Lessons learned

Adoption of ESA 95 methodology in the Slovak Republic

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List of abbreviations

ARDAL	Debt and Liquidity Management Agency
COFOG	Classification of Functions of Government
DG ECFIN	Directorate General for Economic and Financial Affairs
EC	European Commission
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EMU	European Monetary Union
ESA 1979	European System of Accounts 1979
ESA 95	European System of Accounts 1995
EU	European Union
FISIM	Financial Intermediation Services Indirectly Measured
CSFR	Czech and Slovak Federal Republic
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFS 2001	Government Finance Statistics 2001
GG	General Government
IMF	International Monetary Fund
IPSAS	International Public Standards Accounting System
MOF	Ministry of Finance
MPS	Material Product System
NBS	National Bank of Slovakia
NPISH	Nonprofit Institutions Serving Households
OECD	Organization for Economic Cooperation and Development
PHARE	EU Fund for Central and Eastern Europe
PIM	Permanent Inventory Method
PPP	Public Private Partnership
SDDS	Special Data Dissemination Standard
SNA	System of National Accounts
SOSR	Statistical Office of the Slovak Republic
SR	Slovak Republic

1. Executive summary

Relations between the Slovak Republic and the European Union are based on the European Association Agreement, which was signed in 1993 and came into force in 1995. Slovakia with other associated countries of the Central and Eastern Europe was involved in the process of EU enlargement. One of the conditions to acquire membership for all Candidate Countries is the implementation of the Copenhagen criteria, which have been approved by the European Council. These criteria pertain mainly to political and economic area and acceptance of the acquis communautaire. In 1999 the European Council decided to invite Slovakia for negotiations on joining the EU. In 2000 formal negotiations began and two years later they officially ended. The Slovak Republic signed the Accession Treaty with the EU in 2003 and became a member of the European Union on 1st of May 2004. After accomplishing Maastricht criteria, Slovak Republic joined the European Monetary Union and adopted the euro currency on 1 January 2009.

Adoption of ESA 95 methodology as a crucial requirement for data compilation and reporting was carried out as one stage of public finance management reform. In 2000-2002 several measures were taken that were focused on elaboration and implementation of methodology for transforming reports developed on a cash base to the ESA 95 and GFS 2001[1] methodology. One of the principal intentions was to provide consistent and reliable data for policy decision-makers. On the international level, using the same concepts and classifications in data compilation and reporting was to ensure comparable data across the whole European Union.

Process of ESA 95 implementation took several years and required change of statistical system. National accountants and data compilers faced problems with availability of source data and insufficient data quality. Large shortcomings were identified mainly in the field of institutional cooperation of statistical authorities (Statistical Office, Central Bank, Ministry of Finance). Finally, increased effort of the involved institutions has resulted in successful implementation of ESA 95 principles in all stages of collection, processing, analyzing and reporting of data in the Slovak statistical system.

1.1. Assignment objective

The experience of Slovakia from the public finance reform and adoption of ESA 95 methodology could contribute on the way forward for other transition countries. The document introduces reform initiatives and key improvements in the accounting and reporting systems in the Slovak Republic that were necessary for the successful ESA 95 implementation and fulfillment of reporting obligations.

[1] GFS 2001 is a statistical methodology for data reporting to the IMF. The methodological principles are based on SNA 1993.

1.2. Brief overview of ESA 95 adoption

Implementation of ESA 95 methodology in Slovakia was carried out in three stages:

The first stage **(1997-1998)** concerned national accounts for 1996-1998 and covered application of 50% criterion for classification of semi-budgetary organizations and non-profit institutions serving households (NPISH), calculations of nonfinancial assets at written-down replacement cost and consumption of fixed capital (estimates for the general government), calculation of FISIM[2] and inclusion of non-observed economy to GDP calculation.

The second stage **(1999)** included revised calculation of consumption of fixed capital for the general government, sector classification of borderline cases (Slovak Consolidation Agency, Consolidation Bank), treatment of non-performing loans. In this period, financial accounts become more significant. Revisions were applied in 1999.

The third stage **(2000-2001)** finished the ESA 95 implementation in national accounts for 2000 and 2001. It was focused on accrual adjustment of taxes, social contributions and interest and improvements of supply and use tables. On experimental basis, annual financial balance sheets were compiled.

After joining the EU, Slovakia has to fulfill reporting obligations in line with the relevant regulations. Overview of the main data requirements related to the government finance statistics is the following:

[2] Financial intermediation services indirectly measured

	Obligation		Deadline	Reference to legal act
Eurostat	1. EDP Tables and EDP Questionnaire		31.03. and 30.09.	Council Regulation 679/2010
	2. Transmission Program Tables (only related to GFS)		in months	Regulation (EC) No 1392/2007
	2	Main aggregates for general government - annual	t+3 and t+9	
	6	Financial accounts by sector (transactions) - annual	t+9	
	7	Balance sheets for financial assets and liabilities - annual	t+9	
	8	Non-financial accounts by sector - annual	t+9	
	801	Non-financial accounts by sector - quarterly	85 days	
	9	Detailed tax and social contributions receipts by type of tax and social contribution and receiving sub-sector incl. list of taxes and social contributions according to national classification - annual	t+9	
	11	General government expenditure by function - annual	t+12	
	26	Balance sheets for non-financial assets - annual	t+24	
	27	Financial accounts for general government - quarterly	85 days	
	28	Government debt - quarterly	t+3	
	3. Methodological surveillance, ad hoc questionnaires		ad hoc	x
IMF	4. GFS Questionnaire - annual		variable	x
	5. GFS High-Frequency Questionnaire - quarterly		t+3	x
	6. GFS High-Frequency Questionnaire - monthly		30 days	x

1.3. Key measures and lessons to be learned

The only and best method how to meet requirements related to ESA 95 implementation and data reporting probably does not exist. Every country has to find optimal solution that should be tailored to national specificities. However, several key measures should be considered before strategic planning:

- **Strong political eagerness and leadership** to improve relevant areas and to reach specific objectives – Progressive plans and projects are much more easily promoted when there is a strong political willingness to accomplish the target. In case of the Slovak Republic it was the effort to join the EU and later on the EMU.

- **Introduction of necessary reforms** – the accounting and reporting reform was implemented as one stage of the public finance management reform in order to develop system providing consistent and reliable data for decision makers and other data users. Adapting existing data sources and introduction of new ones contributed to meeting data reporting requirements in full extent.

- **Introduction of State Treasury System** – New system for public finance management and data reporting brought a modern, reliable and exhaustive way of data accessibility to data compilers.

- **Cooperation of statistical authorities** – (In) formal cooperation of data compilers (statistical office, ministry of finance, central bank) is inevitable for meeting the Eurostat requirements for data reporting in various areas of government finance.

- **Utilization of international best practice, work of experts, participation at GFS projects and workshops** – Slovak statistical authorities took advantage of Eurostat workshops and courses, bilateral contacts with the Czech Republic and Netherlands, OECD seminars and technical assistance mission of the IMF experts that were aimed at methodological assistance and exchange of experience.

