan receivables. Therefore, it is only recorded under expense transactions.

SE seeks the confirmation of Eurostat about the recording of the write-downs/write-offs: *Write-downs and write-offs are internal accounting actions by the creditor and are often not recognised as transactions, because they are not carried out by mutual agreement (see ESA2010 paragraph 20.234). Debt write-offs and debt write-downs are both transactions on the part of the lender (an independent reporting from another party), meaning they only affect the balance sheet and income statement of that entity. Therefore, based on ESA2010 paragraph 20.234 we reach to a conclusion that these are estimates and should not be considered as expenses or decreases in assets. Hence, we would like to ask your confirmation whether we have understood correctly that we should exclude these amounts (in table 1) currently recorded under D.9 expenditure.*

⁽⁷⁾ <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories#expand-ee-18983078>

Eurostat stressed the overall good quality of the EDP Inventory and suggest introducing some amendments to reflect on the changes introduced during the benchmark revision of 2024. Eurostat also invited SE to introduce in the Inventory the outcome of the discussions taking place during the visit such as the clarification on the use of the general ledger or recording of the non-performing loans.

2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT OF 12-13 JANUARY 2023

The previous EDP dialogue visit to Estonia took place on 12-13 January 2023. The final findings were published on Eurostat's website in November 2023 ⁽⁸⁾. The EDP dialogue visit resulted in 32 action points. SE complied with the action points, provided notes and answered to several additional questions. All action points were considered as closed, except two: AP 2023/19 concerning the interest table, and AP 2023/32 concerning the recording of the joint venture *RB Rail AS* (Rail Baltica project).

Eurostat explained that the action point related to the table on interest would be discussed under agenda item 4.2.2 of the current dialogue visit. SE mentioned that they provided a note as of December 2023 (within the deadline) on *RB Rail AS*. Eurostat acknowledged the absence of its feedback on this action point.

Both action points were closed, AP 19 based on the discussion during the meeting, AP 32 based on the information provided prior to the dialogue visit ⁽⁹⁾.

3. ANALYSIS OF THE PREVIOUS EDP TABLES – FOLLOW-UP OF THE OCTOBER 2024 EDP NOTIFICATION

3.1 EDP T.2A Statistical discrepancy

Introduction

In most Member States, the working balance (WB) is determined using either a top-down or bottom-up approach. However, in Estonia, the WB is determined by the State accountant (SSSC), while the B.9 is independently determined by the statistical authorities (SE). Both balances are derived from the general ledger of the accounting system. Several adjustments are done to reconcile the figures; however an unexplained discrepancy remains. It was particularly large for 2023 (0.3% of GDP, improving the B.9 vis-à-vis the WB).

Discussion

During the discussion, SE clarified the circumstances which led to a series of errors in the reporting of EDP T.2A during the notification of October 2024. The main element was a change, between the April and October 2024 notifications, in the time of recording of military expenditure in the ESA accounts.

⁽⁸⁾ <https://s-circabc.europa.eu/ui/group/ca7c9cc4-b473-4abc-8e95-263dcd57d79d/library/e567b49a-a66e-4d69-be9d-0d203ca86237/details>

⁽⁹⁾ Due to the lack of time, the Rail Baltica project (item 4.3.11 – for information) has not been discussed.

In the April 2024 notification, SE used the budget execution data as of 1 March 2024, instead of the 1 February 2024 budget execution it usually relies on. This change was justified by the need to incorporate large military expenditures that were only recorded in the budget execution of March (cf Section 3.2). This led to a derogation from the principle of cross-domain consistency.

SE contacted Eurostat after the April 2024 notification, providing statistical analysis based on ESA 2010 and concluding that the purchase of the military items in question should be recorded in 2024 rather than in 2023, as had been reported in April 2024 (cf section 3.2). In the October 2024 notification, SE used the Consolidated Annual Report of the State, in which the recording of the military expenditures had been revised (moved from 2023 to 2024), following methodological analysis based on ESA 2010 and MGDD 2022, as well as the qualified opinion of the National Audit Office on the “Accuracy of the annual accounts of 2023 and regularity of the transactions of the State”.

The SSSC clarified that they use a “notional unit” to correct the general ledger of the Ministry of Defence. SE does not apply the bridge table on the notional units when determining B.9, meaning the correction was manually inserted into the compilation system. At first, the correction done by SE to the B.9 reflected only military expenditure, while the correction of certain related foreign grants revenue (-24 million) was not possible due to a lack of information. As a result, the 2023 B.9 reported in October showed an improvement of 189 million compared to April, instead of the 167 million that would have been more consistent.

At the same time, the notional unit for the correction of military expenditure was included in the WB (by the SSSC), leading to a duplication of the correction for the military expenditure in the EDP T.2A.

As those expenditures mostly remained unpaid at the end of 2023, an OAP was recorded in the general ledger of the MoD (total expenditure, minus advances). The change in the time of recording of military expenditure in GFS led to a corresponding manual correction of the OAP in the EDP T.3B done by SE.

A new version of the EDP T.2A was sent by SE before the dialogue visit. SE investigated the possible reasons of the large residual discrepancy still reported at the closing date of the October 2024 EDP notification. A first issue discussed was the adjustment in EDP T.2A related to the “removal of consolidation and adjustment figures imputed by SSSC”. Eurostat requested an explanation of the reasons leading to this entry.

A second issue seemed to be related to the recording of EU flows. The accounting figures were correct, while the bridge table to ESA created some errors in the recording of D.7rev/D.9rev for the RRF which only became visible in 2023, when the expenditure eligible to RRF financing started to become material. It seemed that the accrual expenditures of OCGB, S.1313 and S.1314 eligible to the RRF financing have not been neutralised, and that the D.7/D.9rev from the RRF has been recorded for its full amount at the level of budgetary central government (S.13111). Regarding the expenditures of final beneficiaries PSFS does not distinguish expenditures financed from RRF from the expenditures, which are financed by other means.⁽¹⁰⁾

⁽¹⁰⁾ When the final recipient/beneficiary is a unit other than S.13111 (Budgetary), the neutralisation of expenditure is a D.9/D.7rec against S.13111, following the cash to determine the counterpart.

Findings and conclusions

Action point 10: *Statistics Estonia will provide a note describing the adjustment for “removal of consolidation and adjustment figures imputed by SSSC” in EDP T.2A explaining how notional units are used as an accounting device to correct the general ledger or to consolidate transactions between units. The note will justify why and when such adjustments are necessary in EDP T.2A using examples, showing what is included in the WB, and in the B.9 and explaining the need for an adjustment between both of them.*

Deadline: October 2025

Action point 11: *Statistics Estonia will provide a note clarifying the recording of RRF revenues to be imputed to the budgetary central government, other central government bodies, local government and social security subsectors in their function of final recipients/beneficiaries of the funds. The note will detail the correction made to the bridge table to address the error in the recording of RRF revenue. The note will also explain how the error detected in the bridge table may have had an impact on the overall B.9 of general government, as the final recipient/beneficiary of RRF is deemed to be government.*

Deadline: 31 May 2025 ⁽¹⁾

Action point 12: *Statistics Estonia will also clarify/confirm that all grants (either from EU or from the State budget) to local government is recorded at the time where the expenditure financed by the grant is recorded in PSFS, thus applying the same neutralisation principle as for EU grants.*

Deadline : June 2025

⁽¹⁾ Action point 11 is closed.

SE provided a note explaining that part of the RRF-financed expenditures was recorded in their compilation system according to the general rule on the foreign aid, meaning that the mediation (transfer) of RRF grants to sectors other than the government sector is excluded from the revenue and expenditures of government sector. Following MGDD 2.6.4.2 paragraph 86, regarding RRF, the government is considered as the final beneficiary of the RRF funds. The RRF revenue should then be recognised at the time of the government expenditure is incurred. SE confirmed that the correction is B.9 neutral.

SE also informed Eurostat that the correction will be applied in October 2026 as the foreign aid revision for 2021-2024 has been completed to be in accordance with the balance of payments, notwithstanding the discussion on the issue raised by the revision policy under agenda item 1.2.1. In the feedback on the action points, SE asked for a new deadline for the action point (originally 15 March 2025). Eurostat acknowledged that the deadline originally proposed was not achievable. Furthermore, during the EDP notification of April 2025, it became clear that the issue discussed during the dialogue visit, namely the recording of expenditure financed from the RRF by local governments and social security funds, was not the source of the discrepancy in EDP T.2A. Eurostat nevertheless maintained the action point, as other issues were detected within the RRF table, stressing that the revised deadline should be compatible with the cut-off date for compiling figures for the publication of the national accounts and the October EDP notification.

3.2. Time of recording of military expenditure

Introduction

Before the visit, SE provided a note summarising the information available at the time and explaining the rationale for recording certain military expenditures in 2024, based on ESA 2010 and MGDD 2022 provisions.

