INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/179

REPUBLIC OF ESTONIA

August 2021

TECHNICAL ASSISTANCE REPORT—FISCAL TRANSPARENCY EVALUATION

This Technical Assistance Paper on the Republic of Estonia was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in May 2021.

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F I S C A L   A F F A I R S   D E P A R T M E N T

Republic of Estonia
Fiscal Transparency Evaluation

Sagé de Clerck, Duncan Last, Bryn Welham, John Grinyer, and Viera Karolova

Technical Assistance Report

May 2021

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GLOSSARY

BCG	Budgetary Central Government
BoE	Bank of Estonia
CG	Central Government
COFOG	Classification of Functions of Government
EBFs	Extrabudgetary Funds
EC	European Council
EDP	Excessive Deficit Procedure
ESA 2010	European System of Accounts 2010
EU	European Union
FAD	Fiscal Affairs Department
FPC	Financial Public Corporations
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GFSM 2014	Government Finance Statistics Manual, 2014
GG	General Government
IPSAS	International Public Sector Accounting Standards
MoF	Ministry of Finance
MTBF	Medium-Term Budget Framework
MTO	Medium-Term Objectives
NAO	National Audit Office
NFPC	Nonfinancial Public Corporation
PC	Public Corporations
PIMA	Public Investment Management Assessment
PPP	Public Private Partnership
PSBS	Public Sector Balance Sheet
PSFS	Public Sector Financial Statements
SE	Statistics Estonia
SOE	State-owned Enterprise
SSSC	State Shared Service Centre

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

PREFACE

At the request of Mr. Martin Helme, Minister of Finance, a Fiscal Transparency Evaluation (FTE) was conducted remotely during November 18 to December 9, 2020. The FTE assessed and benchmarked Estonia's fiscal transparency institutions and practices against the first three pillars of the IMF's Fiscal Transparency Code. The Estonian government has sought this independent evaluation of fiscal transparency practices, following an earlier Public Investment Management Assessment (PIMA) in which they have performed well.

At the Ministry of Finance, the mission met with representatives from the: Accounting Department; Budget Development Department; Fiscal Policy Department; Local Governments Financial Management Department; Public Governance Department; State Asset Department; State Budget Department; State Shared Service Center; and State Treasury Department. The mission also met with representatives of the Audit Department at the National Audit Office.

At the Ministry of Economy and Communication, the mission met with the Budget Department; Energy Policy Department; and the Transport Development and Investments Department. Meetings were also conducted with the Advisor to the Management of the Ministry of Environment; Advisor of vital services and emergency risk assessment, of the Rescue and Crisis Management Policy Department of the Ministry of Interior.

At the Bank of Estonia, the mission met with staff from the Economic Policy and Forecast Division; Financial Markets Policy Department; Financial Stability Department; Statistics Department. At Statistics Estonia the mission met with representatives of the Economic and Environment Statistics Department. The mission also met with representatives of the Tallinn City financial management and treasury team.

The mission also met with members of the Fiscal Council; State Budget Control Select Committee; and the Finance Committee of Parliament.

The evaluation is based on information made available at the time of the virtual mission in December 2020. The findings and recommendations included in the report represent the views and advice of the IMF mission team and do not necessarily reflect those of the authorities. Unless otherwise specified, the data presented in text, figures and tables in the report are estimates made by the IMF mission team and not official estimates of the government of Estonia.

The mission would like to thank the Estonian authorities and other officials for their excellent collaboration in the conduct of this evaluation and for the frank and open exchanges of views on all matters discussed. In particular, the mission wants to thank Ms. Kadri Klaos and Kristiina Abel for their kind assistance in coordinating and supporting the work of the mission. The mission is also grateful to Mr. Patrick Ryan (FAD Research Assistant) for his support in compiling data and creating cross-country comparisons.

EXECUTIVE SUMMARY

The government of Estonia places a high importance on openness and transparency, both for their citizens and for regional and international partners. This is evidenced from various earlier reports on transparency and the implementation of many subsequent improvements in fiscal transparency practices. The objective of the assessment was to identify areas of fiscal risk vulnerabilities and reform priorities to ensure further improvements in transparent practices.

Estonia meets good or advanced practices on 27 out of the 36 principles of the Fiscal Transparency Code, basic practice on a further six principles while three principles are not met (Table 0.1).[1] Practices are strongest in the area of Fiscal Reporting where Estonia complies with the comprehensive general government reporting framework established by the European Union and the IMF's Special Data Dissemination Standard. This strong performance is further extended by equally applying the accounting framework to public corporations. This places Estonia at the forefront of reporting on the public sector. There is scope for improvement in the areas of Fiscal Forecasting and Budgeting, as well as Fiscal Risk Analysis and Management. Even though recommendations are made for improvements in current practices, most of the underlying systems, knowledge and capacity required to make these improvements, already exist.

This Fiscal Transparency Evaluation utilized the extensive published Public Sector Financial Statements to estimate a more comprehensive public sector wealth position. Estonia's public sector net worth and net financial worth compares favorably to the average of comparator countries. While the published financial statement has complete coverage of institutional units, the net worth is underestimated, primarily due to using historical cost valuations for fixed assets and excluding subsoil asset from the balance sheet. For 2019, this evaluation estimates revenue and expense of 46.3 and 44.6 percent of GDP, asset holdings of 143.5 percent of GDP, and liabilities of 63.1 percent of GDP, resulting in a net worth of 80.4 percent of GDP. These estimates will change as a result of implementing recommendations to improve the valuation of some assets.

Fiscal reporting is well established and meets good or advanced practices in all areas. Public sector accounting and fiscal statistics follow international, regional and national reporting standards and cover the entire public sector. These reports generally include appropriately classified information on accrual-based revenue and expenditure, transactions in assets and liabilities, some revaluations and balance sheets. Estimates on foregone tax expenditure are published biannually. Fiscal reports are produced on a timely basis. The quality of the data is evidenced by regular reconciliations that are published, and its integrity is demonstrated by

[1] Improving budget documentation could lead to improved scores in four indicators[1] while reforms underway in performance information and public investment management, following the earlier PIMA, are likely to improve also those scores in the near future.

largely clean audit opinions of the independent National Audit Office. Fiscal statistics are produced by the professionally independent Statistics Estonia.

Although Estonia performs well on fiscal reporting, some scope remains to improve practices even further. Improving the comparability of in-year budgetary reporting is of particular importance. The in-year budget execution report does not provide sufficient details on expenditure to allow an assessment of all fiscal aggregates against budgeted amounts and are not published in a user-friendly format. Correcting the underestimation of government assets (33.9 percent of GDP on a consolidated basis) in the public sector balance sheet would require revaluation of significant fixed assets, and the valuation and inclusion of subsoil assets in the balance sheet. Recognizing the fair value (market value) of assets could facilitate better asset management and will also allow the disclosure of other economic flows.

Fiscal forecasting and budgeting are based on a two-stage budget formulation approach that delivers accurate macroeconomic and fiscal forecasts. The medium-term projections of the first stage provide ceilings for the formulation of the budget in the second stage. The budget processes are regulated by clear and modern fiscal legislation which enables budgets to be adopted in an orderly and timely manner. These processes allow the budget to be executed as planned, generally without the need to resort to supplementary budgets. Budget formulation is guided by fiscal rules which exceed European Union requirements. Adherence to these rules is subject to regular assessment by the Fiscal Council.