Based on the Slovak experience and lessons learned, several general **recommendations** could be proposed **in the field of ESA 95 implementation**:

- Elaboration of implementation scheme based on the previous analysis of current accounting and reporting systems with identified weaknesses, strengths, needs and objectives.

- Involving of statistical authorities in the implementation process in favor of smooth transformation of current statistical system.

- Introduction of such reporting system and data sources that would provide decision makers and data compilers with exhaustive, consistent, timely and reliable data with an appropriate IT support. Correct data availability is a key element for meeting the Eurostat requirements.

- Utilization of countries best practices and active cooperation of designated experts by means of participation in courses, workshops, working groups and self-study. Work of international experts should be demand driven, not supply driven.

The following chapters outline several areas that were crucial for successful adoption of ESA 95 methodology in the statistical system. Based on the Eurostat recommendations, cooperation between statistical authorities continuously improved and later on it has played an important role in institutional arrangement of the implementation. One of the most monitored issues is delimitation of general government and public sectors. In order to ensure exhaustive data sources, new data sources were introduced. However, data coming from the statements did not fulfill most of ESA methodological principles. Therefore, there were other adjustments needed, e. g. valuation, consolidation principles and time of recording. Last chapters describe outcomes of GFS reporting and ESA 95 implementation in budget process.

2. Institutional responsibilities

Three official institutions are responsible for the compilation and dissemination of statistics in Slovakia:

- Statistical Office of the Slovak Republic produces data on the national accounts, production, employment, unemployment, wages/earnings, prices, foreign trade and population. It is the SDDS[3] national coordinator for the IMF.

- National Bank of Slovakia is responsible for producing data on the banking system, interest rates, balance of payments, international reserves and foreign currency liquidity, international investment position, external debt, exchange rates and government finance statistics towards the ECB.

- Ministry of Finance of the Slovak Republic produces statistics on general government statistics towards the IMF and data on the general government debt.

Statistical Office has the central role in overseeing the entire national statistical process. The Law on Statistics provides a legal and institutional environment that clearly sets out responsibility for the collection and processing of statistics, data sharing and coordination, the protection of the confidentiality of individual responses, and the legal obligation to report data. The SOSR compiles and disseminates data in line with the ESA 95 Transmission Program[4].

The unit which primarily deals with national accounts compilation at the SOSR is Macroeconomic Statistics Section. The need to comply with the European Union requirements has led to an overall increase in staff resources. Number of employees working on general government statistics reaches about 6-7 people in average. Each data compiler is responsible for certain institutional sector and part of sequence of accounts.

The Ministry of Finance is responsible for government finance statistics compiled in compliance with GFS 2001. The legal and institutional environment under which it operates defines its administrative and accounting data collection and reporting

[3] Special Data Dissemination Standard was established by the IMF to guide members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public. It identifies four dimensions of data dissemination: i) data coverage and timeliness, ii) access by the public, iii) integrity of the disseminated data and iv) quality of the disseminated data.

[4] EU Member States are obliged to report data according to requirements and deadlines stipulated by the Regulation (EC) No 1392/2007 of the European Parliament and of the Council of 13 November 2007 amending Council Regulation (EC) No 2223/96 with respect to the transmission of national accounts data.

responsibilities but does not provides a clear mandate to disseminate government finance statistics.

Statistics Department under the State Reporting Section of the Ministry of Finance has the primary responsibility for compilation and reporting of fiscal data to the IMF and partly to the European Commission. The Department has four employees in average, including head of unit. Each of them is in charge of some specific field (GFS 2001 methodology towards the IMF, ESA 95 methodology towards the EU, general government debt).

Before 1998, cooperation among those institutions almost did not exist. Later, there were some irregular meetings before the EDP (Excessive Deficit Procedure) deadlines[5]. Each institution provided figures that were inconsistent. New demands on GFS and pilot projects of Eurostat[6] have brought a better understanding of importance of consistent statistics and of a need for mutual cooperation.

After 2000, cooperation among institutions improved in the field of discussion about classification issues of specific units (Slovak Consolidation Agency, semi-budgetary organizations), methodological issues (recording of guarantees, accrual taxes and social contributions, privatization) and cross checking of GFS figures (EDP, national accounts, GFS for the IMF).

In 2001, Eurostat expert strongly recommended on its mission to Slovakia involving central bank to the government finance statistics compilation. In 2003 on EDP mission, a need of central bank participation was emphasized again.

Initially, the National Bank was involved more in methodological issues than in compilation area. However, accession to the EU and later on to the EMU has resulted in obligation of the National Bank of Slovakia to report on government finance statistics to the ECB independently from the Statistical Office.

In order to improve institutional cooperation, formal agreements between agencies involved in statistical reporting – Statistical Office, National Bank of Slovakia and the Ministry of Finance are concluded. In addition to general provisions, they contain addenda detailing the specific data sets to be shared. These addenda are updated annually.

[5] The Maastricht Treaty, which foresaw the creation of the Euro, organized the way that multilateral fiscal surveillance would be conducted within the European Union. This surveillance is based on the EDP which sets out schedules and deadlines for the Council, following reports form and on the basis of opinions by the Commission and the Economic and Financial Committee, on how to judge whether an excessive deficit exists in a Member State. The Treaty obliges Member States to comply with budgetary discipline by respecting two criteria: a deficit to GDP ratio and a debt to GDP ratio not exceeding reference values of 3% and 60% respectively, as defined in the Protocol on the EDP annexed to the Treaty.

[6] Statistical Office of the European Communities

Furthermore, a working group on government finance statistics was established with representatives from those three institutions. The main objective is reconciliation of key government finance aggregates (deficit and debt) and discussions on application of methodological principles. On regular basis, there are working meetings to prepare notification tables on the deficit and debt of general government that are submitted to the European Commission.

It has to be stressed that another important aim of institutional cooperation are the common data sources which are used for GFS compilation. In fact, administrative data sources are arranged by the Ministry of Finance from the methodological and administrative point of view.

3. Public sector and general government sector delimitation

Since 1993, Statistical Office maintains statistical register called the Register of Organizations. It is based on legal criteria and receives information from the Register of Legal Entities maintained by the Ministry of Justice, Ministry of Interior and regional offices of the Statistical Office. The Register covers all units with separate legal identity: private and public corporations, state owned enterprises, non-profit institutions, state funds, budgetary and semi-budgetary organizations established by government, units owned by non-residents, foreign natural persons. The Register contains two data sets—administrative identifiers (identification number, legal form, address, list of activities by registration, etc.) and statistical variables (type of statistical unit, number of employees, turnover by activity, institutional sector, activity status, etc.). Nowadays, process of updating the register follows the EC Regulation 177/2008 establishing a common framework for business registers for statistical purposes.

Since 1994, sector allocation of all semi-budgetary organizations is based on the 50% criterion[7] prescribed by ESA95 methodology. The assessment of the criterion is applied every third year. Based on the results, units in question are reclassified outside/inside the general government sector as of the January 1 of the following year. However, this practice is not fully in compliance with the ESA 95 principles since the ESA 95 methodology requires continuous assessment of 50% criterion.