The issue concerned the recording of ammunition and equipment (167 and 22 million respectively) as 2023 expenditure in the own accounts of the Ministry of Defence (MoD). Both the accounting office (SSSC) and the auditors considered that, under Estonian accounting standards, these expenditures should instead be recorded in 2024.

In the April 2024 EDP notification, SE followed the MoD's recording. However, in the October 2024 notification, SE revised the recording after conducting an analysis based on ESA 2010 and MGDD 2022 guidelines. SE's conclusions aligned with the National Audit Office's perspective.

This change prompted Eurostat to express a reservation on the quality of Estonia's October 2024 EDP data. At that stage, Eurostat remained unconvinced by the arguments exchanged and considered that there were insufficient grounds for changing the recording. It was noted, however, that discussions on the substance of the case were ongoing.

The MoD had opted for a 2023 recording based on the fact that the goods/assets under discussion had undergone Factory Acceptance Tests (FATs) and the contractual legal ownership had been transferred, as is standard practice. In contrast, the SSSC and the National Audit Office noted that the goods had not reached Estonia in 2023, and that the manufacturer was still exposed to certain risks. Under Estonian accounting standards, they argued, economic ownership had not been transferred. They also wondered how to interpret the specific arrangement in which the Ministry of Defence had delayed accepting delivery of the goods until well into 2024.

The methodological issue of recording of goods delivered abroad at manufacturers' premises was then presented and discussed at the European level at the December 2024 EDP Statistics Working Group meeting.

Discussion

The discussion was opened by Eurostat with the emphasis on the need for clarification on what is the correct period in which to record the military expenditure related to the goods on which the Factory Acceptance Tests (FATs) were signed in 2023. More broadly the objective was to understand the correct reporting of the military expenditure according to the European System of Accounts (ESA) 2010.

SE started with a presentation briefly recalling the positions of the concerned institutions, emphasising that, in its view, there was an absence of evidence that the goods had been effectively produced by 2023. The National Audit Office was indeed unable to get confirmation by producers in general, and one producer even indicated having "no balance with the MoD". Eurostat recalled that if the delivery in Estonia was not relevant to determine change in economic ownership in macroeconomic statistics (following well

accepted Balance of Payments or national accounts standards and practices), such a change nonetheless obviously required that the product existed (had been produced).⁽¹²⁾

The MoD explained that the goods/equipment in question concerned nine contracts with a number of producers, where a FAT had been signed in 2023, as well as (in eight cases) an additional legal ownership transfer document. The MoD explained that the FAT procedure involved sending one or two officials at the manufacturer's site to verify the quantity produced, to control their conformity to the contract and to note serial numbers and other relevant aspects. Following FAT signature, the goods are typically stored in segregated areas – e.g., in sealed containers – and can (usually) be expedited at MoD's request. The MoD indicated that, in eight of the nine contracts, the MoD staff also simultaneously signed on site transfer of legal ownership documents, "transforming the supplier in a custodian". In the context of severe supply chain tensions, this is a prudent step designed to ensure that the manufacturer would not on-sell the concerned goods (to higher bidders) – a situation that sometimes occurs: goods being then obviously replaced by the manufacturer, but with a delay (which is a serious inconvenience despite the compensation received).

The MoD indicated that, in one of the nine contracts, the legal transfer had not been signed, awaiting for export authorisation.

Eurostat considered that the MoD's explanations differed somewhat from what the statistical authorities had previously described and recommended improving communication channels between the parties concerned – while respecting legitimate confidentiality requirements. Eurostat also noted that the factors determining the statistical treatment of the transactions are unrelated to the technical specifications or characteristics of the military items being procured.

The statistical authorities also recalled in the meeting that some of these goods were to be delivered to a third country, being financed by a European grantor. They indicated that the grant component had recently been increased from EUR 24 million to EUR 88.6 million.

In this respect, the MoD explained that, indeed, certain deliveries of 2023 had been earmarked to be subject of a US grant to the benefit of the third country, but that in the absence of manufacturer invoices (requested by the US agency), the MoD had to turn to another donor that gave its approval in 2024 (an EU Member State).

This interesting description of events led Eurostat to indicate, on the one hand, that, while invoicing may be important for recognising/derecognising goods produced (recognising a

⁽¹²⁾ In relation to the delivery of goods, SE recalled that the MoD explained that regarding the equipment delivered to Estonia, eight contracts out of nine needed the word of MoD when the delivery is needed. It explained that after the FAT is performed and the transfer of ownership act is signed, MoD can tell the supplier to send the goods to MoD. The notification has to be made by MoD 15 days in advance. Regarding a further question by Eurostat on whether the delivery to Estonia was already planned at inception, MoD explained that they had foreseen that they might not be able to build proper storage warehouses in Estonia on time, hence the possibilities to keep the goods by the suppliers were included in the contracts. These contracts also said that the goods would be delivered to Estonia in a year. According to MoD, as proper warehouses were not available in Estonia by 2023 the delivery was delayed.

In addition, MoD explained that sometimes it might consider not to ship the goods to Estonia for strategic reasons. However, it confirmed that this was not the case regarding the goods under discussion, i.e., no long-term storage in other countries was planned for goods regarding 2023. Not all goods under discussion were delivered to Estonia, but they were also not strategically kept in other countries.

purchase/sale) in the practice of accountants, invoicing or lack thereof is not a decisive criterion in the context of GFS/EDP. This is because this could risk leading to arbitrary changes of the time of recording of expenditure for purely administrative reasons. Eurostat wondered if the lack of invoicing could explain that an accountant at one manufacturer reported having “no balance” with the MoD, erroneously fuelling a speculation that the goods had not been produced.

On the other hand, this case brought forward the interesting issue of the appropriate recording of goods acquired by the MoD, financed by a grantor, and subsequently transferred to a third beneficiary party. The SSSC indeed questioned whether it was appropriate to impact B.9 negatively in 2023 (time of the purchase by Estonia), and then partially positively in 2024 (time of the financing by a grantor), in relation to this operation. Eurostat agreed that this case was somewhat borderline and challenging. Eurostat started noting that the grant by the grantor should be recorded as a current (or capital depending on the goods concerned) transfer from the grantor to the beneficiary, and not as two back-to-back grants transiting through Estonian GFS. Eurostat indicated that some reflexion on this case may be warranted, if economic ownership could possibly be deemed to have been acquired by the beneficiary in 2023 – with the grant of the donor recorded already in 2023.

The MoD noted that its good relations with the manufacturers were used, making it a natural intermediary between grantors and the beneficiary, more generally acquiring significant inventories for future disposals rather than for use.

Eurostat noted that the clause on risk exposure in the MoD’s contracts with manufacturers, highlighted as a critical element by the National Audit Office, the SSSC and SE, actually seemed to refer mainly to the risk of loss or damage during storage or transportation – as part of a ‘responsible custody’ arrangement. Eurostat reasoned that this specific risk is rather limited in the context of the overall risks-and-rewards criteria applied in determining economic ownership. These criteria relate to the ability to use, sell or move an asset/good at will, as well as to be exposed to price upward or downward movements. Acquiring goods in a situation of scarcity to ensure availability (or to lock in prices) is an important element. This last point was confirmed by the MoD, the transfer of legal ownership at the premises of the manufacturer, back-to-back with FATs signature, was indeed considered as a risk mitigating measure to prevent the on-selling of the goods to a third party, as had occurred in one past case.

Eurostat also recalled that economic ownership and legal ownership generally coincide, and it is only in well-established specific cases that they deviate: repos, financial leases and PPPs, as an example. As a rule, legal ownership should generally prevail unless there were good reasons to deviate, so to reflect more appropriately economic reality.

SE enquired on what was the requirement of Eurostat with respect to the minimum documentation needed to accept the statement by the MoD that deliveries had taken place. Eurostat recalled that a table on military deliveries (EDP Questionnaire Table 7.1) has long been established, usually filled by the National Statistical Institute (NSI) in close collaboration with MoD. This implies that the MoD provides or can provide the documents attesting delivery, and the physical existence of the goods for the purpose of the EDP notification table. ⁽¹³⁾ This table has been enhanced in 2024 with a new table 7.3 linking table 7.1 with COFOG data as well as with military inventories.

⁽¹³⁾ Upon enquiry of SE on the form of evidence needed for recording such military expenditure in national accounts, Eurostat stressed the need to work on trust basis and to not deviate from legal ownership equalling economic ownership unless there are some good arguments. Eurostat also

Eurostat judged that the case was identified in Estonia both due to the country's excellent source data and the scale of recent large operations. It also acknowledged that inventory accounting is currently not well developed/monitored in Europe in the context of GFS. The introduction of EDP questionnaire table 7.3 represents an attempt to improve this.

As a separate issue, the SSSC noted that the previous exception to accounting principles, whereby military inventories were not added to the MoD balance sheet but were instead immediately expensed, was removed in January 2025. Since then, all military inventories now feature in the MoD balance sheet – as is appropriate.