Fiscal forecasting and budgeting practices can be enhanced by improving the content of the budget documentation and updating some dissemination practices. The usefulness and credibility of the medium-term projections could be enhanced by providing actual outturn information alongside medium-term projections and expanding forecast reconciliations. The inclusion of the budget plans of extrabudgetary funds and social security funds in budget documentation will enable a more meaningful and transparent evaluation of budget transfers to these entities. While ample technical documentation on the budget is made available, no citizen's guide to the budget is published, nor is public participation in the process provided for.

Estonia's fiscal risk analysis and management practices are weaker, although most principles still meet good or advanced practices. The overview of risks related to the financial sector and local government coordination is particularly strong. There is an effective understanding and management of the external risks to the budget from changes in the wider macroeconomic context, as well as of long-term sustainability. A well-established budget contingency framework, with clear rules around eligibility and process exist, and strong reporting and management of the SOE financial performance suggest good oversight of the sector. There is also a good understanding of the financial position of the public sector through detailed information on assets and liabilities. Risks related to government guarantees are minimized by legislative ceilings on their size.

While most fiscal risks are identified and managed through separate reporting arrangements, there is no comprehensive overview of fiscal risks in Estonia. To holistically understand and manage fiscal risks, information on risks that are currently spread across various published and unpublished documents should be compiled into a single summary analysis. Such an analysis should quantify the likelihood of the risk occurring and the potential costs associated with the risk. Currently no quantification of the likelihood that guarantees will be called have been completed, and the potential cost of environmental risks and risks related to natural resources are not available.

While Estonia's overall assessment is comparable to or better than other EU Member States that have undergone a Fiscal Transparency Evaluation, there is room for improvement. Quick improvements in transparency could be attained by improving the presentation and disclosure of information that are readily available. Similarly, some analytical work is already performed, but it is currently not yet disseminated. By increasing the dissemination of relevant information, the basis on which the finances of the public sector are assessed, and policy decisions are taken can be significantly improved. Similarly, fully implementing reforms under way could easily improve transparency. However, in other cases improvements in transparency would require some more fundamental and extensive reforms.

The evaluation provides several recommendations in each of the three Pillars to further improve current practices. The detailed recommendations are presented in each chapter and further elaborated on in the Action Plan presented in Appendix I. Key recommendations include:

- Improve the integrated fiscal reporting in the consolidated public sector financial statements and fiscal statistics by including stocks of mineral resources, using fair/market valuations of assets and reporting on other economic flows;
- Consolidate budget execution information, which is already available internally or is fragmented in various reports, into more user-friendly monthly and quarterly reports that allows for a clear assessment of all fiscal aggregates against budgeted amounts;
- Strengthen budget unity by including extrabudgetary funds and social security funds' financial plans in budget annexes;
- Improve fiscal forecasting by presenting previous two years outturns and current year estimated outturn and 4-year budget strategy projections together with forecast reconciliation and improved sensitivity analysis;
- Improve the transparency and effectiveness of the public investment decisions by implementing the recommendations of the PIMA report;
- Facilitate improved citizen understanding of, and involvement in, the budget process; and
- Coordinate the publication of an annual Fiscal Risk Statement that discusses the size and nature of the full range of specific fiscal risks and their costs.

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Table 0.1. Estonia: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks
Coverage of Flows	Medium-term Budget Framework	Long-term Fiscal Sustainability
Coverage of Tax Expenditure	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives	Public-Private Partnerships
Internal Consistency	Performance Information	Financial Sector
Historical Revisions	Public Participation	Natural Resources
Statistical Integrity	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Table 0.2. Estonia: Public Sector Financial Overview, 2019
(Percent of GDP)

	General Government					Public Corporations			
	Central Government	Social Security Funds	Local Governments	Consolidation Gen. Govt.	**Consolidated General Government**	Nonfinancial	Financial	Eliminations for Consolidation	**Public Sector**
Transactions									
Revenue	32.7	7.3	9.8	-11.5	38.3	8.4	0.6	-1.1	46.3
Expenditure	32.8	7.1	9.9	-11.5	38.2	9.5	0.4	-1.1	47.1
Expense	32.0	7.0	8.8	-11.5	36.3	9.0	0.4	-1.1	44.6
Investment in Non-financial assets	0.8	0.1	1.1	0.0	1.9	0.5	0.0	0.0	2.4
Gross operating balance	**2.8**	**0.4**	**1.7**	**0.0**	**4.8**	**0.8**	**0.2**	**0.0**	**5.8**
Net lending/borrowing	**-0.1**	**0.3**	**-0.1**	**0.0**	**0.1**	**-1.1**	**0.2**	**0.0**	**-0.8**
Stocks									
Assets	**77.5**	**4.3**	**26.8**	**-4.8**	**103.8**	**45.6**	**33.3**	**-39.3**	**143.5**
Nonfinancial	30.4	0.1	21.1	0.0	51.7	41.9	0.1	0.0	93.6
o/w Mineral resources	1.4				1.4				1.4
Financial	47.0	4.2	5.7	-4.8	52.1	3.8	33.3	-39.3	49.9
Liabilities	**23.9**	**0.6**	**3.6**	**-4.8**	**23.4**	**45.6**	**33.3**	**-39.3**	**63.1**
Liabilities other than equity	23.9	0.6	3.6	-4.8	23.4	10.4	30.9	-3.1	61.6
o/w civil servants pension entitlements	10.1	0.0	0.0	0.0	10.1	0.0	0.0	0.0	10.1
Equity	0.0	0.0	0.0	0.0	0.0	35.2	2.4	-36.2	1.5
Net worth	**53.6**	**3.7**	**23.2**	**0.0**	**80.4**	**0.0**	**0.0**	**0.0**	**80.4**
Net financial worth	**23.1**	**3.6**	**2.1**	**0.0**	**28.8**	**-41.9**	**-0.1**	**0.0**	**-13.2**
Memorandum items:									
Social security pension entitlements	244.6				244.6				244.6
Net worth including social security pension entitlements	**-191.1**				**-191.1**				**-191.1**

Source: Government Finance Statistics, Public Sector Financial Statements, Statistics Estonia, MoF, and IMF Staff Estimates.
Note: The public sector comprises all public units based on the statistical register of Statistics Estonia (1.1.1).

I. FISCAL REPORTING

1. **Fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government's financial positions and performance.** This chapter assesses the quality of fiscal reporting in Estonia against the principles set out in the Fiscal Transparency Code (FTC). In doing so, it assesses four dimensions of the code:

- The coverage of institutions, stocks, and flows;
- The frequency and timeliness of fiscal reports;
- The quality of fiscal reporting; and
- The integrity of fiscal reports.