Delimitation of the general government sector has been changing over the years. Mostly, changes concern government decisions or fiscal policies (e. g. local government decentralization). In 1993, flows related to social insurance scheme passed through the State Budget. Therefore, no social security subsector was presented in the national accounts. In 1994, independent institutional units managing social security contributions were established and relevant subsector was introduced. In 2002, within the public finance reform, 10 extra budgetary funds were cancelled

[7]If sales cover more than 50% of operating costs, unit is classified outside the general government sector.

and their activity was transferred under the line ministries. On the local government level, 8 higher territorial units (corresponding to regions) were established.

In the past, classification of some specific cases was not always unambiguous. There were many practical problems in the previous years that were solved jointly by the Statistical Office and Ministry of Finance or directly with the Eurostat. Special attention was paid to classification of privatization funds (National Property Fund and Slovak Land Fund) in 1991 that were established by government to carry out the privatization program including restitutions. In 1999 Slovak Consolidation Agency was established in order to manage nonperforming loans assigned from the banks that were to be privatized. Moreover, Agency took over activities of the Consolidation Bank that was established in 1990 and was cancelled few years later. In this case, common features typical for financial monetary institution and defeasance structure[8] caused certain doubts on sector classification. It is necessary to stress that workshops and training courses organized by the Eurostat contributed to solve the particular cases in the past. Creating and developing the Register to the current status has taken several years and was a result of a close cooperation of all the institutions involved in the process.

At the present, general government sector consists of central government, local government a social security funds. The changes appear mainly in the central government as a consequence of fiscal policies, e. g. establishment of special purpose vehicles[9]. It is necessary to emphasize that assessment of sector classification has to be carefully applied. Otherwise, every change in classification causes time-consuming and demanding data revisions in whole time series.

4. Accounting and reporting system

Having regard to **importance of good quality data for ESA 95 methodology**, this chapter is devoted to description of legislative and institutional arrangement for data recording and reporting. There is also brief overview of classifications that are used in the Slovak statistical system.

4.1. Administration of data sources

Source data collection for the compilation of GFS was always guaranteed by three legislative acts – Law on State Statistics, the Budgetary Rules Law and the Accounting Law and accompanying regulations - and by the State Treasury Law since

[8] Financial defeasance means involving of government in case when financial institution removes bad assets from its balance sheet.

[9] These are e. g. Slovenská inkasná that was established in early 90s to manage bad loans from particular state-owned bank. Later on, it was replaced by the Slovak Consolidation Agency that assumed nonperforming loans from other banks. Veritel was founded in order to solve the deep indebtedness of the Slovak health care providers.

2004. The first one regulates data collection through annual program of statistical surveys. The Budgetary Rules Law imposes an obligation on general government organizations to submit to the MOF their budgets for the coming year and data for the previous year that are necessary for the evaluation of budget execution. The third one, the Accounting Law imposes an obligation to compile financial statements and publish them. The State Treasury Law stipulates rules for data reporting and processing for purposes of GFS compilation and assessment of budget execution. The exhaustive institutional and geographic coverage of the source data for the compilation of GFS was always ensured by reference to the statistical Register.

Until 2004, data processing was done by DataCentrum (Data Center), a separate organization established for this purpose by the MOF. This government agency processed the reports submitted by the individual institutions into comprehensive sets separately for budgetary organizations, semi-budgetary organizations, municipalities, state funds and since 2002 also for higher territorial units. The other units of general government (National Property Fund, Slovak Land Fund, Slovak Consolidation Agency, Social Insurance Agency, National Labor Office (until 2003) and health insurance companies) submitted their statements directly to the MOF.

In 2004 the State Treasury started its operation. Its main objective was to ensure comprehensive management of government accounts and accounts of other units of general government, domestic and foreign payment system. Based on the mentioned tasks, the State Treasury is able to provide individual and aggregated information about revenue and expenditure items in specified structure.

Since 2004, the State Treasury has taken over the collection and processing of data for its client organizations. DataCentrum continues to collect and process data for the municipalities and the budgetary, semi-budgetary and nonprofit organizations operating under the municipalities that have not become clients of the State Treasury yet. At present, data collection is based on the obligation of all organizations belonging to general government sector (according to the statistical Register of Organizations) to submit prescribed data to the State Treasury in accordance with the relevant legislation. A measure (a type of a legislative rule) for data reporting is published on the MOF website. It defines the scope, manner, and deadlines for submitting data on the execution of the public budget. The statements submitted on the basis of the measure represent administrative records and are not part of government statistical reporting. However, the measure is legally binding.

Sources of data for the compilation of GFS are mostly identical with sources of data which the MOF uses in reporting on budget execution. Therefore, decisions are guided by administrative and accounting considerations, rather than statistical considerations. The accounting practices of general government organizations are directed by the MOF, which specifies the accounting standards and procedures. Data from the accounting systems of state budgetary and semi-budgetary organizations are monitored by the relevant ministries. Data from municipalities and their budgetary and semi-budgetary organizations are monitored by authorized staff at tax offices, and

are examined by auditors. Annual data coming from other organizations of general government are examined by auditors.

4.2. Scope of data sources

Based on the legislation mentioned above, MOF and SOSR obtain data on required indicators and according to prescribed deadlines. Main data sources that are used for GFS compilation are revised almost every year. Changes are predominantly related to requirements of data users such as Eurostat or the IMF.

Regarding the scope of data sources, there are two periods affecting government finance statistics:

Period of 1993 – 2002

As for the **budgetary organizations, state funds and municipalities**, balance sheets were submitted twice a year. They provided stock data on individual items of assets and liabilities according to chart of accounts. Statements on cash revenues and expenditures were submitted on quarterly basis and covered main items of cash flows according to former budgetary classification.

Regarding the **other government units**[10], GFS compilation was based on financial statements (balance sheet, profit and loss statement) submitted once a year and complementary data sources on quarterly basis since 1998.

However, in both cases the structure of data was not satisfactory enough to meet the requirements of ESA 95 or GFS 2001 reporting. With regard to the Slovak effort to become the EU member, demands for data reporting increased. **Requests for consistent, reliable and more frequent data resulted in improvement of timeliness and data availability for the general government sector in 2002.**

Period after 2002

Since 2003, data for all general government units are reported on quarterly basis. **Budgetary classification of receipts and expenditures was revised and adapted to ESA 95 and GFS 2001 requirements.** Moreover, use of the revised budget classification was extended to all general government units. Consequently, cash data started to be reported in a more detailed structure and thus more complying to ESA 95 and GFS 2001. Similarly, balance sheets for all general government units were submitted on quarterly basis.

Unification and extended coverage of using budgetary classification was accompanied by implementation of **the public finance management reform and compilation of**

[10] National Property Fund, Slovak Land Fund, semi-budgetary organizations, Slovak Consolidation Agency, social security funds

ESA 95 budget. In the initial phase of the reform, the Ministry of Finance elaborated also analysis of general government indebtedness including an inventory of state guarantees. Based on the results, the Ministry identified weaknesses of accounting system. At the same time, part of the guarantees was assumed into government debt in line with ESA 95 methodology.