Findings and conclusions

Action point 13: *With respect to military expenditure, the Estonian authorities will confirm if, in practice, the manufacturer has access (e.g. has the keys) to the container in case of sole FAT signature and, also, in case of both FAT and legal ownership transfer. They will also explain the term 'responsible custody'. The MoD will review the main findings and APs (as well as the final findings), will provide comments and any other useful additional information without delay, and will explicitly sign off the resulting text.*

Action point 14: *Based on this resulting text and other coordination documents deemed useful to be agreed between the MoD and Statistics Estonia, Eurostat strongly encourages both parties to formalize their cooperation through a Memorandum of Understanding. This agreement should outline the data requirements necessary to meet EDP/GFS obligations (e.g. fill the table 7.1 and 7.3), in consultation with the accounting office and the audit office.*

Action point 15: *Based on the new information provided, Statistic Estonia will adapt its GFS/EDP reporting concerning the 2023 deliveries, in the April 2025 notification. ⁽¹⁴⁾*

Action point 16: *Statistics Estonia and Eurostat will exchange views on the recording of the goods/equipment subject to a grant to a third party financed by another party – with the specificity that the grantor was not formerly identified in 2023. ⁽¹⁵⁾*

Deadline: April 2025 for AP 13-15-16. December 2025 for a status report for AP 14

3.3 Recording of the 2023 merger of Tallinna Soojus AS and AS Utilitas Tallinn

Introduction

Tallinna Soojus AS (Tallinn Heat) was established by Order of the Tallinn City Administration in 1996; the City of Tallinn was 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

emphasised the importance of SE having the possibility to access the relevant information. Additionally, Eurostat stressed the importance of drafting the document showing the usual timeline of the processes in purchasing the military goods and ammunition. It explained that it is simplifying the methodological guidelines for recording and ensuring consistency among member states of the European Union. Eurostat also suggested SE to sign a Memorandum of Understanding (MoU) with relevant institutions to ensure that SE has the relevant information for the recording of military expenditure in national accounts

⁽¹⁴⁾ Action point 15 is closed.

⁽¹⁵⁾ Action point 16 is closed.

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

The discussion during the 2023 dialogue visit about the classification of *Tallinna Soojus AS* clarified that several features pointed towards a reclassification of *Tallinna Soojus AS* in local government, as some aspects pointed towards it lacking autonomy of decision to be an institutional unit, and others showed that it could be considered to provide ancillary activities for the City of Tallinn. An action point was issued requesting the analysis of the lease contract with *AS Utilitas Tallinn* to determine if it was an operating or a financial lease.

With the rental and operating contract with *Tallinna Soojus AS*, the lessee, *AS Utilitas Tallinn*, took over the entire property, which must be maintained and preserved, as well as returned at the end of the rental period (in 2031). In the discussion with SE before the EDP notification of October 2024, Eurostat recalled that an agreement between a private company with government to have the exclusive right to operate, maintain and carry out investment in a public utility for a given number of years, this typically qualifies as a concession contract. However, Eurostat also expressed doubts about the effective transfer of economic ownership to the lessee, as the government has the obligation to repurchase the infrastructure and reimburse the lessee (or concessionaire) most of the investments made during the contract.

SE and Eurostat agreed that the infrastructure assets and investments should be rearranged in the government accounts, as the economic ownership remains with *Tallinna Soojus AS*, with the imputation of a corresponding loan liability against *AS Utilitas Tallinn*. This was introduced during the October 2024 notification, taking advantage of the benchmark revision, which allowed the accounts to be revised back to 2001.

In June 2023, SE informed Eurostat that the City of Tallinn and *OÜ Utilitas*, the parent company of *AS Utilitas Tallinn*, were planning to sign a cooperation agreement to establish a joint venture in district heating: *AS Utilitas Tallinna Soojus*. The new company will be owned one-third by the City of Tallinn and two-thirds by *OÜ Utilitas*. *OÜ Utilitas* would contribute its 100% shareholding in *AS Utilitas Tallinn* and a 121 EUR million loan claim against *AS Utilitas Tallinn*. The City of Tallinn would contribute its 100% shareholding in *AS Tallinna Soojus*. *AS Utilitas Tallinna Soojus* would thus own 100% of both *Tallinna Soojus AS* and *AS Utilitas Tallinn*.

Discussion

The discussion focussed on the merger operation and its impact on the ESA accounts of the local government. Two questions were addressed: first, the sector classification of the new unit created by the merger and its impact on government accounts; and second, whether there is any change in substance as compared with the previous situation where the infrastructure assets and the investment in gross capital formation were rerouted through the government’s ESA accounts.

It was first confirmed by SE that, after the merger, both *AS Utilitas Tallinna Soojus* and *Tallinna Soojus AS* are classified outside the government sector. The improvements to

infrastructure assets under the concession contract were rerouted through the government accounts in the October 2024 notification at Eurostat's request, as the discussion of the impact of the merger was still inconclusive and the status quo was maintained. This effectively resulted in a partitioning of the assets (stocks) between the original assets recorded in *Tallinna Soojus AS*'s balance sheet (classified outside the government) and the "improvement" assets from the concession recorded in the City of Tallinn's accounts.

The classification analysis of SE, conducted in autumn 2024, concluded that despite being a minority shareholder, the City of Tallinn retains some control over the investment decision via a veto right on key factors of the general policy of *AS Utilitas Tallinna Soojus*. The main role of the subsidiary *Tallinna Soojus AS* is the management of the property rights of the assets and the execution of the landlord's functions as set out in the current operator and lease agreement. *AS Utilitas Tallinn* will continue to be managed by *OÜ Utilitas*, and the district heating and district cooling services will continue to be provided to customers by *AS Utilitas Tallinn*.

AS Utilitas Tallinna Soojus has no employees and does not manage or administer its subsidiaries. It could be seen as an artificial construct created to formalise the joint venture between the two subsidiaries and can be neglected in the statistical analysis. In substance, the two subsidiaries would remain separate units, with no changes to the operating and lease contract between them. Alternatively, *AS Utilitas Tallinna Soojus* could be recognised as an institutional unit classified inside the local government sector, based on the control government exerts over the assets.

The SSSC raised a question on the existence of public control, as both shareholders have veto rights, pointing rather towards the recognition of a joint venture. The fact that neither partner can exercise control (the unit being neither private nor public) because of the existence of the veto right was seen by Eurostat as one more reason not to recognise *AS Utilitas Tallinna Soojus* as a unit (see-through unit or an empty shell).

The main question is rather if the merger brought any substantive change. Eurostat had previously expressed the view that that the merger might have no impact in 2023, with the rearranged transactions of the concession in the S.13 accounts remaining until 2031. The imputed loan liability of *Tallinna Soojus AS* against *AS Utilitas Tallinn* (corresponding to the rerouted gross capital formation to improve the concession assets) instead of being redeemed in cash in 2031, would be redeemed through equity. However, *Tallinna Soojus AS*, whose sole activity is holding the concession contract with *AS Utilitas Tallinn*, would cease to exist once the contract reaches maturity.

Alternatively, one might consider that events in 2023 did change the economic substance of the relationship between the units involved. However, it is still not clear what are the consequences from an accounting perspective. First, Eurostat recognised that it is not entirely satisfactory to record the fixed assets linked to the improvement of assets under the concession contract inside the government (through a rearrangement of transactions) while the original assets remain on the balance sheet of *OÜ Utilitas* affiliate, as was the case in the October 2024 notification.

Another way to interpret the merger is to view it as a sale of assets by *Tallinna Soojus AS* to the Utilitas group, in exchange for the City of Tallinn acquiring a 33% stake in *AS Utilitas Tallinna Soojus*, which owns both *Tallinna Soojus AS* and *AS Utilitas Tallinn*. This could be treated as an "other change in volume" (restructuring of institutional units) while at the same time recording a redemption of the imputed loan through equity.

Several issues need nevertheless to be addressed: whether the imputed liability of the government still existed or not in 2023, when it will be redeemed (2023 or 2031), and how it will be redeemed (by transactions - conversion in equity - or by other change in volume).

While Eurostat indicated that it had to reflect on the case, it noted that the concession investments should continue to be rerouted through the accounts of local government. as a conservative approach. It was unlikely that an agreement on how to record the merger will be reached before the October 2025 notification ⁽¹⁶⁾. SE was also asked to update the note provided on the sector classification of *AS Utilitas Tallinna Soojus* based on the discussion of the 2023 merger and to consider the several recording options outlined above.