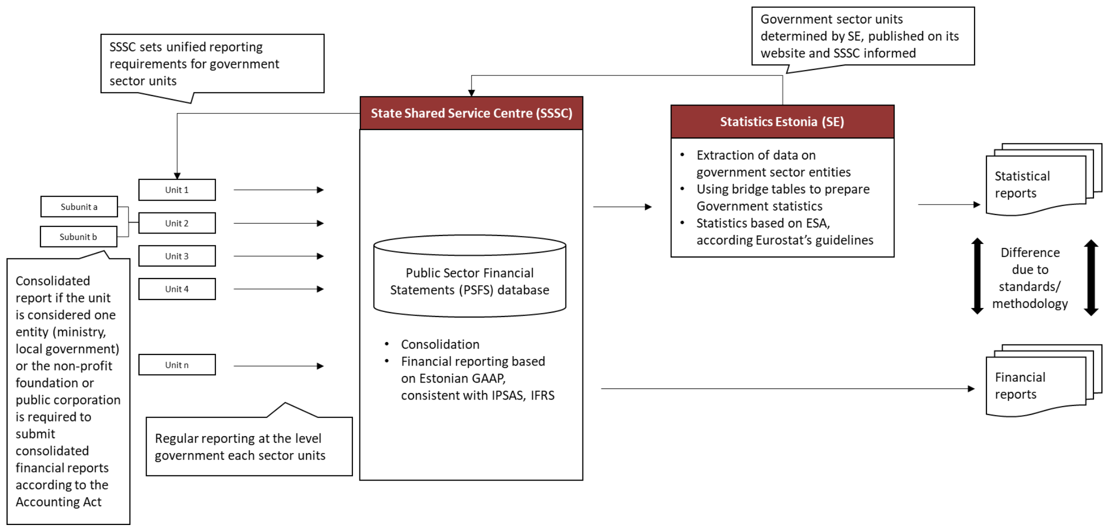
2. **Fiscal reports, which include the budget, in-year budget execution reports, financial plans of government foundations and state-owned enterprises, fiscal statistics, and annual financial statements, should:**

- Cover all institutional units in the public sector classified according to international standards;
- Record all assets, liabilities, revenue, expenditure, financing, and other economic flows;
- Be published in a frequent and timely manner;
- Reconcile the different balances calculated and have comparable data across reports; and
- Be prepared by an independent agency, in the case of statistics, and scrutinized by an independent audit institution in the case of financial statements.

3. **Fiscal reporting in Estonia follows international and regional reporting standards.** Fiscal statistics for the general government sector strictly follow the *European System of Accounts 2010* (*ESA 2010*) framework. The government's financial statements are based on the national accounting standards. These standards broadly follow International Public Sector Accounting Standards (IPSASs), adjusted for country specific issues.

4. **Fiscal data are compiled from a comprehensive system that captures administrative data of all public sector entities in a comprehensive database.** The State Shared Service Centre (SSSC) sets unified reporting requirements for public sector entities and collects these data on a monthly, quarterly and annual basis. The data are then captured in the Public Sector Financial Statements (PSFS) database. The SSSC and Statistics Estonia (SE) then extract the source data from the database to compile their respective fiscal accounts and reports, using their respective methodologies (Figure 1.1).

Figure 1.1. Data Flow for Government Financial and Statistical Reporting



Source: SE

5. **From this comprehensive PSFS database various fiscal reports for Estonia are compiled.** These reports, their institutional and transactional coverage, basis of recording and frequency of publication are indicated in Table 1.1 below. Estonia's main summary fiscal reports comprise:

- **Monthly State Budget execution report,** compiled by the MoF and published on the website of SE within a month of the end of the period, present data on the state revenue and main expenditure categories of the budgetary central government. These State Budget implementation reports have been prepared on an accrual basis since 2017 and are reconciled to the state's financial statements;
- **Consolidated Annual Report of the State** is produced by the MoF and audited by the National Audit Office (NAO). The report presents the annual implementation of the State Budget and financial statements for consolidated public sector and its subsectors. The accrual-based statements comprise a balance sheet, a statement of financial performance, a cash-flow statements, a statement of changes in net assets, explanatory notes and annexes;
- **Monthly report on revenue and expenditure** is published by the MoF following the requirements of European Council (EC) Directive 2011/85 on budgetary frameworks (six-pack). The report presents data for all general government subsectors and is compiled following the methodology applied in the financial statements;
- **Contingent liabilities and other fiscal indicators** comprise annual data on liabilities of public corporations and non-profit institutions classified outside general government, government guarantees, non-performing loans held by government, and participation of government in the capital of public corporations. This report is also based on the requirements of EC Directive 2011/85;
- **Quarterly General Government National Accounts** are produced by SE in accordance with

ESA 2010 and present accrued revenue and expenditure, transactions in financial assets and liabilities, a financial balance sheet, and data on Maastricht debt;

- **Annual General Government National Accounts** are produced by SE in accordance with *ESA 2010* include data on revenue, expenditure, financing, and financial balance sheet, as well as data on government expenditure by the classification of functions of government (COFOG), and a detailed report on taxes and social contributions;
- **Excessive Deficit Procedure tables** are compiled biannually by SE and present annual data on the general government deficit and debt, and a reconciliation between the working balance based on the budget execution reports with the *ESA 2010* fiscal balance, and a reconciliation of the fiscal balance with the change in Maastricht debt, by general government subsectors (the so-called stock-flow-adjustment).
- **State Ownership Report** is produced by the MoF annually in accordance with the State Assets Act and presents an overview and analysis of the financial performance of state-owned commercial companies and foundations established by the State (also referred to as public corporations).

Table 1.1. Estonia: List of Fiscal Reports

Report	Source	Sectors	Coverage		Accounting		Publication	
			Flows	Stocks	Basis	Classification	Frequency	Timeliness
In-Year Reports								
Monthly State Budget Execution	MOF	BCG	Rev, Exp	…	Accrual	Nat	Monthly	25d
Monthly revenue/expense (based on the CD 2011/85/EU requirements)	MoF	CG, LG, SSFs, GG	Rev, Exp	…	Accrual	IPSAS	Monthly	1m
Quarterly non-financial national accounts	SE	CG. LG. SSF, GG	Rev, Exp	…	Accrual	*ESA 2010*	Quarterly	3m
Quarterly financial accounts and financial balance sheet	SE	CG. LG. SSF, GG	Fin	FA. L	Accrual	*ESA 2010*	Quarterly	3m
Year-End Reports								
Annual Financial Statements of the Public Sector	MoF	BCG, LG, GG (cons.), PS (Cons)	Rev, Exp, Fin, OEF	NFA, FA, L	Accrual	Nat, IPSAS based	Annual	6m
State Ownership Report	MoF	SOEs	Selected Rev, Exp, Fin	Selected A, L	Accrual	Nat	Annual	10m
Biannual EDP Notification	SE	CG. LG. SSF, GG	Deficit, debt	Maastricht debt	Accrual	*ESA 2010*	Annual	3m, 9m (biannual)
Sectoral General Government accounts	SE	CG. LG. SSF, GG	Rev, Exp, Fin	FA, L	Accrual	*ESA 2010*	Annual	9m
Contingent liabilities and other fiscal indicators (based on the CD 2011/85/EU requirements)	SE, MoF	GG, PCs	Fin	A (equity, NPLs), L	Accrual	IPSAS	Annual	9m
General Government expenditure by function	SE	GG	Exp	…	Accrual	COFOG	Annual	12m
Detailed Tax and Social Contribution Receipts	SE	GG	Taxes and social contributions	…	Accrual (time adjusted cash)	*ESA 2010*	Annual	10m
Accrued to date pension entitlements in social insurance	SE	GG, Fin. Corporations	…	Pension liabilities	Accrual	*ESA 2010*	3 years	24m

Note: BCG: Budgetary Central Government; LG: Local Government; GG: General Government; PC: Public Corporation; PS: Public Sector; SOEs: State Owned Enterprises; Rev: Revenue; Exp: Expenditure, Fin: Financing; FA: Assets; Financial Assets; L: Liabilities; NPLs: Non-performing loans; Nat: national classification.