Some complementary data sources were used in data compilation and balancing, e. g. statistical surveys carried out by the SOSR, balance of payments and money and banking statistics provided by the central bank, etc. However, they did not provide reliable and consistent data in the past, mainly due to differences in accounting methods, classification, valuation and mainly coverage of general government sector. Until the State Treasury establishment, money and banking statistics were used for reconciliation of bank accounts and securities of some government units. In particular, the National Property Fund, the Slovak Land Fund and the Slovak Consolidation Agency did not keep their accounts at the central bank.

Therefore, Eurostat encouraged countries in using additional data sources to strengthen consistency and reliability of reported figures. As a consequence, Slovak statistical authorities have jointly participated on improvement in this area of statistics.

Compilation method

Data reported according to budget classification (revenues and expenditures) and chart of accounts (assets and liabilities) have to be reclassified into ESA95 and GFS 2001 categories. For this purpose, bridge tables and derivation tables are set up. Each revision of one of the classification means subsequent revision of bridge tables. Cash data reported according to the budget classification allow for providing information on transfers that are carried out among units of general government. Such data are important for consolidation within levels of government and for general government as a whole. Matrix views of flows among units of general government are balanced to ensure accuracy of consolidation on the revenue and expenditure sides.

Balance sheets provide data on stocks of assets and liabilities structured according to the chart of accounts. Since this composition was not (and at present is still not) fully in line with ESA 95 and GFS 2001 requirements, certain data were estimated or derived from the cash data. Mostly, this was the case of certain types of assets and financial instruments. Different treatment in terms of ESA 95/GFS 2001 requirements and the Slovak accounting rules can be found in the field of valuation principles. Taking into account the difficulty of obtaining such information, requirements for market or nominal valuation in specific cases have not been met in full extent yet.

Except for quarterly data, the State Treasury was supposed to report comprehensive monthly and daily data on revenue and expenditure for all central government units. The data were to be obtained from bank account records of these organizations, in

accordance with the budgetary classification. However, the intention failed to succeed and the only data available at the present are monthly cash flow data for the State Budget.

In 2005 the Ministry of Finance launched project on the unified state accounting reform. The main objective was implementation of the accounting system that was supposed to be consistent and applicable to all general government units. Moreover, proposed system was supposed to record, analyze, classify, summarize and present results of financial and operational activities of involved units. By means of financial statements and various reports, final outcomes were to provide users with information that were needed for planning, control and decision making process.

Project implementation covered adoption of international accounting standards for public sector (IPSAS) to the Slovak legislation and establishment of integrated IT system in order to support methodological application. At the present, consolidation as a final stage of the project is being carried out. Introduction of consolidation procedures into data recording and reporting has resulted in better quality of reported data. The main reason was a need for consistent and reconciled recording of mutual transactions. Moreover, certain mistakes were removed, e. g. missing government equities, receivables and payables on the balance sheets.

4.3. Classifications related to GFS

The following classifications are administrated by the Statistical Office and the Ministry of Finance and they are binding for statistical authorities and reporting units.

Classification of institutional sectors

First classification of institutional sectors complied with ESA 1979 and partly with SNA 1993. In 2000 Statistical Office revised the relevant Regulation specifying classification and extended definitions to categories of assets, liabilities, balance items, transactions and other flows. This version is currently in force.

Classification of functions of government

The COFOG functional classification of expenditure was introduced by Decree of the SOSR in 2002. Since 2003, reporting of data on expenditure under COFOG is obligatory for all units of general government. The Slovak version of classification is compatible with the European standard up to the third level. The fourth level reflects national specific needs of classification.

Budget classification

Budget classification is administrated by the Ministry of Finance and allows for monitoring of detailed individual categories of cash revenues and expenditures. The first classification of cash flows was based on the IMF´s 1986 GFS classification of government accounts. In the following years, some changes were implemented to the composition and coverage in order to satisfy the needs of users, mainly the international organizations. The scope of the budgetary classification is sufficient to meet the definitions of GFS and is able to adapt to new requirements of ESA 95 or GFS 2001 methodologies.

As for the coverage, until 2002 the budget classification applied to budgetary and semi-budgetary organizations, state funds, municipalities and higher territorial units. Starting in 2003, it was extended to social security funds and other central government units (Slovak Land Fund, National Property Fund).

Regarding the content, major revisions were carried out in 2002 and 2003. In line with the ESA requirements, financial transactions were presented in more detail (debtor/creditor approach, maturity, etc.) and at the same time they were separated from nonfinancial transactions. COFOG classification was included as integral part of the budget classification.

Chart of accounts

The Accounting Law and relevant regulations stipulate a chart of accounts that is used by general government units. The first version was valid until 2002 and provided different classifications of stocks of assets and liabilities for budgetary and semi-budgetary organizations and for other central government bodies.

A revised chart of accounts was introduced in 2003 and unified various classifications used by general government units in the preparation of their balance sheets. The structure of the 2003 chart of accounts entailed a significant improvement compared to the previous version. However, its structure and detail were far from meeting the needs of ESA95 data.

Unified state accounting system was successfully implemented in 2008 and has brought major changes to structure of chart of accounts and accounting rules as well. **Transition from the cash-based to accrual-based accounting has moved the Slovak accounting system closer to ESA 95 and GFS 2001 principles.** On the other side, <u>there are still some areas to be more developed</u>.

5. Compliance with basic ESA 95 principles

This chapter describes the process of transforming the public accounts data to data outcomes complying with the ESA 95 methodological principles. The basic ESA 95 principles pertain mainly to the time of recording, specific government operations, consolidation and valuation practices, etc.

5.1. Accrual data

Implementation of accrual principle in the Slovak government finance statistics was one of the most difficult areas. It required deep analysis of accounting data sources and predominantly detailed information about particular taxes, social contributions and interest flows. Before introduction of the state accounting reform in 2008, accounting statements provided cash-based data. Accrual adjustment of the cash data was carried out through inclusion of relevant receivables and payables. Since the balance sheets did not provide sufficient detail of receivables and payables, some estimations were used in data compilation.

Accrual taxes and social contributions

According to ESA 95, taxes and social contributions have to be recorded net of the part unlikely to be collected. In order to meet the requirement, Eurostat proposed two possibilities of calculation:

- Accrual taxes and social contributions, based on assessments and declarations, should be recorded net of the part unlikely to be collected or, if this part is included in the revenue, it is neutralized in the same accounting period by capital transfer expenditure from the general government to the relevant sectors.

- Alternatively, cash data could be used, but these should be time adjusted, so that the cash is attributed when the activity took place to generate the tax liability.

This specific requirement could not be fulfilled from the available data sources. Due to too aggregated level, statistical authorities were forced to ask Tax and Customs Office, Social Insurance Agency and health insurance companies to provide additional data. In addition to detailed data on particular taxes and social contributions, they provided assumptions of uncollectible part of taxes and social contributions that were based on the past experience. The figures were necessary for calculation of capital transfer recorded in national accounts to reflect uncollectible taxes and social contributions. The accrual adjustment of taxes and social contributions using capital transfer method was done in national accounts for 2000 for the first time. Consequently, it was applied in revision for 1993-1999.

