

## EXPLANATORY NOTE

### to the October 2024 reporting on government deficit and debt levels for the excessive deficit procedure

30.09.2024

This document provides information on the second Estonian reporting for 2024 on government deficit and debt levels.

Please note that Statistics Estonia (SE) is responsible for the historical data for 2020–2023, while the Ministry of Finance (MoF) provided forecasts for 2024. The cut-off date for the preparation of the forecast was 27.08.2024.

#### Issues from the 2023 EDP dialogue visit:

**AP1: The Estonian statistical authorities will provide on a regular basis for the October EDP notification, a detailed explanation of the working balance changes, including if due to the regular revisions or due to the audit process of the Consolidated Annual Report of the State.**

The basis of working balance (WB) used for EDP purposes in the October notification is “State budget revenues minus expenditures and investments” (“Kokku riigieelarve tulud miinus kulud ja investeeringud”, hereinafter referred to as WB) from Consolidated Annual Report of the State, and the following table represents the changes in revenues and expenditures between preliminary and final state budget execution report. WB is compiled by the State Shared Service Centre (SSSC) and the compilation differs from the government finance statistics compiled by SE.

The amounts are presented for 2023 in EUR million.

	Revision	Comments
<b>State budget revenues (1=2+3)</b>	117.1	
Tax revenues (2)	-6.3	
Non-tax revenues (3=4+5+6+7)	123.4	
<i>Sale of goods and services (4)</i>	3.4	
<i>Grants received (5)</i>	139.4	Delayed information at the cut-off date for April reporting (25 January) for foreign

		grants. Elimination of error regarding double-recording of foreign grants. Exclusion of grants for military expenditure.
<i>Other revenues (6)</i>	-0.2	
<i>Financial revenues (7)</i>	-19.0	Decrease in net value of funds.
<b>State budget expenditures (8=9+10+11+12)</b>	-36.3	
<i>Allowances given and other transfers (9)</i>	33.3	Change in recording of medical aids.
<i>Operating expenditures (10)</i>	-62.2	Change in recording of medical aids. Exclusion of military expenditure.
<i>Other operating expenses (11)</i>	-6.0	
<i>Acquisition and renovation of tangible and intangible assets (12)</i>	-1.4	Exclusion of military expenditure.
<b>State budget revenues minus expenditure and investments (13=1-8)</b>	153.4	

**AP6: In relation to the revaluation of expected losses on loans granted by Kredex Foundation in the context of the COVID-19 (included in the working balance for 2021), the Estonian statistical authorities will revise the expenditure recorded in 2020 for loans not expected to be repaid at inception, instead of recording a revenue in 2021. From 2023 onwards, the statistical authorities will apply the delayed revenue approach for downwards revisions of expected losses. The EDP annex 8 on measures taken in the context of the COVID-19 pandemic will be adapted accordingly.**

The expenditure recorded in 2020 and the revenue recorded in 2021 for loans not expected to be repaid at inception was already revised for October 2023 EDP notification. For October 2024 EDP notification the recording has also been revised in the financial accounts. Therefore, the long-term loan assets (AF.42A) have been revised upwards in 2020, whereas the amount decreases in 2021 and 2022.

**AP8: Concerning the suspension of payment to the second pillar pension scheme in 2020 and 2021, the Estonian statistical authorities will impute interest expenditure on the corresponding debt (F.42L). The amounts of interest to be recorded depend on whether the "average net asset value of units in all mandatory pension funds/mutual investment funds" to be paid to the beneficiaries are linked to a narrow or broad index. The practical implementation of the recording will be discussed with Eurostat. In the meantime, the statistical authorities will monitor the cash outflows related to the suspension payment to the second pillar in order to determine the imputed interest.**

The interest expenditure on the corresponding debt (AF.42L) was already imputed for the October 2023 EDP notification. The interest expenditure was recorded in 2020 and 2021, i.e. in the periods when the payments to the second pension pillar were suspended. Following the consultations with Eurostat after October 2023 EDP notification the distribution of interest expenditure between the time periods has been corrected. Therefore, now in the October 2024 EDP notification the interest expenditure is recorded as accruing linearly from July 2020 to January 2023.