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Advanced)

6. **In 2019, Estonia's public sector comprises 2,719 institutional units.** According to SE, these are broken down into the following subsectors:

- **Central government**, which comprises 159 budgetary organizations and 109 extrabudgetary funds. The budgetary organizations comprise the state chancellery, 11 ministries, 140 agencies, and 7 constitutional units. The government employee civil service pension fund and the social security pension fund are also integrated with the central budgetary organizations. The central government extrabudgetary fund subsector includes 22 public institutions established by law (including the Deposit Insurance Fund), 74 state foundations (including, 12 hospitals), and 13 commercially oriented enterprises operating as non-market producers;
- **Local government**, which comprises 2,214 units, of which 79 municipalities and 1,904 other budgetary organizations, 213 foundations (including 18 hospitals), and 18 non-market enterprises;
- **Social security funds**, which comprise the Health Insurance Fund and Unemployment Fund (the Pension Social Security Fund is included in the state budget and thus classified in the central government);
- **Public nonfinancial corporations**, which comprise 233 corporations, of which 31 are state owned enterprises and 202 are enterprises owned by municipalities. Most of the companies are operating in the energy and water supply, sewerage, and waste management sectors;
- **Public financial corporations**, which comprise the Bank of Estonia (BoE) and KredEx (credit insurance company). No public banks or other types of public financial corporations exist in Estonia.

7. **Estonia's public sector expenditure is estimated at 47 percent of GDP in 2019.** Table 1.2 summarizes the distribution of public sector revenue and expenditure across the different subsectors and shows that:

- **General government** expenditure accounts for 37.8 percent of GDP on a consolidated basis, of which almost two-thirds flow through the central government, and one-third is spent by the local governments and the social security funds; and
- **Public corporations** expenditure accounts for 8.9 percent of GDP, of which more than 95 percent is spent by public nonfinancial corporations.

Table 1.2. Estonia: Public Sector Institutions and Finances, 2019

(Percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Net lending	Intra-PS Expenditure	End-Point Expenditure	Percent of total
Public Sector	**2 719**	**46.3**	**47.1**	**-0.8**		**47.1**	**100.0**
General Government	**2 484**	**38.3**	**38.2**	**0.1**	**0.4**	**37.8**	**80.2**
Central Government	268	32.7	32.8	-0.1	9.1	23.6	50.2
Budgetary Central Gov't	159	29.8	30.2	-0.4	12.2	18.1	38.4
Extrabudgetary Funds	109	6.1	5.8	0.3	0.2	5.6	11.8
Local Government	2 214	9.8	9.9	-0.1	0.0	9.9	21.1
Social Security Funds	2	7.3	7.1	0.3	2.9	4.2	9.0
Nonfinancial public corporations	**233**	**8.4**	**9.5**	**-1.1**	**0.6**	**8.9**	**18.9**
Financial public corporations	**2**	**0.6**	**0.4**	**0.2**	**0.0**	**0.4**	**0.9**

Source: SE, financial statements of public corporations, and staff estimates.

Note: *Intra-PS transfers include grants, property income, and other transfers received from and paid to other public sector units. The "Balance"" refers to the *GFSM 2014/ESA 2010* based net lending (+)/net borrowing (-). Numbers for "Revenue" and "Expenditure" do not add up due to consolidation of inter-sectoral transactions.

8. **The Consolidated Annual Financial Statements of the State are the most comprehensive of the fiscal reports, covering the entire public sector, in accordance with international standards.** The report compiled by the SSSC contains financial statements of the state, local governments, and consolidated general government and public sector. The financial statements are based on the accounting guidelines prepared by the Accounting Standards Board, an independent committee which bases its guidelines on International Public Sector Accounting Standards (IPSAS). The report presents for each subsector listed above a balance sheet, statement of financial performance, cash-flow statement, and a statement of changes in net assets. This comprehensive institutional coverage of the financial statements places Estonia at the forefront of fiscal reporting practices worldwide, as relatively few countries include all the institutional units of the broader public sector within their reporting universe.

9. **The institutional coverage in the financial statements is determined by classification decisions of the SE, in accordance with the *ESA 2010/MGDD*[2] sectorization rules.** All new public sector units are registered by SSSC and their classification within the public sector is assessed by SE on a regular basis. The register maintained by SE is used by the MoF to ensure complete public sector coverage in the financial statements. Since some methodological differences exist in the recording of revenue and expenditure based on the accounting and statistical standards,[3] the level of expenditure following the *ESA 2010* and *Government Finance Statistics Manual 2014* (*GFSM 2014*) methodology, as presented in Table 0.2) is slightly higher in 2019 compared to the financial statements. Thus, the "unreported" expenditure of 8.9 percent of GDP presented in Figure 1.2 reflect the differences in the methodological treatment of

[2] *ESA 2010* based *Manual on Government Deficit and Debt* published by Eurostat.

[3] For example, treatment of provisions, holding gains/losses, consolidation.

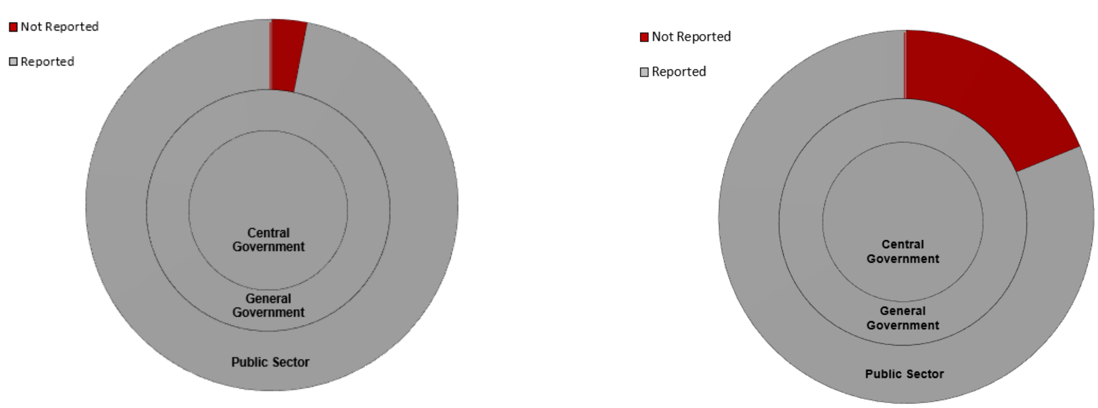
expenditure applied in the national financial statements compared to the international statistical standards, rather than an institutional coverage issue.