Findings and conclusions

Action point 17: *Statistics Estonia will re-evaluate the sector classification of Tallinna Soojus AS and its holding company. In particular, it will assess, in consultation with Eurostat, the changes in the economic relationship between the private and public owners following the August 2023 merger agreement. The issue concerns whether the 2023 merger agreement merely differently clothes an arrangement that in substance remains unchanged or actually conducts a radical change in arrangement (as Tallinn does not need any more to pay a large lumpsum at the initial termination lease in 2031 for the carrying value of the assets, which at the end of 2023 already amounted 219 million). They will also agree with Eurostat on the appropriate accounting treatment of the merger. In the meantime, they will adopt a conservative approach regarding the underlying assets and continue to re-route the gross fixed capital formation (GFCF) and associated debt through government accounts.*

Deadline: June 2025 for a note to Eurostat ⁽¹⁷⁾

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

Introduction

Practical implementation of the market / non-market test and qualitative criteria

SE applies their own version of the decision tree for the classification of units where the quantitative market test is performed before the analysis of some qualitative criteria. As a first step, the quantitative test is carried out for a minimum period of three years. The market/non-market test (MNM) is conducted with use of the financial information from the PSFS. Three ratios are calculated: the first one, corresponds to sales receipt reported to the production costs (the usual market/non-market test ratio), the second one corresponds to sales receipts, excluding the sale to S.13 reported to the total of

⁽¹⁶⁾ With expected revision of recording in October 2026.

⁽¹⁷⁾ Action point 17 is under assessment of Eurostat.

production costs and the third ratio which corresponds to the proportion of receipts to all sectors (except S.13) to total sales.

Most of the information for the compilation of these ratios is automatically derived from the general ledger (PSFS), using a bridge table to the ESA components of the test. Special testing is carried out for subsidies, as only the amounts classified as subsidies on products are included in the market test (and this distinction cannot be made automatically on the revenue side of corporations). Depreciation of fixed assets provided in the PSFS is used as an approximation for consumption of fixed capital (P.51c) since the values are a good proxy of CFC used in national accounts based on a PIM model. If there is a suspicion of deviations of CFC, investments are controlled. Moreover, SE occasionally compares data of annual reports and PSFS for large and influential units, when there are large jumps in the depreciation levels in order to get more information as the companies can provide more detailed descriptions of their investments in the annual reports. If there are discrepancies between the annual reports and the PSFS but no additional information is provided in the annual reports, then PSFS data is used.

Changes in the sector classification since the January 2023 EDP dialogue visit

Before the visit, SE provided a list of the reclassification of units in the government sector that took place in the 2024 benchmark revision. Those reclassifications followed action points of the 2021 and 2023 visits. Other reclassifications were the results of the annual market/non-market tests and qualitative analysis. The document also provided information about the classification of the new units established in 2023-2024 included in the government sector following the initial classification by the SSSC and qualitative criteria. The note also covered rather small legal units, listed on the SE website as belonging to the local government sector and included in the B.9 for the year 2024 in April 2025 notification, but not for year 2023 due to the revision policy (to be included in October 2025 notification). Those reclassifications and classifications were not discussed further.

Questionnaire on government controlled units classified outside general government

The analysis of the Questionnaire on government-controlled units classified outside general government provided at the end of December 2024 showed that three units failed the 50% test for three years in a row. There were also several units with no employees. Eurostat also enquired about a number of public entities engaged in real estate activities (NACE activity 68) with very small amounts of debt, one of them having end-2023 134 employees (possibly a typo in the table). Eurostat proposed to follow up on those entities later, including on the type of activities in which they are engaged, on the small amount of debt reported in the questionnaire and if some qualitative factor should be taken into account when examining their classification.

Discussion

SE confirmed that the decision tree they use for the MNM test uses the Ratio 2 (sales receipts excluding sales to S.13 compared to the total cost of production) as a starting point. If this ratio is above 50%, then the unit is considered a market producer. A qualitative analysis is carried out (only) for units whose Ratio 2 is equal to or less than 50% but Ratio 1 is higher than 50%.

During the discussion, Eurostat explained that the design of the decision tree used by SE implies that the Ratio 2 being above 50% is deemed a sufficient condition for a unit to be market producer instead of being considered as a necessary condition. Eurostat reminded that the analysis of the qualitative criteria must be performed before verifying quantitative criteria.

During the last visit, three issues were identified in relation with the implementation of the MNM test. The first issue was related to the lack of details provided to Eurostat concerning the components of the sales and the production costs used in the test, the component of the MNM test being provided with at the level of ESA economic codes. The second issue was 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 concerned the use of the business accounting concept of depreciation of assets as a proxy of the consumption of fixed capital.

Since December 2023, SE provides the questionnaire on the public entities classified outside the government sector including the subsidiaries which debt is above 0.01% of GDP, showing the result of the MNM test. SE also provided to Eurostat the result of the MNM test for units which debt was below 0.01% of GDP for the purpose of the visit. SE also confirmed that the test is still performed at the level of the group, on consolidated accounts, although the test is also performed for significant subsidiaries since the last dialogue visit in 2023 (for subsidiaries with a debt above 0.01% of GDP). Testing subsidiaries requires additional data not available in the general ledger.

SE also confirmed during the discussion that the MNM test is based on the detailed information of the general ledger of public sector entities in the PSFS database. The sales to the government sector are identified based on the counterpart code in the codification of accounts. Eurostat then asked a series of questions to clarify the general ledger accounts used for specific components of the ratios based on an example (*Pandivere Vesi OÜ*) provided by SE before the visit. As concerned the recurrent issue of consumption of fixed capital used in the test assessment, SE confirmed that they used the depreciation of capital from PSFS, in agreement with Eurostat, following the action point of 2023 visit.

The specific case of the bankruptcy of the *Nordic Aviation Group AS* (100% owned by government) was discussed. The group operated under the commercial name of *Nordica* and *Xfly* (formerly *Regional Jet OÜ*), the first dedicated to international flights and the second to regional ones. A significant part of its business was operating flights for the SAS group. This contract was however discontinued in September 2024. The group was declared bankrupt by a court in Tallinn on 28 January 2025. According to the petition submitted to the court, the company has EUR 38 million liabilities remaining after deducting the value of its assets. Eurostat enquired about the date from which the reclassification should apply which can be as soon as the decision to liquidate the company was taken in November 2024. The fact that the corporation has negative net assets after the liquidation of the assets raise the question of the impact of the reclassification on the B.9 via an implied debt assumption rather than via another change in volume.

The bankruptcy proceedings do not incorporate *OÜ Transpordi Varahaldus* (government is the sole owner of the company) who leases assets in the aviation sector. All *OÜ Transpordi Varahaldus*'s aircrafts are long-term leased to *AS Nordic Aviation Group (Nordica)*. *OÜ Transpordi Varahaldus* has liabilities of EUR 32.4 million, including a loan from a commercial bank (*LHV Pank AS*) of EUR 19.7 million (as of December 2023) and the so-called "maintenance reserves", corresponding to payments made by

Nordica to cover the costs of maintenance. The meaning of the “maintenance reserves” remained unresolved during the discussion.

The discussion on the sector classification also addressed the classification of water and sewage companies. In Estonia there are 33 public corporations dealing with water collection treatment and supply (NACE 36) and 3 public corporations providing sewage services (NACE 37). The majority of these units is classified outside general government sector (as market public corporations) based on the market/non-market test. However, it was not clear how the qualitative factors have been reflected upon in the sector classification decision. Eurostat invited SE to perform this analysis taking into consideration, amongst other factors, that the prices charged are approved by the public authority, as also is the allowable rate of return. Moreover, the units seem to have to follow development and investment plans prepared by the public authorities. SE was also invited to check if the units charge any fee that is not related to the services provided and if yes, how is it accounted in value of sales for the market/non-market test.

Findings and conclusions

Action point 18: *Statistics Estonia will explain the bridge between the balance sheet data used for the quantitative market/non-market test (variation in the stock of accumulated depreciation) and P51c, also clarifying what is the “cash flow code 11”.*

Deadline: June 2025

Action point 19: *Concerning the subsidies on products, Statistics Estonia will recall how the subsidies on products are differentiated from subsidies on production on the general ledger.*

Deadline: June 2025

Action point 20: *Starting in 2024, Statistics Estonia will reclassify Nordic Aviation Group AS and Regional Jet OÜ as part of the general government sector following their bankruptcy proceedings. Since court rulings indicate that these companies have negative equity, the statistical authorities will first analyse the nature of their liabilities (i.e., their potential creditors). This step is necessary to ensure that the debt assumption/cancellation is properly recorded (rather than being implicitly recorded as other changes in volume following the reclassification of entities with negative equity). Statistics Estonia will provide a note with the results of this analysis and how the reclassification is recorded in the accounts.*

Deadline: October 2025 notification

Action point 21: *Eurostat took note that public units in liquidation are considered not public anymore by the accounting office (being then controlled by the liquidator, according to Estonia) and therefore escape totally the PSFS. Statistics Estonia will enquire on the number of such units and report to Eurostat.*

Deadline: October 2025 notification ⁽¹⁸⁾

Action point 22: *Statistics Estonia will analyse the classification of the 33 utilities companies (NACE 36 and 37), starting with Tallinna Vesi (the largest water company). The analysis will focus on the qualitative factors that may influence the sector*

⁽¹⁸⁾ SE informed Eurostat that public units in liquidation are still included in the general ledgers of PSFS, hence they do not escape PSFS. Only units in bankruptcy are not included in PSFS. Action point 21 is considered as closed.

classification. Specifically, Statistics Estonia will examine the voting arrangements governing investment and borrowing decisions, the presence of veto rights, and any guarantees on liabilities. The analysis will also assess the nature of the company's revenue, particularly whether their tariff structure distinguish between funding of investment in fixed assets and of operating expenditures, as this distinction may impact whether the revenue is classified as taxes or service fees.