Recording of capital transfer was recommended for countries with significant share of tax arrears. However, in 2007 statistical authorities decided to change the method to time adjusted cash. The reason was to leave coefficient based on assumptions and to incorporate reliable data coming from precise cash data sources. Moreover, the new approach has brought a better availability of data that were necessary for accrual adjustment of taxes and social contributions on quarterly basis. The revision was applied for 2006 data for the first time and later on for 1995-2005 within the revision.

Accrual interest flows

The basic data sources for government finance statistics were delivered by the Debt and Liquidity Management Agency (ARDAL). Records on interest flows on cash and accrual basis were kept on individual basis and thus facilitated providing necessary information.

In 2008 the accounting system was changed and interest flows paid by the State Budget were recorded on accrual basis. Regarding other general government units, interest flows were negligible (central government bodies and social security funds) or accrual recording was not compulsory (local government). With regard to considerable amounts of interest paid by local government, some steps have been undertaken at the Ministry of Finance to receive the data. Since 2011, municipalities and higher territorial units will report on debt liabilities including data on interest rates, interest payments and maturity. These data should provide necessary information for accrual treatment of interest flows.

5.2. Valuation

As ESA 95 methodology has special rules for valuation of transactions and stocks, several necessary measures have to be applied to data coming from the basic data sources. Before the unified state accounting reform was implemented in 2008, units of general government did not record any revaluations related to market value or provisions. Therefore, for the purpose of national accounts, **nonfinancial assets** had to be revaluated. According to the so-called permanent inventory method (PIM), stocks of nonfinancial assets from the balance sheets were re-calculated to written-down replacement cost value.

Stocks of financial assets were recorded at historical value and did not reflect any revaluations concerning current development on the financial market. Estimations of market prices were difficult due to absence of appropriate information. At that time (and at present as well), financial market almost did not exist. Stocks of receivables and payables and transactions were valued in their nominal or transaction values and thus did not need any adjustment.

General government debt is reported in two alternatives. The first indicator is reported within the national accounts. It is presented as a sum of all liabilities on the balance sheet account which are recorded in market value (except for loans) and in nominal value for loans. For EDP purposes, general government debt covers only selected liabilities and is presented in nominal value. The latter indicator is known as Maastricht debt. Accounting statements submitted before 2008 provided figures on bonds and loans in value that was close to market value.

In 2008 the unified state accounting system moved to accrual-based accounting and to a more realistic valuation of assets and liabilities. This change facilitated fulfillment of ESA 95 criteria for market valuation of assets but complicated reporting of Maastricht debt. State Budget organizations started to record interest flows on accrual basis.

5.3. Consolidation

According to ESA 95 methodology, transactions related to interest, current and capital transfers have to be presented on consolidated basis. Data on mutual transactions are reported in cash statement on revenues and expenditures. Until 2002, there were missing data for some government bodies and social security funds since the budget classification did not apply to whole general government sector. After the reporting was extended to all units, data availability improved in terms of extent and detail on counterpart. This was a result of effort to adapt structure of budget classification to ESA 95/GFS 2001 requirements. However, GFS compilers are still dealing with problems concerning balancing amounts paid and amounts received.

In order to report on consolidated basis, the Ministry of Finance compiles so-called consolidation matrix. The data in matrix cover interest flows, current and capital transfers, imputed transactions and all relevant transactions that are to be consolidated. Based on cash revenue and expenditure statements, matrix tries to balance mutual transfers between government units. They mostly differ due to time lags in recording of transfer, different type labeling, reporting errors, etc.

In 2009 consolidation project in general government was introduced as part of the state accounting reform. In the following few years, government units will have to submit individual financial statements as well as consolidated financial statements for subordinated organizations. Consolidation complies with IPSAS rules and partly with ESA 95 principles. However, there are still some differences implying that only part of the final outcomes could be utilized in government finance statistics. In addition, the project has contributed to unexpected “cleaning” in government accounting and elimination of historical mistakes. A typical example was missing data on government equities in the balance sheet that are now reported.

5.4. Other methodological adjustments

In the first years of ESA 95 implementation, national accountants dealt with government operations typical for transition economies, e. g. privatization, restitutions, recording of guarantees, debt assumptions and cancellations, etc. Each of them has specific rules for recording and requires reliable data base. In this regard, cooperation of Ministry of Finance is crucial in order to get the required information from other government bodies. Methodological support was provided by the Eurostat on workshops that were organized for Candidate Countries. On bilateral basis, Slovak statistical authorities keep in touch with the Czech Ministry of Finance and the Czech Statistical Office.

At the present, main topics for discussion are PPP projects[11], financial derivatives and the EU flows.

5.5. Further improvement of ESA 95 methodology

Development of concepts and classifications to the level required by the Eurostat took several years in Slovakia. At present, implementation of ESA 95 methodology has not finished yet. There are still some issues to be solved, e. g. classification of hospitals, valuation of financial instruments, consolidation, etc. Mostly, these pending issues are related to a need for extended data sources.

Another reason for changes is developing methodology. New ESA 2010 methodology will enter into force in 2014 and should reflect developments in measuring modern economies. Permanent changes on financial markets and related fiscal measures imply new operations in national economy that have to be reflected in national accounts. By means of various legal or methodological documents, Eurostat clarifies on treatment of specific operations. In case of need, ad-hoc workshops or task forces are organized in order to solve the issue in appropriate time. For this purpose, several working groups and committees were established on the EU level. They meet on regular basis and discuss the methodological and reporting topics with active participation of the Member States.

On the national level, Slovak statistical authorities meet on an ad-hoc basis in order to discuss methodological issue or to prepare for EDP reporting. In the recent time, Ministry of Finance has worked out so-called Blue Book that is a kind of manual for compilation of government finance statistics in Slovakia. The document summarizes basic data sources, adjustments to accrual basis, methodological adjustments and final

[11] Public-Private Partnerships is widely used term for many different types of long-term contracts between government and corporations for the provision of public infrastructure. It occurs in health sector (hospitals), education sector (schools and universities), public security (prisons) or for the use of some transport infrastructure.

reports of the Ministry of Finance regarding the government finance statistics. In case of need, Blue Book is updated.

6. Outcomes of GFS reporting

The main intention of government finance statistics is to provide consistent and reliable data on general government operations for decision makers and other interested users. Obligations related to data reporting result from national legislation (GG Closing Account), European legislation (EDP Tables, national accounts) or participation to international organizations (GFS reported to the IMF).

6.1. General Government Closing Account

In line with the Law on Budgetary Rules, Ministry of Finance works out every year a document summarizing the economic performance in the previous year. The State Closing Account is part of the General Government Closing Account and presents outcomes of the State Budget. The General Government Closing Account deals with the whole general government sector. Information provided by the document cover revenues, expenditures and balance sheets data. After approval in Parliament, GG Closing Account is published on the Ministry of Finance website.