10. Fiscal statistics in Estonia consolidate all general government entities and report on each subsector according to international statistical standards. SE compiles quarterly and annual nonfinancial and financial accounts, and a financial balance sheet of the general government and its subsectors in accordance with the *ESA 2010* framework. The main source data for the national accounts compilation are financial statements of all individual public sector units available in the MoF's PSFS database. The *ESA 2010* sectorization codes are assigned to each public sector unit in the database on the basis of the information coming from SE. The *ESA 2010* data are bridged into the *GFSM 2014* presentational framework in co-operation with Eurostat and published in the GFS database of the IMF. SE does not compile national accounts for public financial and non-financial corporations and thus for the entire public sector as it is not required by the *ESA 2010* Transmission Program.

Figure 1.2. Public Sector Expenditure and Coverage in Fiscal Reports, 2019

(Percent of expenditure of each level)

Financial Statements | Fiscal Statistics



Source: SE, MoF, financial statements of public corporations, and staff estimates.
Note: "Not reported" in Financial Statements refer to differences in the methodological treatment of expenditure applied in the accounting and statistical standards. "Not reported" in Fiscal Statistics refer to the expenditure of the public corporation sector as they are not reported in the fiscal statistics.

11. While the size of the public corporation sector is relatively small in Estonia, its impact on the public sector fiscal balance was negative in 2019. Non-financial public corporations incurred 18.9 percent of total public sector expenditure and reported net borrowing (deficit) of 0.8 percent of GDP in 2019, deriving mainly from the operating balance of non-financial public corporations controlled by the State. The impact of local government owned corporations on the public sector fiscal balance was neutral as their expenditure were broadly covered by revenue in 2019.

1.1.2. Coverage of Stocks (Good)

12. The PSFS produced by the MoF include a balance sheet of the consolidated general government and public sector. The balance sheet is published in the Consolidated Annual Report of the State alongside other financial statements and presents stocks of nonfinancial and financial assets and liabilities of the State budget, local government, and consolidated general government and public sector. Also, SE publishes a balance sheet of the general government on a quarterly basis, but this doesn't include stocks of non-financial assets. Nevertheless, based on the *ESA 2010* Transmission program, SE compiles annual data on stocks of fixed assets and inventories at market prices covering all sectors of the economy, including the general government. However, these data do not include mineral resources and other non-produced assets and valuables, and are only published two years after the reporting year. (*ESA 2010*, Table 26).

13. While Estonia is a leader in the reporting of a public sector balance sheet in terms of the sector coverage, there is room for further improvements in the completeness and valuation of stocks of assets and liabilities: (Figure 1.3). The gaps contribute to an underestimation of at least 69 percent of GDP on an unconsolidated basis, or almost 40 percent on a consolidated basis. The completeness of the public sector balance sheet can be further improved by considering:

- **Subsoil assets**. Stocks of subsoil assets are not included in the balance sheet. This mainly concerns shale oil reserves which, based on a discounted cashflow valuation by Eesti Energia have a value of at least EUR 392 million, equivalent to 1.4 percent of GDP in 2019 (also see principle 3.2.6). In addition, based on the information from the Ministry of Environment, there are significant passive reserves of phosphorite resources, though a reliable monetary estimate of the value of this asset is not available.
- **Other non-financial assets**. Non-financial assets compiled by the MoF are recorded in the public sector balance sheet predominantly at historic prices. Fixed assets such as buildings and infrastructure acquired during the Soviet times were only revalued on a one-off basis back in 2005. The difference between the reported value and the estimated market value of the public sector fixed assets (based on data published by SE in the *ESA 2010* Table 26) is 32.5 percent of GDP in 2019.
- **Equity of public corporations**. The balance sheet doesn't present a comprehensive picture on the equity capital held by public sector units. The amount of equity capital derived from the liability side of the financial statements of public corporations controlled by municipalities is significantly higher than the holdings of equity in the local government assets. In addition, the adjustment of the value of non-financial assets to market price would further increase the equity capital (liabilities) of related public corporations and consequently will equally increase the amount of the equity holdings (assets) of the general government and other public entities. This will however not impact the consolidated public sector balance

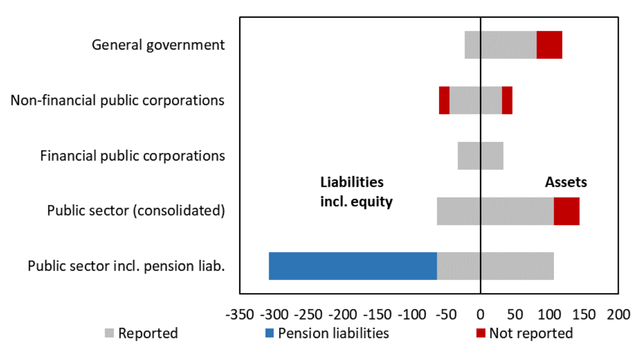
sheet as it will be eliminated in consolidation. The estimated amount of unreported equity is 35.5 percent of GDP on an unconsolidated basis in 2019.

- **Social security pension liabilities**. While the implicit liabilities of the social security pension scheme are treated off-balance sheet according to the statistical standards, presenting data on these liabilities as a memo item would enhance the fiscal reporting and facilitate policy discussions on the sustainability of public finances. The estimated value of accrued pension entitlements based on the *ESA 2010* Transmission Program Table 28 is 244.6 percent of GDP.[4]

14. Addressing these gaps would provide a more comprehensive view of the wealth of the public sector. As shown in Table 0.2 and Figure 1.2, consolidated public sector asset holdings and liabilities are estimated to have been around 143.5 percent of GDP and 63.1 percent of GDP respectively, at end-2019. Public sector net worth and net financial worth are estimated to have been 80.4 percent of GDP and -13.2 percent of GDP. Considering the accrued implicit social security pension liabilities, the public sector net worth is estimated at a negative 191.1 percent of GDP. The main components include:

- **Nonfinancial assets** of 93.6 percent of GDP, which primarily comprise fixed assets.
- **Financial assets** of 49.9 percent of GDP, which on a consolidated basis comprise mainly assets held by the Central Bank (debt securities and loans).
- **Liabilities** other than equity of 61.6 percent of GDP, which primarily comprise on a consolidated basis the debt of the Bank of Estonia in the form of deposits (30.9 percent of GDP)[5] the loan debt of the general government and non-financial corporations (7.5 and 7.1 percent of GDP, respectively), and civil servants pension liabilities (10.1 percent of GDP).

Figure 1.3. Coverage of Public Sector Balance Sheet in Fiscal Reports, 2019
(Percent of GDP)



Source: SE, MoF, and staff estimate

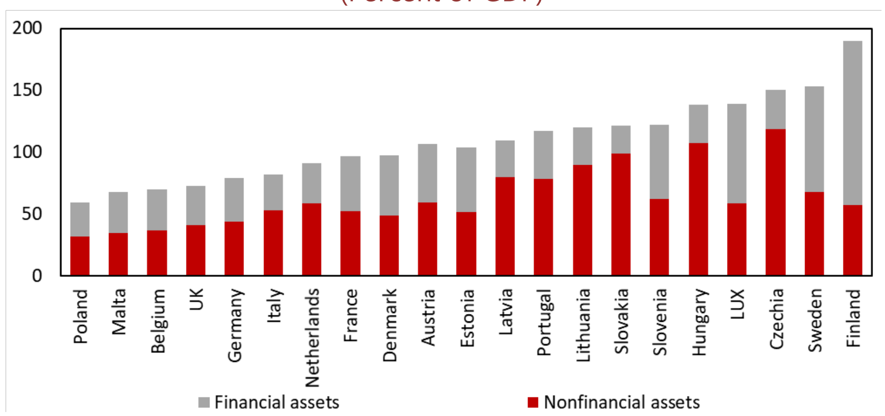
[4] The 2019 estimate was based on the available data for 2015 compiled by SE and published in the *ESA 2010* based Table 29 "Accrued to-date pension entitlements in social insurance." The percentage share of 2015 pension entitlements to GDP was applied to the 2019 GDP to estimate the value of 2019 pension entitlements.