Deadline: December 2025

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

Introduction

The recording of personal income tax (PIT) and corporate income tax (CIT) on a pure cash basis was discussed in previous dialogue visits. No action point was issued on the recording of taxes during the 2023 visit.

Before the visit, SE provided the monthly cash and accrual data on taxes and social contributions for the period 2021-2024 per type of taxes (VAT, CIT, PIT and social contribution). In the Eurostat's fact-finding survey of May 2023, Estonia declared the existence of a single tax account (STA) that was described in an additional document.

For taxes on personal income, a withholding tax is calculated 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, no later than October T+1. The SSSC confirmed that the amounts payable (reimbursements) and receivable (additional payments) compensate more or less each other. The impact on B.9 of recording taxes on a pure cash basis is therefore not material, unless something unusual happens. PIT should normally be recorded with a time lag of one month, but Eurostat 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.

Concerning taxes on corporate income, all undistributed corporate profits are tax exempt. Estonia levies a CIT only on profits that are distributed as dividends, share buy-backs, capital reductions, liquidation proceeds, or deemed profit distributions. Distributed profits are generally subject to 20% corporate tax. CIT is recorded on a pure cash basis. The imputation of taxes to the 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.

According to the questionnaire on taxes (2024) and Estonian Tax and Custom Board (ETCB) website, there is no tax credit. Benefits provided via the tax obligation take the form of basic exemption for PIT.

Discussion

The discussion started with the description of the single tax account system (STA) in place since 2009, to determine if the cashflows of taxes are related to the prepayment of taxes or to the notion of “debited and paid” taxes in the STA.

In the STA system, every taxpayer has a single prepayment account. The balance of the prepayment account can increase or decrease over time. The increase reflects: the amounts prepaid to the ETCB; refunds of claims from value added tax declarations, personal income tax returns, or other refunds; funds released because of reduced obligations that have been settled or money transferred from another taxpayer’s prepayment account. The prepayment account can decrease due to: the payments of tax obligations (generally using a First-in First-out approach with some prioritisation); the fulfilment of refund requests (i.e., returning money to the bank accounts specified by the person) or the transfer of funds to another person’s prepayment account. No interest is accrued on the prepayment account.

It was clarified that the unconsolidated PSFS balance sheet of the State records two types of tax-related payables. The first corresponds to the prepayments under the STA. The second, recorded under “tax, state fee and fine liabilities”, relates to payables from intra-government transfers (as the Ministry of Finance collects all taxes and subsequently transfers them to other government units). The receivables recorded in PSFS correspond to the accrual-based recording of taxes under IPSAS, based on tax declarations (eventually decreased by the amount that is considered as not recoverable). In the budget presentation, taxes are instead recorded on a cash or time-adjusted cash basis (‘cash’ thus actually corresponding to the amount of taxes ‘debited and paid’ in the STA).

Eurostat noted that the characteristics of the STA in Estonia seemed to imply a deposit liability based on the ability of the taxpayer to withdraw amounts from their account, as well as to transfer amounts to other accounts’ holders.

As regards the social contributions, Eurostat enquired on the reason why a time lag of one month is applied on social contribution while the withholding of PIT is recorded on a pure cash basis. The rationale of the adjustment is linked to the fact that social contributions are paid in relation with the monthly salary without any assessment/correction, while the tax withheld is a forecast of what is due.

Eurostat also enquired about the recording of the income tax (20%) paid on the withdrawal of the second pension pillar which altered the usual pattern of the monthly cash PIT in 2021. The second pillar became voluntary from 1 January 2021, hence for those, who made the necessary application for leaving the second pension pillar, the withdrawal of funds was observed in September 2021. Eurostat questioned the recording of the tax on those withdrawals as taxes on current income instead of taxes on capital, concluding that nevertheless it is more a question for the GFS (classification of taxes) than for EDP.

Eurostat enquired also about the recording of taxes collected by the ETCB and pass-through to local government. The Income Tax Act foresees that 12% of income tax revenues of a resident natural person collected by the ETCB are transferred to the local government of the taxpayer’s residence. The taxes are recorded as current transfer within general government (D.73) as the tax rate on income is nationally determined. Mining fees are also collected by S.1311, of which a part is due to S.1313. Those fees are directly recorded in the local government because they are considered as a rent (D.45) and not as a tax, implying that the subsoil assets are owned partly by the S.1311 and partly by S.1313.

Another question relating to the taxes was raised by Eurostat on the adjustment line in EDP T.2A “difference between the accrual based and working balance and cash-based D.5 (transfer to local government)”. In the last transmission of EDP T.2A (for the visit) this adjustment line has been removed following the result of the investigation of the discrepancy. SE confirmed that it found out that the adjustment line was not necessary since the taxes are recorded on a cash basis in the working balance derived from the budget execution in EDP T.2A, while the counterpart adjustment in EDP T.2C remains necessary as the WB of local government is derived from accrual-based PSFS profit and loss account.

Lastly, Eurostat asked confirmation if the CIT collected on the distribution of income, is due indifferently on dividend and share buybacks, mentioning also that it expected that CIT would be more volatile across the year than exhibited by the cash receipts. ETCB explained that it was due to taxes on profit of banks, amongst the biggest dividend payers, which pay their taxes on their income in advance on a quarterly basis, with an “assessment” once the dividend is known. Another element was, until end-2024, the reduced rate of taxation (14%) applied for corporation paying dividend regularly. While for public corporation, the government decides when the distribution takes place, influencing the pattern of payment of taxes towards more volatility.

Eurostat reflected on the fact that for public corporations the “pay as requested” dividend policy of the government may imply the existence of interim dividend in which case the question would be how to apply the super-dividend rule if the interim dividend is considered as a revenue. The alternative is to consider the interim dividend as a financial transaction. Eurostat also enquired if the government may ask public corporation to proceed to share buybacks. SSSC informed that it has never been the case.

Findings and conclusions

Action point 23: *In relation to the single tax account system, Statistics Estonia will follow-up the ongoing discussions at the EDPS WG (and the forthcoming guidance note) in order to assess the appropriateness of recognising a debt liability (of a deposit type) corresponding to the prepayment of taxes, state fees and fines by the taxpayers.*

Deadline: When the guidance note is issued

Action point 24: *Statistics Estonia will retransmit the national tax list included in the questionnaire on taxes and social contributions, to correct the sector code of Renewable energy charge (Taastuenergia tasu) currently imputed to S.1313 instead of S.1311.*

Deadline: 15 March 2025 ⁽¹⁹⁾

Action point 25: *Following the discussion of the transfer of mining fees by the central government to the local government recorded as rent revenue of local government (D.45), Statistics Estonia will clarify if the subsoil assets are fully owned by the central government (or if there is a split between the central and the local governments) and will correct the recording according to their findings. When the subsoil assets are owned by the central government, the rent is revenue of S.1311 in full, partly passed to the local government as D.73.*

⁽¹⁹⁾ Action point 24 is closed.

Deadline: June 2025

Action point 26: *Statistics Estonia will investigate the existence payable or non-payable tax credits and will update the EDP inventory according to their findings.*

Deadline: 16 May 2025

4.2.2. Interest and consolidated interest

Introduction

The aim of the table on interest is to facilitate the monitoring of adjustments for interest in EDP T.3A/B 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. For the first time, SE transmitted the reconciliation between the debt of the Treasury with the Maastricht debt for the central government. The starting line of the table is based on the composition and value of the State Treasury's debt portfolio and transitioned to the concept of gross consolidated debt at face value (Maastricht debt definition) and the corresponding concept at nominal value.

Discussion

Estonia provided the table on interest according to the new template presented at the EDPS WG of December 2023 for the central government. The breakdown of interest accrued between coupons accrued and amortisation of discounts on short term debt securities was not provided. Both were still reported under coupons accrued. The adjustment for interest accrued minus paid and for premium and discounts at issuance are consistent with the adjustment in EDP T.3B. The cashflows insure the consistency of the table. SE clarified that the interest data for filling the table are bridged from the general ledger, complemented by information from the Centralised securities database (CSDB).