**AP10: The Estonian statistical authorities will analyse the classification of public foundations and NPIs mentioned in the Consolidated annual report of the State – 2021 (1.1.4 General government and public sector overview and fiscal position). In this context, they will analyse and report to Eurostat whether such**

**entities are financed exclusively or mostly by the government. The analyses of the classification shall only concern those entities which are not included in the general government sector.**

Following the qualitative analysis and taking into account the market/non-market test results of the public foundations and NPIs mentioned in the Consolidated annual report of the State – 2021, SE has reclassified SA Kuressaare Hambapolikliinik inside the local government subsector (S.1313) and Tallinna Tehnikaülikooli Kultuurikeskus, Tallinna Tehnikaülikooli Spordiklubi, MTÜ Tartu Ülikooli Akadeemiline Spordiklubi, MTÜ Tartu Üliõpilasmaja, MTÜ Tallinna Ülikooli Spordiklubi inside the central government subsector (S.1311) from 2022 onwards.

**AP12: Regarding the classification of AS Eesti Raudtee (railways infrastructure), the Estonian statistical authorities will closely monitor the results of the market/non-market test of the corporation. The Estonian statistical authorities will clarify if the grants received for operating costs can be considered as subsidies on products or on production (D.31 or D.39) and will reflect on the impact of the economic nature of subsidies on the result of the market/non-market test. The statistical authorities will consider using a coefficient to adjust the depreciation from PSFS for the calculation of the consumption of fixed capital (see action point 9).**

Following the qualitative analysis and taking into account the market/non-market test results, SE has reclassified AS Eesti Raudtee inside the central government subsector (S.1311) as of 2019.

**AP13: Tallinna Soojus AS (Tallinn Heat) will be reclassified in the government sector due to its nature of ancillary unit of government. The Estonian statistical authorities will analyse whether the lease contract with AS Utilitas Tallinn is to be considered as an operating or a financial lease. A note on the reclassification will be provided to Eurostat detailing the recording of transactions and stocks (amounts and economic classification) related to the reclassification since the creation of the unit. The note will also mention how the assets of Tallinna Soojus AS were transferred or sold by the City of Tallinn at the time of creation of the unit in 1996. The note on the reclassification will reflect on any break in series due to data availability.**

Following the qualitative analysis as well as consultations with Eurostat after October 2023 EDP notification SE has reclassified Tallinna Soojus AS inside the local government subsector (S.1313) as of 2001. What is more, the lease contract signed with AS Utilitas Tallinn in 2001 for 30 years is recorded as a concession, i.e. a loan liability (AF.42L).

**AP14: The Estonian statistical authorities will monitor the market/non-market test for Maali Üürimaja OÜ, currently at under 50%. The year 2021 was the first year where the entity has carried out its main economic activity of renting of real estate.**

SE has reclassified Maali Üürimaja OÜ inside the local government subsector (S.1313) as of 2022 following the market/non-market test results.

**AP15: The Estonian statistical authorities will reclassify SmartCap Venture Capital Fund (ex Early Fund II) in the government sector and more generally will reclassify in the government sector similar fund-of-funds where the government is the only provider of funds (for example, the Green Fund). The statistical authorities will perform the capital injection test on the investment in sub-funds or corporations classified outside the government sector.**

SE has reclassified SmartCap Venture Capital Fund (ex Early Fund II) into central government subsector (S.1311) as of 2012. The unit, alongside Green Fund, was already reclassified into central government subsector (S.1311) from 2020 onwards (from 2022 onwards for Green Fund) in the October 2023 EDP notification. Now the unit has also been reclassified for the period 2012-2019.

**AP16: Regarding EstFund (fund-of-funds initiative launched by EIF, KredEx Foundation and the Ministry of Economic Affairs and Communications), it was clarified that the fund was capitalised by the government and**

**by the EIF, both holding shares or units (F.52) in the fund. The statistical authorities will correct the recording of the capital transfer (D.99exp) in 2016Q2 corresponding to the capital provided by the EIF (EUR 12 million). The statistical authorities will verify if the capital transfer has been neutralised and will correct the revenue accordingly.**

SE has corrected the recording of the capital transfer regarding EstFund, i.e. the capital transfer has been recorded as F.519 instead of D.99exp following the action point as well as consequent consultations with Eurostat regarding the correct instrument (either F.52 or F.519).