Content and structure of the GG Closing Account have been developing over the years. Increasing significance of ESA 95 presentation of fiscal outcomes has been gradually implemented also in this material. Here are the main changes:

1997-2000

General Government Closing Account did not provide any data on performance of general government units in ESA95 methodology. Annex provided overall fiscal outcomes based on cash flows (GFS 1986 methodology used for the IMF reporting). General government debt was presented in nominal value and included unpaid liabilities. Data were classified by central government, local government and social security funds. Data for 2000 were presented on consolidated basis.

2001

Data for general government units were presented on cash basis in accordance with GFS 1986 methodology. Several measures were adopted in budgeting process in order to create a basis for meeting the objectives of fiscal, economic and social policy. One of the most important steps was preparation of the public finance management reform. For the first time, budgeting process resulted in introduction of general government deficit definition which was in line with ESA 95 methodology.

2002

Initial introduction of functional classification in budget reporting was complicated and required discussions with the reporting units.

General Government Closing Account for 2002 included important chapter on fiscal outcomes presented in ESA 95 methodology. Tables showed transition of data coming from statements to ESA 95 figures for particular units of general government. Delimitation of general government sector was adapted to ESA 95 principles and the Slovak Consolidation Agency was included in the sector.

2003

In line with the Government strategy, fiscal policy was set up to meet Maastricht criteria. Providing of state guarantees was considerably restricted and new guarantees were not assumed. General government deficit as final outcome was presented in ESA 95 methodology for the first time. However, some units classified in the general government sector were not included (semi-budgetary organizations, Slovak Consolidation Agency).

Chapter on ESA 95 outcomes was extended by description of ESA 95 main principles such as accrual recording of taxes, social contributions, interest flows and transactions. Tables presenting transition of cash based results to ESA based figures were maintained. They demonstrated composition of cash revenues and expenditures and exclusion of the items which were not recognized by ESA 95. These were related to financial transactions and account balances from the previous year.

2004

State Budget for 2004 was compiled on cash basis. However, it was transformed to ESA 95 categories for the comparability purposes. In that year, budgeting process was subject of deep changes in context of program and multiyear budgeting. Moreover, it took into account the fiscal decentralization reform and transfer of competencies to local government.

Increasing importance of ESA 95 presentation of fiscal outcomes caused shift of ESA 95 chapter to introduction chapters of the General Government Closing Account. Transition tables are compiled in the same manner. In addition, data from national accounts provided information for revaluation of general government assets to value close to market.

2005

In 2005 budgetary classification was partly adapted to ESA 95 principles and it separated financial from nonfinancial transactions. Hence, compilation of EDP Tables and transition tables in Closing Account was simplified and more understandable.

However, there were still some adjustments needed for transformation of data coming from statements.

2006

In 2006 fiscal policy was targeted to meeting Maastricht criteria and to joining the EMU in 2009. Most of the reform projects were launched and their impact on government finance was quantified. Program budgeting system improved and general government units became more skilled in definition of program objectives.

Chapter on ESA 95 results was extended. The first part of transition tables was aimed at calculation of net lending/net borrowing from the nonfinancial account. The second part presented calculation of net lending/net borrowing from financial account. A difference coming from comparison of those two indicators was considered a statistical discrepancy.

2007- 2010

In 2007 Closing Account, figures for ESA 95 budget were added. Accordingly, analysis of final outcomes of general government based on comparison with ESA 95 budget was carried out. Transition tables for 2008 were modified. An additional third part showed contribution of net lending/net borrowing (from the nonfinancial account) to change of general government debt according to Maastricht criteria. A new structure of transition tables strictly followed the EDP Tables that were sent to Eurostat twice a year. Closing Accounts for 2009 and 2010 were not modified.

6.2. National accounts

Before the adoption of ESA 95 methodology, the Slovak Statistical Office compiled national accounts for 1993-1995 based on ESA 1979 methodology. New ESA 95 methodology was applied to national accounts for 1996 for the first time. Accordingly, data for the previous years 1993-1995 were revised.

Data coverage and sources

National accounts included production accounts and sector accounts (generation of income account, distribution of income account, use of income account, capital formation account and financial transactions account). The sector accounts were compiled by the main sectors and subsectors of nonfinancial corporation sector and general government sector, except for financial account which was compiled only on the level of main sectors.

In period of 2000-2003, statistical authorities took some steps to improve the coverage and quality of reporting data in order to fulfill the requirements of the

ESA95 Transmission Program and commitments towards the IMF. ESA 95 rules for sector classification of units were strictly applied to delimitation of general government sector. Hence, the Slovak Consolidation Agency and Consolidation Bank were reclassified to the general government. In 2003, an important revision was adopted to budgetary classification in favor of GFS compilation. Based on the applied changes, data for mutual transactions and more detailed revenues and expenditures were available.

Until 2008, there were problems concerning too much aggregated data on changes of stocks. They complicated identification of the financial instruments, e. g. differing securities from shares, loans from payables. After introduction of quarterly statistical statements on selected assets and liabilities, more detailed information according to requirements of statisticians was available. Similarly, government equity was not properly recorded on the balance sheets and in the State Closing Account. Data on financial transactions were not broken down by subsectors and did not allow balancing of flows on the level of subsectors. Although assets and liabilities were balanced, the net change in assets and liabilities by main sectors did not exactly equal the net lending/net borrowing on the capital account. As the discrepancies were huge and needed to be examined, bigger emphasis was put on reliability of basic data sources.

Nonfinancial accounts

Data sources for current and capital accounts of the general government were mainly financial statements of institutional units and complementary administrative sources. The main source was cash statement on revenues and expenditures that were structured according to budgetary classification. Before 2003, Statistical Office faced the major problems of completing the transmission tables 2, 9 and 11. The main reason were insufficient data on particular taxes, transactions and consolidation data that prevented to provide information for subsectors and consolidated data. Although revised budgetary classification in 2003 contributed to obtaining data on consolidation, balancing of the flows between subsectors and sectors and between units remained complicated. The reason was difference between paid and received transfers from the payers´ and recipients´ point of view.

Accrual treatment in annual accounts was implemented in recording of taxes and social contributions and accrual interest for the State Budget and National Property Fund (related to privatization bonds). Data were provided by the Ministry of Finance.

Regarding the COFOG data, the first data were reported for 2002. However, at the beginning some central government institutions (National Property Fund, Slovak Land Fund, Slovak Consolidation Agency and public universities) were not included in data reporting. In the following years, coverage improved but there are still some shortcomings in data reliability and quality.

Financial accounts

Compilation of financial accounts for the general government was based on financial statements of institutional units, information from the State Closing Account (under the responsibility of the Ministry of Finance) and partly money and banking statistics. Due to unavailable data, transactions were derived as change of opening and closing stocks of assets and liabilities from the balance sheets. This approach was not appropriate as it prevented identifying revaluation changes and other changes in volume.

Revised budgetary classification in 2003 allowed for identification of financial transactions as cash transactions directly reported by units. Thus they were not reported as change of stocks. It was related mainly to securities, shares and loans. Deposits and other accounts of receivables and payables were still compiled as stock balances. Data for consolidation were partly provided by revenues and expenditures statement and partly by debt records of the Ministry of Finance.