Findings and conclusions

Action point 27: *Statistics Estonia will improve the information provided in the interest table by providing the amortisation of premium and discounts separately from the coupons accrued and by showing the coupon sold separately – by exploiting more completely the general ledger and/or finding information from the Treasury.*

Deadline: December 2025

Action point 28: *Statistics Estonia will correct the table on the reconciliation between the national concept of debt (so called "Portfolio of debt"), the Maastricht debt of central government and the debt at ESA nominal.*

Deadline: December 2025

4.2.3. EU flows, and financial instruments

Introduction

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 sector. EDP Questionnaire T.6.1 excludes any co-financing.

The cash flows related to the EU flows are not reported in EDP Questionnaire T.6.1, 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 the EU flows are correctly neutralised. The SSSC explained that there are three types of payment in relations to the EU flows from the Structural funds, prepayments (advances) for the whole period covered by a programme, usually paid in the first and the second years 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 for the EU financing is nevertheless paid to the final beneficiary, of which 10% is paid from the advances. The final balance of expenditures made by the final beneficiaries and the EU flows received from the Commission is done only at the end of the programme.

The time of recording in the PSFS of the expenditure corresponding to the co-financing of the programme 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.

Discussion

The discussion started with a question on the scope of data reported in EDP Questionnaire T.6.1. Eurostat enquired on the coverage of the inflows and outflows included in the WB. The SSSC confirmed that the EU flows relating to the financial instruments are not included in those flows. SE explained that the inflows and outflows reported in EDP Questionnaire T.6.1 are covering expenditures of S.1311 as final beneficiary (corresponding to ESA concept). Although, while addressing the consistency of EU flows of EDP Questionnaire T.6.1 and the corresponding reporting in ESA T.2, SE clarified that inflows and outflows in EDP Questionnaire T.6.1 may include some “intermediated” funds. Those flows are derived from the general ledger and not from the budget despite being reported as related to the WB, what added to the confusion. Eurostat also investigated why the outflows in EDP Questionnaire T.6.1 were smaller than the total expenditures financed from the EU flows for the total economy as reported in ESA T.2, possibly indicating that the agricultural subsidies were not included in EDP Questionnaire T.6.1. Finally, SE confirmed that RRF was excluded from EDP T.6.1.

Eurostat then investigated the recording of other accounts receivable and payable related to the EU flows, and particularly the large stocks observed. SE explained that the other accounts payable/receivable cover the transactions/stocks between S.1311 and the EU, but also the accounts payable/receivable between S.1311 and the other subsectors (as final beneficiaries). This raised a grossing up issue of intralinks between subsectors of government which may pollute the other accounts payable, and receivable as reported in EDP Questionnaire T.6.1.

Eurostat further enquired about the possibility to report the inflows broken down between the advance payments and reimbursement of expenditures and the outflows broken down between expenditure made on behalf of the EU and expenditure financed from advance payments. SE explained that it was impossible to distinguish those flows in the current bridge with the general ledger (as the transactions in other accounts payable and receivable are derived from stocks). Eurostat stressed that it was not an issue since the assets and liabilities are well accounted for by the accounting system.

SE provided the figures on national co-financing in EDP Questionnaire T.6.2 at an aggregated level for 2023 based on estimations. The percentage of foreign grants for the state budget units used to estimate co-financing was provided by SSSC. The percentage (5.6%) was obtained by dividing the proportional co-financing with total amount of foreign grants open for budgetary units. Eurostat enquired about the possibility to report the actual amounts of co-financing instead of estimates for the April 2025 notification. As the information is not available in the general ledger, SE informed Eurostat that they were trying to use another database. Eurostat also enquired about including previous financing period in the reported data, what was confirmed by SE.

Prior to the visit, SE sent information on EU flows for the period 2020-2023 based on new template of EDP questionnaire table (option A) discussed at the EDPS WG meetings of December 2023 and June 2024, as a test exercise. In relation with the new template of EDP Questionnaire T.6.2.1 (option A) on the recording of EU financial instrument, SE confirmed that the recording of those financial instruments which final beneficiaries are *KredEx* (from 2022, *Estonian Business and Innovation Agency*) and the *Rural Development Foundation* (both classified S.1311) follows the MGDD prescriptions. Financial transactions are recorded at inception when the funds are received from the EU, and revenue are recorded at the time the funds are used through the call of guarantees or non-repayments of loans. Eurostat suggested that SE reviews the EDP Inventory concerning the reference to the advice provided by Eurostat to use a second best (simplified) approach for the GFS statistics according to which the capital transfer from the EU to *KredEx* would be recorded at the time cash amounts were provided to *KredEx*, if this practice is discontinued.

Lastly, Eurostat acknowledged the complexity of the new EDP Questionnaire T.6 (Option A) and proposed that a virtual meeting be organised to discuss the reporting.

Findings and conclusions

Action point 29: *Following the discussions concerning the EU flows reported in EDP questionnaire table 6.1 and in ESA Table 2, Statistics Estonia will provide to Eurostat a note detailing its practices and indicating improvements needed. The note will cover the following issues:*

a. *Statistics Estonia will describe the coverage of EDP questionnaire table 6.1 (Transactions, beneficiaries, inclusion or not of RRF related flows and of EU financial instruments), in relation to ESA table 2. It will explain the reporting of the transactions for which general government is not the final recipient/beneficiary, in the working balance and in the B.9.*

Deadline: July 2025 ⁽²⁰⁾

b. *Statistics Estonia will confirm that the other accounts payable/receivable counterparts in Table 6.1 are not only with the EU but also between subsectors of government (i.e. reflecting the AF.8 positions related to EU flows passing from budgetary central government to other subsectors). Statistics Estonia will reflect on the possibility to report instead, in EDP questionnaire table 6.1, other accounts payable and receivable of budgetary central government only (thereby de facto eliminating the intra government links) based on the general ledger of S.1311 unconsolidated, thereby avoiding the double counting of other accounts payable and receivable.*

Deadline: April 2025 notification

Action point 30: *Concerning the EU financial instruments managed by EIS (ex-KredEx), Statistics Estonia will provide a note on the recording in the ESA accounts of the related transactions.*

c. *Statistics Estonia will confirm if the description of the practice described in the EDP inventory consisting in recording a capital transfer from EU to KredEx at the time cash amounts are provided to KredEx, with a capital transfer for the same amount recorded from KredEx toward final recipients (households, enterprises or NPISH), to neutralise the EU revenue, is still in application.*

d. *The note will in particular reflect on how the loss on an EU financial instrument is reported in the general ledger, taking into account the findings under the previous Action Point 28 (if relevant).*

e. *Eurostat considered highly debatable to record revenue and expenditure for rather large amounts at time cash is received – notably given their largely financial nature, and advised to discontinue such a recording. Eurostat also thought difficult to justify Other changes in Volumes related to EU financial instruments.*

Deadline: June 2025

Action point 31: *In relation with the new proposed template of EDP questionnaire table 6.1 (option A), Eurostat and Statistics Estonia will organise a virtual meeting to discuss the results of the template filled with Estonian data prior to the dialogue visit (as a test exercise) and the way to improve the new reporting. In particular, the reporting of transactions between subsectors and the reporting of cash flows will be examined more in detail to improve the completeness of the reporting of EU flows.*

Deadline: November 2025

Action point 32: *Statistics Estonia will include the previous programming periods in the data reported in the EDP questionnaire table 6.2. Statistics Estonia will also*

⁽²⁰⁾ Action point 29a is under assessment of Eurostat.

elaborate on the method applied to estimate the percentage of co-financing and on the possibility to replace the estimate with actual data.

Deadline: March 2025 for ensuring including previous programming periods. July 2025 for a note on the possibility to use actual data ⁽²¹⁾

Action point 33: *Statistics Estonia will assess the investment made by the Green Fund to determine their appropriate accounting treatment (either D.9 or F.5) based on the expected returns, taking into accounts the presence of other investors alongside the Green Fund. Statistics Estonia will also verify what is the expected investment maturity of the Fund. Statistics Estonia will agree with Eurostat how to record the financial instruments write-off: at the end of the RRF programming period, or at the wind down of the Fund, and by what flows. Statistic Estonia will also examine the alternative potential extension of the payable (recorded as the counterpart of the EU financial instrument) beyond the scope of the Recovery and Resilience Facility (RRF), considering the possibility of recycling the funds for the same purpose beyond the specified timeframe.*

Deadline: February 2026

4.2.4. Recovery and Resilience Facility

Introduction

Prior to the visit, SE provided a note on the status and planned execution of the Recovery and Resilience Plan. The table on RRF is filled based on the PSFS data, which are accrual based. RRF transactions are recorded according to the public sector financial accounting and reporting principles applicable to the EU flows. The recording instruction of grants received and awarded as described in the “Guide to public financial accounting and reporting” corresponds to the provision of the MGDD for the recording of the EU funds. This means that the advances received (EUR 126 million in 2021) have not been recorded in the WB as revenue in 2021. The revenue is recorded at the time the expenditure is recorded, applying the EU flows neutralisation principle. ⁽²²⁾

Findings and conclusions

Eurostat took note of the information provided. The Annex 9 of the EDP notification has been extensively discussed during the last rounds of notification. There was no discussion on this agenda item.