**AP17: The Estonian statistical authorities will clarify the classification of the funds transferred by the government to AS Kredex Krediidikindlustus (currently classified as a deposit) in order to cover the call of standardised guarantees counter-guaranteed by the State. Statistics Estonia will provide a note explaining how those guarantees are rerouted in the accounts of the government, detailing financial and non-financial transactions and stocks of assets and liabilities rerouted in the government accounts for the years 2020-2022. Additionally, Statistics Estonia will indicate how the rerouted non-financial transactions are recorded in EDP T.2A. Eurostat and Statistics Estonia will dialogue in order to determine the correct recording of the rerouted guarantees.**

SE provided the note to Eurostat already on 31 March 2023. Following the discussions during April 2024 EDP notification SE has removed guarantee calls of AS Kredex Krediidikindlustus from the expenditures.

**AP18: The Estonian statistical authorities will reclassify inside the local government sector SA Tartu Eluasemefond.**

SE has reclassified SA Tartu Eluasemefond inside the local government subsector (S.1313) as of 2005.

**AP25: The Estonian statistical authorities will analyse and report to Eurostat on the possibility to record a tax-subsidy scheme for the renewable energy charge calculated and implemented by Elering AS.**

SE has analysed the renewable energy charge calculated and implemented by Elering AS and the scheme is recorded as a tax-subsidy scheme as of 2007.

## **EDP tables**

### **Comments on EDP T.1**

Main contributors to the revision of general government net lending/net borrowing in the years 2020-2023 were:

- Reclassification of units into general government sector either following from EDP 2023 dialogue visit action points (see above) or from regular analysis of the classification of units.
- Recording of the renewable energy charge calculated and implemented by Elering AS as a tax-subsidy scheme.
- Recording of the lease contract signed between AS Tallinna Soojus and AS Utilitas Tallinn in 2001 for 30 years as a concession, i.e. a loan liability (AF.42L).
- Change in the recording of expenditures by the Ministry of Defence in the year 2023.

Main contributors to the revision of general government consolidated gross debt, i.e. Maastricht debt in the years 2020-2023 were:

- Reclassification of units into general government sector either following from EDP 2023 dialogue visit action points (see above) or from regular analysis of the classification of units.
- Recording of the lease contract signed between AS Tallinna Soojus and AS Utilitas Tallinn in 2001 for 30 years as a concession, i.e. a loan liability (AF.42L).
- Inclusion of the capitalised interest on EFSF loans in Maastricht debt following item C.7 of the Excessive Deficit Procedure Statistics Working Group (EDPS WG) held in June 2024.

### **Comments on EDP T.2A**

During EDP dialogue visit in January 2023, Eurostat requested that Estonian statistical authorities would detail the adjustments done by SSSC on the budget execution for the calculation of WB and will show those adjustments in EDP T.2A. Explanations for individual rows in EDP T.2A are listed below. Additionally, explanations for adjustments in EDP T.2C and T.2D are provided.

**Superdividends.** Eurostat requested SE to calculate superdividend tests already in the April EDP notifications. The tests have been carried out, however no superdividends are to be recorded for 2023.

**Non-financial transactions in non-financial assets.** Non-financial transaction in non-financial assets are not included in WB but are included in B.9. Therefore, adjustment has been made in EDP T.2A

**Rerouting.** The detail includes adjustment for rerouting of AS Kredex Krediidikindlustus as well as rerouting of renewable energy charge.

**Reclassification.** The detail includes adjustment for reclassification of SmartCap Venture Capital Fund and Green Fund.

**Adjustment associated with the sale of ETS.** According to the Manual on Government Deficit and Debt (MGDD) 2022, the time of recording should be accrual basis, therefore the recording of revenue differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

**Adjustment associated with the sale of 5g licenses.** According to MGDD2022, the time of recording should be accrual basis, therefore the recording of revenue differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

**Net lending/net borrowing of other central government bodies.** Details are added because these units are classified inside the subsector, but not reported in the working balance compiled by SSSC. B.9 figures of groups of other central government sector units are reported specifically for EDP purposes.