Balance sheet accounts

Nonfinancial assets were compiled for 1999 for the first time. Data were valued in written-down replacement cost using so-called permanent inventory method. Since 2000, measurement of the consumption of fixed assets has been based on revaluation of the fixed assets.

In 2002 financial balance sheets were compiled on an experimental basis in co-operation with research institution established by the Statistical Office – Infostat. The stock data covered general government sector without possibility of identifying the subsectors. Up to now, data coverage has not changed and data for financial balance sheets are not transmitted to the Eurostat.

Quarterly national accounts

Quarterly national accounts covered quarterly gross domestic product estimates at current and constant prices by production and expenditure approaches. The consistent quarterly data series were compiled since 1993.

Quarterly nonfinancial and financial accounts for general government were reported for 2003 for the first time. Although basic data for compilation of previous time series did not exist, Statistical Office had to fulfill requirement of ESA 95 Transmission Program. Based on the estimations, data back to 1999 were compiled.

6.3. EDP Tables

In accordance with the EU acquis communautaire, Member States report semi-annually on general government net lending/net borrowing in so-called **EDP**

Tables[12]. The main intention is to present transition of cash-based working balance of revenues and expenditures of general government to ESA based net lending/net borrowing. **This indicator is considered important for assessment of the Maastricht criteria.** The next part of EDP Tables is concentrated on general government debt that is calculated at nominal value. EDP data have to be consistent with data transmitted under the ESA 95 Transmission Program. Compilation and reporting of EDP data requires very close cooperation between the Statistical Office and the Ministry of Finance.

In 2001 a joint DG ECFIN and Eurostat test exercise was undertaken under the pre-accession fiscal surveillance program which integrated the pilot project on government finance statistics and financial accounts. According to gentleman agreement, Candidate Countries were asked to transmit their government deficit and debt statistics, using the same reporting framework as Member States, by 1 April 2002.

Based on the data transmissions, Eurostat in close cooperation with the EU experts involved in the pilot project prepared the second edition of the publication known as the "Yellow Book". In this publication the main debt and deficit results were summarized for the 13 Candidate Countries. This comparative section was followed by a detailed country-by-country assessment.

The first EDP Tables were reported by the Ministry of Finance in cooperation with the Statistical Office in 1998. Data were presented as half-finalized and did not include accrual based recording of taxes and social contributions, treatment of guarantees and bank restructuring operations in line with ESA 95 rules. As for the sector delimitation, data did not cover Slovak Consolidation Agency and Consolidation Bank.

EDP Tables for 2002 were sent to Eurostat by the Slovak Statistical Office for the first time. Due to unavailability of national accounts, they were prepared in close cooperation with the Ministry of Finance. Data were presented as half-finalized. Previous Eurostat recommendations concerning treatment of state guarantees, exclusion of financial transactions from the working balance, etc. were applied. However, there were still some shortcomings related to accrual treatment of revenues and expenditures. Eurostat recommended improvement in timeliness of national accounts data which in fact were to be a basis for compilation of EDP Tables.

The following EDP notifications applied most of the Eurostat recommendations. Cooperation between the Ministry of Finance and the Statistical Office has strengthened in order to improve timeliness and reliability of submitted data. After

[12] Council Regulation 479/2009, as amended by Council Regulation 679/2010, requires that Member States report EDP related data to Eurostat twice per year at end-March and end- September. The data are reported in harmonized tables. They should be fully consistent with GFS data supplied through the ESA 95 Transmission Program.

joining the EU in 2004, EDP Tables have started to be reported twice a year in line with the Regulation. Similarly, Eurostat has begun to undertake regular EDP missions to Slovakia. They are focused on quality assessment of compilation practices and methodological procedures applied to government finance statistics.

6.4. General government debt/Maastricht debt

Data on general government debt according to the Maastricht criteria are compiled by the Ministry of Finance. Due to importance of such data in the past, there were not any problems with data sources or coverage. Debt data are available since 1993 on annual basis and since 2003 on quarterly basis. Detailed data classified by creditor sector, debt instrument, currency, residency (domestic/foreign) and original and residual maturity on are published on the Ministry of Finance website and sent to the Eurostat and the IMF. They are presented by sector and on both unconsolidated and consolidated basis.

6.5. GFS reported to the IMF

For the years 1998-2002, general government statistics were compiled annually in accordance with the methodology of the 1986 Manual on Government Finance Statistics, i. e. on cash basis. Data were published in the IMF GFS Yearbook and disseminated on the Ministry of Finance website in compliance with the SDDS.

GFS data for 2003 were prepared according to the new GFS 2001 framework and on an accrual basis. Accordingly, Ministry of Finance began to apply the GFS 2001 functional classification to general government total expenditure, beginning with data for 2003. The works on implementation of GFS 2001 methodology were coordinated with the procedures related to ESA 95 implementation.

Introduction of the State Treasury system in 2004 allowed for compilation of quarterly data. The first transmission of cash quarterly data for the general government was carried out in 2006 and of accrual quarterly data in 2007. Monthly data were available only for the State Budget.

Compilation of GFS data for the IMF stems from the same data sources as for the Eurostat. Revenues and expenditures from cash statements are classified to GFS 2001 categories, using the proposed bridge tables. Accrual and methodological adjustments are implemented to transformed data. Special attention is paid to data consolidation. Source data provide satisfactory information necessary for carrying out the consolidation of revenue, expenditure, transactions and debt. In order for the consolidation to be easily understandable, matrices are compiled to show flows among general government units. In the compilation of these matrices, the recommended rule on accepting consolidation flows from the expenditures side is predominantly applied.

7. ESA 95 budget

Budget preparation process is governed by the Law on Budgetary Rules. Annual budget presentation is primarily focused on macroeconomic constraints and program budgeting. Until 2002, budget was presented on cash basis. For the purpose of monitoring the Stability and Growth Pact criteria on deficits and debt, GFS data were partly transformed to ESA 95 conventions. Main adjustments were applied to taxes, social contributions and interest payments which were transformed to an accrual basis. In line with ESA 95, financial transactions were excluded and activities of the Slovak Consolidation Agency were included. For the first time, the 2002 budget was elaborated, among others, also according to the functional classification of expenditures (COFOG).

In 2003, although fiscal targets were presented on an ESA 95 basis, budget was still compiled on a cash basis. Therefore, list of adjustment items to reach the ESA 95 fiscal balances was compiled and incorporated. Data on consolidation (e. g. transfers within the general government) were not available at that time. Thus, the breakdown of revenues and expenditures was available only on a cash basis and on an unconsolidated basis only.

The 2005 budget introduced multi-year budgeting. In addition, budget documentation included an attachment on state guarantees, including the risks associated with existing guarantees. Groups of units reporting data and submitting budget were unified. Transformation of cash-based budget to ESA 95 was carried out by incorporation of specific adjustments. In particular, they were related to accrual adjustment of taxes, social contributions, interest flows and the EU flows.