⁽²¹⁾ Action point 32 is under assessment of Eurostat.

⁽²²⁾ The note provided for the action point 11 explains that due to the foreign aid compilation process, done by SE, the mediation (transfer) of RRF grants to sectors other than the government sector is erroneously excluded from the revenue and expenditure of government sector despite the provision of MGDD 2.6.4.2. paragraph 86 stating that the government is to be seen as the final beneficiary of all RRF funds. The RRF revenue should be recognised at the time of the government expenditure is incurred. Currently, the RRF revenue is recognised at the time of the government expenditure as recorded in general ledgers in application of the general rule on EU flows. The correction will be implemented for October 2026 notification. The notification Annex 9 on RRF, nevertheless seems to report the total expenditures financed by the RRF.

4.2.5. Military expenditure

Discussed under section 3.2.

4.3. Recording of specific government transactions

4.3.1. Estonian Business and Innovation Agency (EIS) (ex-KredEx) activities

Introduction

SE provided a note on the main operations undertaken by the *Estonian Business and Innovation Agency (EIS)* (ex-KredEx) ahead of the visit.

The financial activities of government are (mostly) organised by KredEx (founded in 2001 by the Ministry of Economic Affairs and Communication - MEAC – and classified in S.1311). EIS was established in 2022 following the merger of KredEx and Enterprise Estonia (EAS). The unit is classified in S.1311. EIS has one subsidiary – *AS SmartCap* (100 %, S.1311) – and one associate – *AS KredEx Krediidikindlustus* (participation 33.3 %, classified outside S.13). *AS SmartCap* is a fund manager that invests in venture capital funds and green technology start-ups to develop the Estonian venture capital market. The two funds that are 100% owned by MEAC – SmartCap Venture Capital Fund and the Green Fund (financed from RRF grants) are classified in S.1311. *AS KredEx Krediidikindlustus* is an insurance company whose purpose is to help Estonian companies hedge credit risks related to both export and domestic sales, the guarantee scheme managed on behalf of the government is rerouted in the accounts of S.1311. EIS is the manager of EU financial instruments (funded from European Regional Development Fund, provided by MEAC and other Ministries).

The note provided by SE reviewed the support measures during the COVID-19 pandemic: EUR 850 million were allocated for crisis measures in 2020, of which EUR 550 million were intended for loans and EUR 300 million for guarantees.

Findings and conclusions

Eurostat took note of the information provided. There was no discussion on this agenda item.

4.3.2. Government measures in response to Russia's invasion of Ukraine

Introduction

SE provided a note on the current and foreseen government measures undertaken in the context of Russia's full-scale invasion of Ukraine. The note described the operations undertaken in the field of defence. The government of Estonia has decided to give every year until the end of 2027 aid to Ukraine in the amount of 0.25% of GDP. Based on the State Budget Report for 2025, the government has planned aid to Ukraine in 2025 in the amount of EUR 105 million.

Amongst the operations in other fields, from December 2022 until the end of November 2023, the EIS provided guarantees to enterprises whose activities were negatively affected by Russia's aggression against Ukraine, as well as to mitigate the impact of energy price increases. Additionally, approximately EUR 5 million was allocated for the

period 2024–2027 to fund the study expenses of Ukrainian refugees, along with EUR 5.6 million for social services and EUR 1.8 million for healthcare services.

Findings and conclusions

Eurostat took note of the information provided. There was no discussion on this agenda item.

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

Introduction

There was no change in the measures to mitigate the impact of high energy price since the last visit in 2023. The measures introduced during the heating seasons 2021-2022 and 2022-2023 were not reconducted for the heating season 2023-2024.

Findings and conclusions

There was no discussion on this agenda item.

4.3.4. Recording of the tax-subsidy scheme of Elering AS

Introduction

Before the visit, SE provided a note on the recording of the tax-subsidy scheme of *Elering AS*, following up on the requests for clarification of the October 2024 notification. During the benchmark revision of 2024, SE rerouted the tax-subsidy scheme for renewable energy managed by *Elering AS* discussed during the 2023 visit. SE provided the amounts of taxes (D.214), subsidy (D.399) and stocks of other accounts payable (AF.89L) rerouted in the accounts from October 2024 notification before the current visit.

The rerouting impact on B.9 is recorded in EDP T.2A under “*non-financial transactions not included in the working balance*” and correspond to the transactions in OAP. As OAP are recognised in the scheme, it means that the taxes collected were above the subsidies paid.

Findings and conclusions

Eurostat took note of the information provided. There was no discussion on this agenda item.

4.3.5. Government guarantees and guarantee calls

Introduction

Prior to the visit, SE provided a list of the outstanding one-off guarantees for the years 2020-2023 and a note on the recording in the government accounts of the standardised guarantee schemes existing in Estonia. The note explains how the D.99 and F.66 are determined based on PSFS information. There have been no changes in the type of standardised guarantee schemes recorded in GFS and EDP statistics since the 2023 EDP dialogue visit.

Findings and conclusion

There was no discussion on this agenda item. Eurostat took note of the information provided and informed SE that any remaining issue would be dealt during the notification period.

4.3.6. Government claims, debt assumptions, debt cancellations and debt write-offs

Introduction

Prior to the visit, SE transmitted a list of government claims for the period 2020-2024 by debtor and creditor (stocks, transactions, other economic flows) and recalled that there were no debt assumptions, cancellations or write-offs in the period 2020-2023.

Findings and conclusions

Eurostat took note of the information provided. There was no discussion on this agenda item.

4.3.7. Capital injections into public corporations

Introduction

SE provided a list of capital injections into public corporations broken down by economic nature (D.921, D.922, D.99 and F.5) for the years 2020-2023 based on the PSFS. The capital injections recorded as financial transactions in EDP Questionnaire T.10.1A are broadly consistent with the list of capital injections provided, while capital injections in public corporation recorded as expenditure exhibit a small difference for the year 2023. The “other capital injection” in EDP Questionnaire T.10.1A covers D.9 expenditure for loans not expected to be repaid and provision for guarantees.

There has been no noticeable capital injection (F.5) for the last three years, the large capital injection in 2020 corresponds to the capital injection in Eesti Energia AS (EUR 125 million) which were discussed in the last two standard dialogue visits. The capital injection into international organisation amounting EUR 63.3 million in 2023 consists mainly of an increase of capital in ESM (European Stability Mechanism) in the amount of EUR 55.85 million. Additionally, it includes an increase of capital in the Three Seas Initiative in the amount of EUR 5.1 million and in the World Bank in the amount of EUR 1.4 million.

Discussion

During the discussion, SE clarified the recording of injections into venture capital funds as non-financial transaction when the unit has not been profitable for two years. This practice is applied also to the newly created units. Eurostat thought this approach was somewhat stricter than required and invited SE to reflect on this.

A planned capital injection into *Eesti Energia AS* (EUR 100 million) in 2025 was also discussed. SE clarified that it is intended for investment and not connected with the losses the unit incurred in 2023. The losses were due to write-downs of assets as well as due to a loss from the revaluation of trading derivatives. *Eesti Energia AS* had a profit in 2024 and 2022.

Conclusions and findings

Action point 39: Eurostat invited Statistics Estonia to follow up on the planned capital injection and inform it about the planned recording in the 2025 government accounts. ⁽²³⁾

Deadline: September 2025 for preliminary information/analysis (forecast). April 2026 notification.

4.3.8. Dividends, super-dividends

Introduction

Prior to the visit, SE provided a list of dividends paid to government in 2020-2023 by individual company with their profits, accompanied by a note on performance of the super-dividend test. In the note, SE reminded that the profit concept used was the operating profit up until 2018, and that then it was replaced by the accounting concept of distributable income.

Findings and conclusions

Eurostat took note of the information provided. There was no discussion on this agenda item.

4.3.9. Public Private Partnerships, concessions, and energy performance contracts

Introduction

Before the EDP dialogue visit, SE provided a note on the existing and planned public private partnership (PPP) projects and energy performance contracts. No PPP projects and energy performance contracts (EPC) was undertaken by government in the period 2022-2024. No projects or contracts were planned.

Eurostat also enquired about concession contracts by government outstanding at the end of 2023. Eurostat was seeking if there was other concession similar to that of *AS Tallinna Soojus* for other utilities corporations. SE did not provide this information. Instead, SE provided the information on two new concession contracts. It was based on the description by the Ministry of Finance, for which new assets are built by the concessionaire.