[5] The CB debt in deposits is composed of banknotes in circulation (12 percent of GDP) and liabilities to euro area credit institutions related to monetary policy operations (17 percent of GDP).

15. Estonia's estimated public sector net worth and net financial worth compares favorably to the average of many other countries. This favorable net worth position can be attributed to the consolidated general government assets that are estimated to be 103.8 percent of GDP, of which 51.7 percent of GDP represents nonfinancial assets, that is at the level of the average of EU Member States for which data are available (Figure 1.4). The net worth position is further strengthened by the general government and consolidated public sector liabilities that are significantly lower in Estonia (23.4 percent of GDP[6] and 63.1 percent of GDP respectively) than in other EU countries (Figure 1.5). Estonia's public sector net worth (80.4 percent of GDP) is larger than the average of 24 other countries that have published their net worth (see also principle 3.2.2 and Figure 3.7).

Figure 1.4. General Government Assets in Selected European Countries, 2019

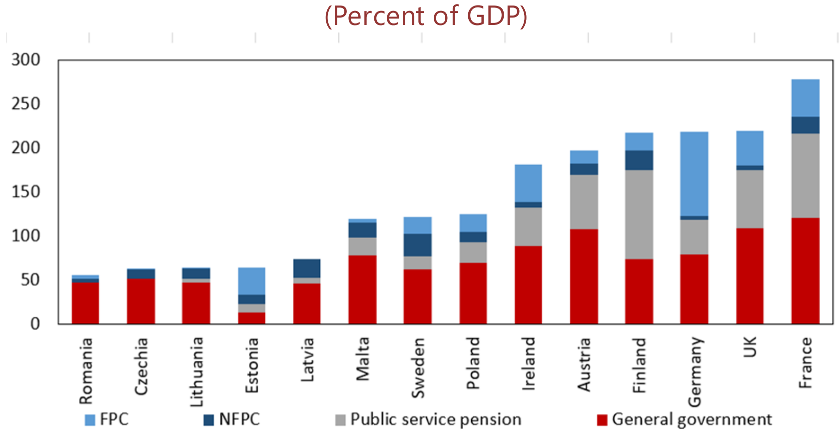
(Percent of GDP)



Source: Eurostat and staff estimates.

Figure 1.5. Public Sector Gross Liabilities in Selected European Countries, 2019

(Percent of GDP)



Source: Eurostat and staff estimates.

Note: Estonia FPC liabilities include high levels of banknotes in circulation and liabilities related to monetary policy operations.

[6] Including only civil servants pension liabilities.

1.1.3. Coverage of Flows (Advanced)

16. Fiscal reports cover cash flows, accrual-based revenue, expenditure and financing, and partial information on other economic flows. Estonia's consolidated PSFS include flows in the (i) statement of financial performance presenting the "result" of accrued revenue and expense; (ii) cash-flow statement presenting cash flows arising from operating, investment, and financing activities that are reconciled with the changes in cash and deposits; and (iii) statement of changes in net assets presenting a reconciliation of stocks and flows of "net assets" while not distinguishing all individual categories of assets and liabilities. The statement of changes in net assets does not provide comprehensive information on the impact of developments in the market on the value or volume of these assets as most of the assets are recorded in the balance sheet at historic prices (also see principle 1.1.2).The estimated amount of holding gains since 2005 on public sector fixed assets amounted to 32.5 percent of GDP. Moreover, the financial reporting doesn't present data on gains/losses from the holdings of mineral resources which are not reported in the balance sheet—these valuation changes might be significant.

17. The accrued revenue and expenditure presented in the Consolidated Annual Report of the State include some statistical adjustments. The aim is to present financial results closer to the *ESA 2010* methodology that is the international statistical standard used to assess the EU convergence criteria. The adjustments are made for the general government and mainly relate to the time of recording of the following categories: taxes (recorded following the simple time-adjusted cash method), pensions (provisions are eliminated and replaced by related cash flows), EU grants, and emission trading rights.

18. Fiscal statistics include accrual-based revenue, expenditure, and financing, but do not present fully all other economic flows. SE follows the *ESA 2010* framework and principles to compile a comprehensive set of general government accounts. The challenging area is the compilation of other economic flows (holding gains/losses and other changes in the volume of assets and liabilities). Similar to other countries, availability of source data on other economic flows is limited and is largely calculated as a residual. SE only publishes data on total other economic flows in financial assets and liabilities (Table 1.3), omitting non-financial assets, and, not distinguishing the revaluation and volume changes. Thus, the data do not provide meaningful and integrated information on the reasons behind the changes in net worth due to economic events other than transactions (i.e., those events that are outside the government's direct control).

Table 1.3. Estonia: Other Economic Flows, General Government
(Percent of GDP)

	2015	2016	2017	2018	2019
Other economic flows in non-financial assets	n.a.	n.a.	n.a.	n.a.	n.a.
Other economic flows in financial assets	0.1	0.7	1.5	0.4	-1.3
Other economic flows in liabilities	0.0	0.4	0.0	0.0	-0.2

Source: SE, MoF

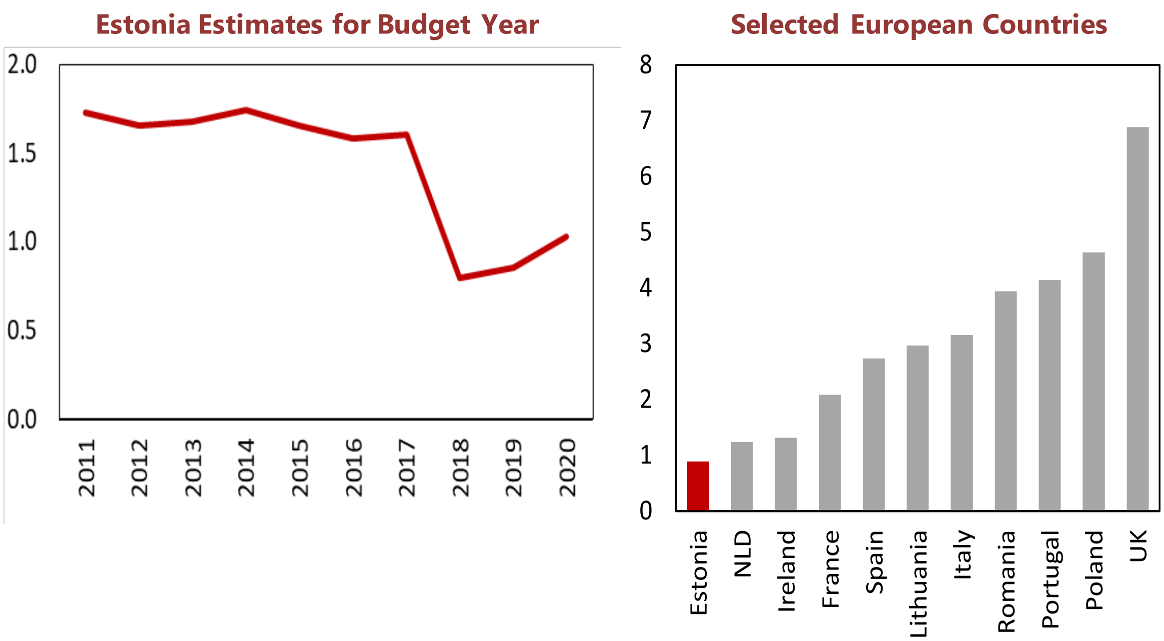
1.1.4. Coverage of Tax Expenditure (Good)