8. Chronological overview of ESA 95 implementation

1989-1992

Slovak Republic was part of the Czech and Slovak Federal Republic (CSFR). National accounts estimates according to the SNA were compiled for the CSFR and also separately for the Czech and Slovak Republics based on the System of the Balances of the National Economy, the so called Material Product System (MPS). The MPS estimates were transformed to SNA using the methodological study of the Statistical Office of the United Nations “The Comparison of the System of the National Accounts and the System of the National Economy Balances (1977)”. In the early 1990s, the Federal Statistical Office, in cooperation with the Czech and Slovak Statistical Offices decided to introduce direct SNA estimates for the year 1992 and abandon MPS, using the 1979 European System of Integrated Accounts (1979 ESA) as a framework.

1993-1995

After the split of the CSFR, Statistical Office of the Slovak Republic assumed responsibility for all national accounts work in the Slovak Republic including input-output tables and quarterly national accounts. The Slovak national accounts were developed in collaboration with Infostat, a statistical research institute managed by the Statistical Office. The Ministry of Finance was responsible for the compilation of government finance statistics. In 1993, Statistical Office decided to continue the development of the Slovak national accounts within the framework of the 1979 ESA. However, concepts and elements of the 1993 System of National Accounts were also incorporated.

1996-1997

In 1997 Statistical Office started to compile national accounts according to the new standard – European System of Accounts 1995 – with effect from the accounts for 1996. Though the Candidate Countries were not yet obliged to submit national accounts data according to the ESA 95 Regulation, Eurostat began in 1996 to collect, analyze and publish data from these countries within the same framework as for the European Union; i.e. using the same concepts, same classifications, same questionnaires, same delays and the same transmission procedures.

1998-1999

Slovakia´s efforts for accession to the EU gathered momentum recently and it was important for medium-term strategies to be cast in a way that the associated costs and benefits were taken into account. There were also plans for improving the monitoring, control and consolidation of general government accounts, as well as for shifting to fiscal planning from two to three year horizon.

In 1998 pilot project related to GFS was launched by Eurostat. Its primary aim was to assist Candidate Countries in reaching the required quality standards in the compilation of deficit and debt statistics. This was an inevitable condition for the European Union accession. The first EDP notification was delivered to the Eurostat by the MOF.

Slovak Republic subscribed to the Special Data Dissemination Standard (SDDS) and reported data and metadata for 1999 according to release calendars to the IMF. Government finance statistics were compiled according to the 1986 Manual on GFS which was based on cash methodology.

2000-2001

Formal negotiations on joining the EU officially started. Plans for fiscal consolidation included important structural fiscal reforms – pension system reform, reform of health care sector, elimination of quasi-fiscal deficits, fiscal decentralization and the most

important public finance reform. The latter aimed at enhancing financial control over all sections of the general government and public enterprises and modernizing the management and enforcement of tax collections. This objective was planned to be realized through development of new state treasury system, reducing number of extra budgetary funds, elimination of state guarantees, privatization receipts used exclusively for state debt reduction and introduction of pension reform.

Data compilers at the Ministry of Finance were recommended to implement principles of revised 2001 GFS Manual. National accounts for the government sector according to ESA 95 were compiled and released by the Statistical Office. The set of transaction accounts included an experimental financial account but only at the general government level. Based on the comparison of national accounts data and EDP Tables, there were still considerable differences in figures for the general government.

2002-2003

Joining the EU became a key factor in rapidly revising the legislative and regulatory framework. In 2002 fiscal management and transparency improved substantially. Fiscal decentralization was launched at the beginning of 2002 and covered transfer of responsibilities in health, education and financing to municipalities. In addition, 8 higher territorial units were established. In the banking sector, privatization of state owned banks was continuing.

In the field of statistics, statistical authorities continued in the process of revising the statistics to be consistent with the ESA 95. Effective compliance with ESA 95 definitions and rules for sector classification was improved and applied. For the first time, chapter presenting fiscal performance of general government units in ESA 95 methodology was introduced in the General Government Closing Account. EDP Tables started to be reported by the Statistical Office.

For the first time, COFOG classification was introduced in budget preparation and reporting of 2002 data. General government units reported quarterly data on flows and stocks. Accordingly, quarterly financial accounts were compiled on experimental basis.

According to the IMF expert, there were no more major gaps on conceptual methodology issues at that time, both for financial instruments as defined in ESA 95 and for sector classification. Nearly all data sources were based on a similar Statistical Register. He appreciated a very good cooperation of units involved in GFS compilation. However, he also pointed out to outstanding problems in valuation of shares and securities, derivation of flows from stocks data, big discrepancies between net lending/net borrowing figures, lack of information on shares and securities in government balance sheets. An issue of government guarantees recording was evaluated as reliable.

2004

In May 2004 Slovak Republic joined the European Union.

The State Treasury began operations in January 2004 and started to manage government institutions´ deposits which had been deposited in the National Bank of Slovakia before. All Treasury clients were prohibited from having deposits with commercial banks. Availability and quality of data sources improved due to better organization of data reporting.

Within the fiscal decentralization reform, shared tax revenues replaced transfers from central government as the main source of finance for municipalities and higher territorial units. As for the data reporting, Regulation of the Ministry of Finance strengthened the budgetary reporting requirements for municipalities, higher territorial units and their budgetary organizations. The relevant institutions had to report information on their revenues and expenditures to the MOF.

2005 - 2008

Data compilation and reporting follows the ESA 95 and GFS 2001 requirements. In 2006, first quarterly cash data compiled according to GFS 2001 are reported to the IMF. In the following year, quarterly data are reported on both cash and accrual basis.

The Slovak effort to join the EMU resulted in more intensive surveillance of fiscal and economic development. Eurostat verifies carefully the data on government finance statistics and EDP data that are important for Maastricht criteria assessment. Introduction of quarterly statistical statements for assets and liabilities facilitated to report more detailed data on securities and shares.

2009 onwards

In 2009 Slovak Republic joined the EMU. Fiscal policy was set up to fulfill the Maastricht criteria. Reporting of government finance statistics follows the ESA 95 Transmission Program and the IMF requirements. Concerning the ESA 95 implementation, work is focused on treatment of new operations such as PPP, securitization and financial derivatives.

In 2010 draft of new ESA 2010 methodology is introduced. Member States are requested to participate actively on gradual implementation and quantifying of possible revisions.

9. Reviewed documents

1. Statistical Office of the SR: National Accounts of the SR 1996 - 2001
2. Report on the GFS mission in July 2003 by Paul Shevchenko
3. IMF Staff Country Reports 1998 – 2007
4. IMF Report on the Observance of Standards and Codes 2002, 2003 and 2005
5. Eurostat Reports from workshops on GFS 2001 – 2005
6. OECD: National Accounts for the Slovak Republic, 1998
7. State Closing Accounts and General Government Closing Accounts 1997 – 2010
8. Law on Budgetary Rules
9. Law on Accounting
10. Law on State Statistics
11. Reports on Eurostat expert missions to Slovakia in 1996, 1999, 2001, 2002
12. National Accounts of the Candidate Countries 2001, document from conference in Brussels, 2001
13. Final report on the public finance management reform in Slovakia