Discussion

Concerning the PPP and concession contracts, the SSSC confirmed that in the PSFS all PPPs are on balance sheet to the extent that accounting rules in Estonia prescribe that long-term contracts with assets legally returning to government at the end of the contract are to be on-balance sheet. No adjustment for PPP that would aim at excluding PPP assets from government balance sheet is applied by SE to the general ledger, when compiling ESA accounts. Eurostat recalled that when NSIs have no access to contracts or when contracts are judged too complex and the NSI cannot accurately determine if the

⁽²³⁾ The numbering of this action point reflects the order of the action point in the main conclusion and action points sent after the visit.

assets should be recorded off or on-balance sheet, then, by default, the assets of those contracts should be recorded on-balance sheet of the government partner. In practice, this principle seems to be applied by SE with no adjustment to PSFS applied for ESA compilation.

Eurostat shared with SE its concern that one of the new concession contracts (about the construction of a parking lot) may not correspond to a usual concession contract. The concessionaire seems not to produce services ‘consumed’ by the end-users, i.e., does not provide parking services. This will be either done by another entity or the ‘grantor’ itself. The concessionaire does not get any payment from the end-users of the parking building (makes sense as it seems not to provide services to them). However, if they do not get direct payments from the users of the parking services it cannot be considered as a concession.

Conclusions and findings

Action point 34: *Statistics Estonia will provide a full list of PPP, EPC and concession contracts, and will monitor the PPP, EPC and concession contracts on a regular basis at all sub-sectors level, using the definitions and the statistical treatment of ESA 2010 and MGDD 2022.*

Deadline: December 2025

Action point 35: *Statistics Estonia will explain how the two concessions contract mentioned in the documentation provided to Eurostat are recorded in PSFS (and consequently in GFS/EDP), taking into account the accounting rule mentioned above on contacts with assets eventually reverting to government. Statistics Estonia will provide a full analysis of the two contracts indicating if the revision of their recording in the government accounts is needed.*

Deadline: September 2025

4.3.10. Emission trading permits and sale of renewable energy rights

Introduction

The discussion of ETS recording was based on various documents provided by SE prior to the dialogue visit as well as other documents provided in the past two years, including an April 2023 note on an action point issued in the framework of GNI Report on Quality. SE also provided an update of the data related to ETS issued (for free or sold) and surrendered up to 2023 and their corresponding recording in the accounts of the general government.

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.

At the beginning of the fourth trading period (2021-2028), Estonia started surrendering less permits than issued domestically, implying that it became “net exporter” of ETS for sizeable amounts.

Discussion

The discussion preliminarily established that currently the total government revenue from proceeds of sales of ETS are recorded as taxes D.29 nearly wholly (99%) counter-parted in the ESA accounts in S.2 (based on balance of payment D.2 credit). This recording goes alongside with a temporary arrangement: these amounts are actually netted from the taxes transferred to EU, within D.2 resource of the rest of the world (resulting in negative D.2), for GNI purposes. This temporary recording is not applied when reporting in ESA Table 9.

During the meeting, the statistical authorities indicated (as also briefly alluded in the documentation) that the allowances bought or sold by S.11 were recorded in the capital account as acquisitions/disposals of non-produced nonfinancial assets (NP) and not as D.29 use of S.11 (/resource of S.2) – as would have been expected. Eurostat thought that this recording distorted business margins (gross operating surplus) and disproportionately increased GNI.

Eurostat reminded the current discussion on the recording of the ETS scheme in the framework of the ESA revision, stressing the challenges of recording a multi country scheme. There are three possible recordings. The first consists in recording a tax revenue of S.13, a tax use of S.11 in proportion of the permits surrendered by the resident corporations, the balance being taxes paid by the rest of the world. The second recording recognises a current transfer from the rest of the world instead of cross border taxes. The third and preferred method of Eurostat would be to recognise a European scheme where the permits would be recorded as liability of the EU Institutions with matching claims against the issuing governments.

Findings and conclusions

Action point 36: *Statistics Estonia will provide an update of the note of April 2023 for the Action Point A1 of GNI Report on Quality to reflect the correct debits / credits of the balance of payments framework and to better reflect the NP recording in the S.11 accounts and the impact on GOS and GNI.*

Deadline: May 2025 ⁽²⁴⁾

Action point 37: *Statistics Estonia will separately reflect on the possibility to alternatively record cross border flows on a net approach basis (e.g. total proceeds of permits issued, net of permit surrendered by the Estonian resident corporations) instead of using the current pro rata approach of fossil CO2 totals by country to allocate the payables/D.29 between Estonia and S.2.*

Deadline: July 2025 ⁽²⁵⁾

Action point 38: *Eurostat invited Statistics Estonia to actively participate to the ongoing discussions on ETS for the ESA review and share its experience. Statistics Estonia will then implement the agreed recording at a suitable point in time.*

Deadline: When applicable

⁽²⁴⁾ Action point 36 is under assessment of Eurostat.

⁽²⁵⁾ Action point 37 is under assessment of Eurostat.

4.3.11. Others: mobile phone licenses, sale and leaseback operations, privatization, etc.

Introduction

Before the visit, SE provided a note on the current and future sale and leaseback operations (none such operation was foreseen) and information on the decision made by the government on 12 February 2024 on planned - total or partial - privatization of *Tallinna Sadam AS, AS Eesti Post, AS Teede Tehnokeskus, Enefit Green AS (S.11)* and *Eesti Põllumajandusloomade Jõudluskontrolli AS*, as well as the decision to list *Enefit AS* on the stock exchange.

Findings and conclusions

Eurostat took note of the information provided.

There was no discussion on this agenda item.

4.3.12. Rail Baltica [State of Play]

There was no discussion on this agenda item.

5. ANY OTHER ISSUES

None.

EDP dialogue visit to Estonia, 11-13 February 2025

Starting on 11 February 2025, 9:30

Ending on 13 February 2025, 13:00

Draft 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 12-13 January 2023**
- 3. Analysis of EDP tables – follow up of the October 2024 EDP notification**
 - 3.1. EDP T.2A Statistical discrepancy**
 - 3.2. Time of recording of military expenditure**
 - 3.3. Recording of the 2023 merger of Tallinna Soojus AS and AS Utilitas Tallinn**
- 4. Methodological issues and recording of specific government transactions**
 - 4.1. Delimitation of general government, application of market / non-market delimitation in national accounts**
 - 4.1.1. Practical implementation of the market / non-market test and qualitative criteria
 - 4.1.2. Changes in the sector classification since the January 2023 EDP dialogue visit
 - 4.1.3. Questionnaire on government controlled units classified outside general government
 - 4.1.4. Government controlled entities classified outside the general government sector (public corporations)
 - *Nordic Aviation group AS* (including *OÜ Transpordi Varahaldus*, *Nordic Aviation Advisory AS* and *Regional Jet OÜ*)
 - entities for which notes were requested (please see List of documents to be provided by Estonian statistical authorities)

4.2. Implementation of accrual principle

- 4.2.1. Taxes and social contributions
- 4.2.2. Interest, consolidated interest and financial derivatives
- 4.2.3. EU flows, including EU financial instruments
- 4.2.4. Recovery and Resilience Facility
- 4.2.5. Military expenditure

4.3. Recording of specific government transactions

- 4.3.1. Estonian Business and Innovation Agency (EIS) (ex-KredEx) activities
- 4.3.2. Government measures in response to Russia's invasion of Ukraine
- 4.3.3. Government measures to mitigate the impact of high energy prices
- 4.3.4. Recording of the tax-subsidy scheme of Elering AS
- 4.3.5. Government guarantees and guarantee calls
- 4.3.6. Government claims, debt assumptions, debt cancellations and debt write-offs
- 4.3.7. Capital injections in public corporations
- 4.3.8. Dividends, super-dividends
- 4.3.9. Public Private Partnerships, concessions, and energy performance contracts
- 4.3.10. Emission trading permits and sale of renewable energy rights
- 4.3.11. Others: mobile phone licenses, sale and leaseback operations, privatization, etc.
- 4.3.12. Rail Baltica [State of Play]

4.4. Important issues concerning year 2024 relevant for the April 2025 EDP Notification

5. Any other issues

LIST OF PARTICIPANTS

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Statistics Estonia	<ul style="list-style-type: none"> • Urmet Lee, Director General • Kaido Paabus, Deputy Director General • Evelin Ahermaa, Head of Macro-Economic Statistics Department • Pauline Kommer, Team Lead of the Government Finance Statistics Team • Alice Kase, Leading Analyst, Government Finance Statistics Team • Maria Vassiljeva, Leading Analyst, Government Finance Statistics Team • Reena Undla, Leading Analyst, Government Finance Statistics Team • Carisse Vooremaa, Analyst, Government Finance Statistics Team • Heleri Gaponenko, Analyst, Government Finance Statistics Team
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