19. The MoF publishes estimates of foregone revenue from exemptions, reduced rates, and tax credits, but does not provide data on outturns. Since 2012, the State Budget Strategy includes a section on tax expenditure listing over 20 distinct tax provisions, the most significant of which are reduced value-added tax rates on accommodation, medicines and medical products, and reduced excise duties on diesel fuel for certain categories of users. Tax expenditure fell sharply in 2018 after the removal of some exemptions, and estimates have fallen to around 0.9 percent of GDP, or 3.2 percent of total revenue, based on the 'first round' effects, excluding any behavioral changes. The level of tax expenditure is low compared to select European countries (Figure 1.6).

20. The annual budget documents classify tax expenditure by sector, but do not present any budgetary objectives or performance information, nor are there any legal constraint over their size. Whilst the respective tax laws, such as the VAT Act of 2014, are silent on the intended purpose of any tax exemptions, reduced rates, and tax credits, supporting information regarding objectives and expected outcomes is presented at the time the tax expenditure is established or amended through the explanatory notes to the relevant legislation. However, this information is not easily available to the public. Annual budget documents do not present any rationale for the various tax expenditure nor any performance indicators to measure their effectiveness.

Figure 1.6. Annual Revenue Loss from Tax Expenditure

(Percent of GDP)



Source: Estonia State Budget Strategy documents 2011 to 2019. Eurostat. Various official reports of respective countries and staff estimates. Latest available data: 2018 (Italy), 2017 (Lithuania, France, Netherland, Portugal, Romania, Spain, UK), 2016 (Ireland), 2014 (Poland).

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Advanced)

21. Monthly fiscal data on general government are published within a month after the end of each month. The MoF compiles monthly budget execution data on the main revenue and expenditure categories following the budget classification (also see principle 1.4.3). These data are posted on a data portal of the MoF and SE and can be downloaded by users within a month after the reporting period.[7] In addition, based on the CD 2011/85 EU requirements related to the budgetary frameworks of the member states, the MoF publishes monthly revenue and expenditure data of the general government and its subsectors in accordance with the accounting principles applied in the public financial statements.[8] Moreover, SE publishes on a quarterly basis, three months after the reporting period, non-financial and financial *ESA 2010* based accounts, as well as a financial balance sheet, and the debt for the general government and its subsectors.[9]

1.2.2 Timeliness of Annual Financial Statements (Advanced)

22. The annual financial statements of government are prepared by end-May and published within six months after the end of each financial year. The State Budget Act,[10] Article 79, stipulates that the MoF shall submit the Consolidated Annual Report of the State to the NAO not later than by 30 June of the year following the accounting year; and the report submitted to the NAO shall be published on the website of the MoF immediately after its submission. This deadline has been complied with in recent years. The timestamps on the MoF website for recent unaudited Annual Reports are shown in Table 1.4. The Consolidated Annual Report of the State presents the State Budget execution and IPSAS based financial statements for the State, comprising central government, local government, and consolidated general government and public sector.

Table 1.4. Estonia: Publication Dates for Annual Financial Statements 2016–19

Year	Date Posted on Website
2019	June 30, 2020
2018	July 2, 2019
2017	June 29, 2018
2016	July 3, 2017

Source: MoF website

[7] See https://riigiraha.fin.ee/QvAJAXZfc/opendoc.htm?document=riigiraha.qvw&lang=en-US&host=local&anonymous=true/ and https://andmed.stat.ee/en/stat/majandus__rahandus__valitsemissektori-rahandus__riigieelarve/RR21.

[8] See https://www.rtk.ee/saldoandmike-kasutajad/avaliku-sektori-raamatupidamine/valitsussektori-finantsnaitajad.

[9] See https://andmed.stat.ee/en/stat.

[10] See State Budget Act of 2014 https://www.riigiteataja.ee/en/compare_original?id=504072014004.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Good)

23. Fiscal statistics use an economic and functional classification consistent with international standards. Annual and quarterly general government accounts published by SE provide data on revenue, expenditure, financing transactions, and stocks of financial assets and liabilities by economic classification that complies with *ESA 2010*. Expenditure are also presented by functional classification according to COFOG. The general government accounts compiled by SE are based on financial statements produced by SSSC. The financial statements cover the entire public sector and are based on internationally accepted financial reporting standards.[11] The accounting chart of accounts contains also trading partner codes, functional codes (COFOG), transaction types codes, and financial resource codes.

24. The budget and budget execution reports use administrative, functional, and economic classifications, alongside a program classification that was introduced in the 2020 budget. The budget classification is regulated under the State Budget Act[12] and uses a national classification. The economic classification distinguishes revenue, expense, investment and financing. While revenue is broken down by type of tax and non-tax revenue, expense categories are only broken down into grants, labor and management expense, other operating expense, and financial expense. Since 2019, a program classification has been progressively rolled out across the budget with a view to improving the link between expenditure and performance. This budget classification comprises the identification of performance area, program, activities and services. The first full report on actual outcome of performance on the basis of the 2020 budget programs is expected in 2021. The 2021 program classification[13] is built on around 17 high-level performance areas. Once the actual outcome of program classifications are fully available Estonia will be assessed at the advanced level in this principle.

1.3.2. Internal Consistency (Good)

25. Fiscal reports include two of the reconciliations required by the FTC. SE publishes a reconciliation of the annual net financing with the change in the stock of general government debt twice a year, as part of the Excessive Deficit Procedures (EDP) notifications (EDP T3).[14] In addition, the Consolidated Annual Report of the State presents the reconciliation of the cash flow statement with the operating statement and the balance sheet. This reconciliation is done for the State Budget, consolidated general government, and consolidated public sector. SE also prepares on a regular basis a reconciliation of the fiscal balance and financing (comparing the net lending/

[11] See https://www.rahandusministeerium.ee/et/easb/aruandluskorraldus

[12] See https://www.riigiteataja.ee/en/compare_original?id=504072014004

[13] See the Explanatory memorandum to the Draft State Budget 2021, https://www.riigikontroll.ee/tabid/206/Audit/2501/language/en-US/Default.aspx