**Capital injections.** The adjustment includes expense not included in the WB or difference in recording of the expense between WB and B.9.

**Losses from doubtful receivables.** Doubtful receivables are recorded as an expenditure in WB if the bills are not paid by deadline and predefined amount of time has passed. These movements are not included in expenditures in B.9.

**Revaluations in assets.** Revaluations (profit/loss from revaluation of shares, revaluation due to change in currency exchange rate, revaluation in inventories) are reported in WB whereas not recorded in B.9 and therefore adjusted accordingly.

**Difference between accrual-based tax interest and cash figures.** Adjustment for difference between accrual-based tax interest and cash figures is made because tax interest in WB is accrual based. In GFS tax interests are recorded as cash-based amounts. No time-adjustment is implemented because data is available only for tax interest as total and not for each tax separately.

**Difference between the accrual-based working balance and cash-based D.5 (transfer to local government).** Accrual-based transfers made to local government are replaced with cash. Regarding D.5, there is no one-month time adjustment by SE and the taxes are recorded cash-based. However, local government sector statements are accrual-based, and the adjustment explains the difference between cash-based D.5 in B.9 compiled by SE and accrual-based transfers of income tax to local governments.

**Removal of consolidation and adjustment figures imputed by the SSSC.** SSSC makes consolidation entries to achieve the necessary consolidation logic for the PSFS and WB. However, the amounts are included as revenue/expenditure in B.9 compiled by SE and therefore the adjustment has been made.

**Change in pension and other provisions.** Expenditures from actuarial changes in pension and other provisions are replaced with actual pay out amounts and therefore adjustment has been made.

**Provisions for the temporary suspension of second pension pillar payments (4%).** Expenditures from actuarial changes in pension provisions for the temporary suspension of second pension pillar payments (4%) are adjusted.

**Depreciation.** Depreciation is eliminated from the WB.

**Changes in inventories.** Changes in inventories are not included in WB but are included in B.9. Therefore, adjustment has been made in EDP T.2A.

**Residual value of assets sold.** Residual value of assets sold is not included in the WB but according to MGDD2022 the amounts to be recorded in non-financial account are the full amounts of the proceeds of the sale.

**Difference in recording loans not expected to be repaid.** Delayed revenue approach (MGDD2022 chapter 4.9.2) was applied to the expected losses on loans and therefore an adjustment is made in EDP T.2A.

**Difference in recording provisions for standardised guarantees.** Delayed revenue approach (MGDD2022 chapter 7.4.3) was applied to the provisions for standardised guarantees and therefore an adjustment is made in EDP T.2A.

**Difference in recording interest on suspension of second pension pillar payments.** According to MGDD2022, the time of recording should be accrual basis, therefore the recording of expenditure differs for WB and B.9 purposes and an adjustment has been made in EDP T.2A.

**Discrepancy.** This line includes various amounts of adjustments which are not included in other details. Therefore, this amount represents unexplained difference (residual).

## **Comments on EDP T.2C**

**Superdividends.** Eurostat requested SE to calculate superdividend tests already in the April EDP notifications. The tests have been carried out and an adjustment has been added, however no superdividends are to be recorded for 2023.

**Net lending/net borrowing of other local government bodies.** Details are added because these units are classified inside the subsector, but not reported in the WB of local government accounts. B.9 figures of groups of other local government sector units are reported specifically for EDP purposes.

**Capital injections.** The adjustment includes expense not included in the WB or difference in recording of the expense between WB and B.9.

**Difference between the accrual-based working balance and cash-based D.5 (transfer to local government).** Please see the explanation for EDP T.2A.

**Discrepancy.** This line includes various amounts of adjustments which are not included in other details. Therefore, this amount represents unexplained difference (residual).

#### **Comments on EDP T.2D**

**Gross capital formation.** The adjustment includes the part of gross capital formation recorded only on balance sheets and not in profit-loss accounts.

**Differences between taxes recorded as social contribution.** The adjustment shows the difference in government sector accounts and tax revenues recorded in the reports of units included into current subsector.

**Depreciation.** Depreciation is eliminated from the WB.

**Discrepancy.** This line includes various amounts of adjustments which are not included in other details. Therefore, this amount represents unexplained difference (residual).

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