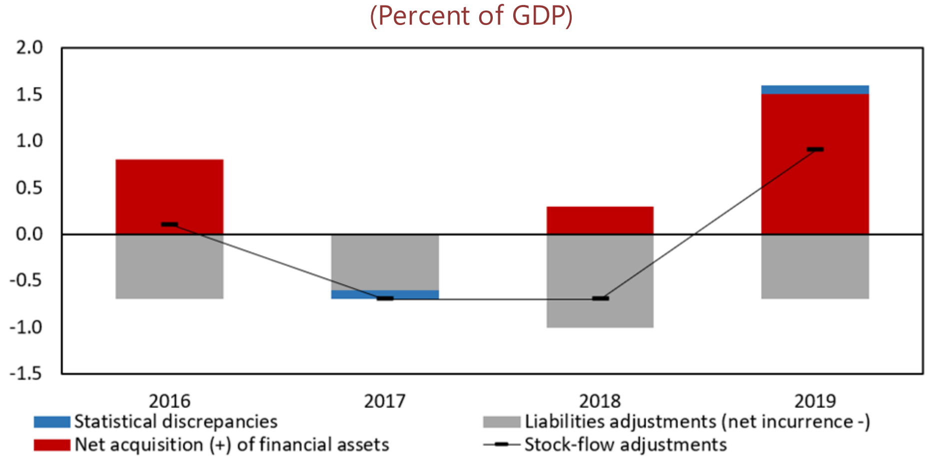
[14] See https://www.stat.ee/index.php/en/find-statistics/statistics-theme/finance/government-finance/excessive-deficit-procedure-edp#28092020-2

net borrowing derived from non-financial accounts with the net financing derived from financial accounts). The discrepancy coming from this reconciliation is published in the EDP tables (EDP T3A-E), but there is no report presenting all elements of the reconciliation (revenue/expenditure, transactions in financial assets/liabilities, and related balances). The amount of discrepancy between the above and below the line transactions cumulated during the period 2016-2019 has been low (0.05 percent of GDP).

26. There is no fiscal report that reconciles the debt issuance and the debt holders. According to the Estonian financial reporting standard from 2018, it is not obligatory to disclose information on the debt holders/creditors. The MoF publishes on its website data on the creditors of the debt issued by the State Treasury (European Investment Bank and the Nordic Investment Bank). Since T-bills and Eurobonds are issued in the capital markets, there is no information on their holders. Some local governments and public entities publish information about their creditors in their annual reports (e.g., Tallinn, Tartu, University of Tartu), though it is not obligatory. SE compiles but does not publish figures on the holders of the general government debt which are grouped into the *ESA 2010* economic sectors. According to the SE data almost 70 percent of the total general government debt is held by the rest of the world.

27. Estonia's stock-flow adjustments have been relatively large in 2019, although these adjustments have generally been low with some exemptions (Figure 1.7). On average, between 2016 and 2019, Estonia's stock-flow adjustments were -0.1 percent of GDP, which is less than the EU average during the same period (0.2 percent of GDP). The positive level of stock-flow adjustments in 2019 was mainly due to the increase in government debt that was more than the deficit—central government deposits accumulated due to unspent funds from the newly issued debt. Discrepancies between the flows and the change in stocks of government debt were limited to EUR 13 million on average in absolute terms between 2016 and 2019.

Figure 1.7. Stock-Flow Adjustments of General Government
(Percent of GDP)



1.3.3. Historical Revisions (Good)

28. Revisions to historical fiscal statistics are reported with an explanation for each major revision. SE follows a well-established revision policy in line with other EU countries and makes regular historical revisions to annual fiscal statistics data twice a year as part of EDP notifications. It provides comprehensive explanations to Eurostat, which they have recently also posted on SE's website.[15] In the past, only a detailed explanatory note was published on the major revision of national accounts related to the implementation of *ESA 2010* in 2013. However, the note didn't provide a clear explanation on the impact of the new methodology on both deficits (net lending/borrowing) and debt. SE is currently rebuilding its website and has started publishing explanatory notes on EDP notifications including explanations on revisions of deficit and debt figures.

29. Estonia's revisions to the general government deficit exceeded the EU average in recent years. Between EDP notifications in April 2013 and October 2020, the deficit for 2012 to 2019 was brought down by 0.2 percent of GDP on average, which is higher than the EU average (0.1 percent of GDP). On the other hand, revisions to the debt were limited to -0.1 percent of GDP on average during 2014-2019, smaller than the EU average (0.2 percent of GDP). The sizable revision of deficit and debt data prior to 2014 related to the *ESA 2010* implementation. Several large revisions in the deficit figures have also taken place in recent years (Figure 1.8). The change from surplus to deficit in 2016 (revision by 0.6 percentage points) was mainly due to updated source data on military equipment deliveries and a correction in the recording of funds received from the EU[16]. The current improvement in the 2019 fiscal balance by 0.4 percent of GDP related to the correction of preliminary figures on revenue from structural funds.[17]

[15] See https://www.stat.ee/index.php/en/find-statistics/statistics-theme/finance/government-finance/excessive-deficit-procedure-edp#28092020-2.

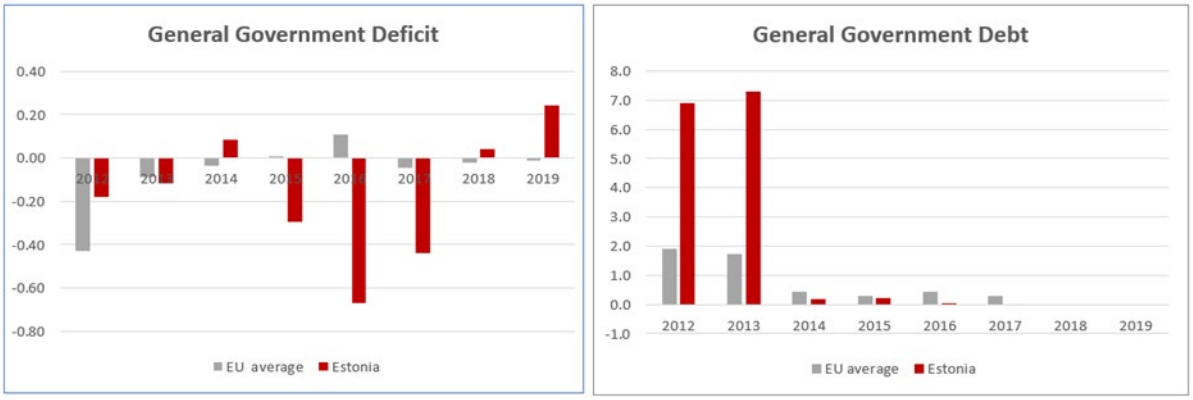
[16] See http://ec.europa.eu/eurostat/documents/1015035/2022675/Note-on-main-revisions-OCT2017.pdf

[17] See https://www.stat.ee/index.php/en/find-statistics/statistics-theme/finance/government-finance/excessive-deficit-procedure-edp#28092020-2

Figure 1.8. Historical Revisions Between April 2013 and October 2020 EDP Notifications

(Percent of GDP)

GG Deficit **GG debt**



Source: EDP notifications, Eurostat news releases, and staff estimates.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Advanced)

30. Fiscal statistics are compiled using the regional *ESA 2010* guidelines and prepared by the professionally independent SE. The SE is a "governmental authority" that is an arm's length body under the MoF. Its professional independence is governed by the Statistics Act[18] which reflects the related EU regulations[19] prescribing the statistical principles and quality criteria for producing official statistics. The Statistics Act stipulates that SE should be professionally independent in line with the Regulation (EC) No 223/2009 of the European Parliament and of the Council. The SE, being an integral part of the European Statistical System (ESS), follows the European Statistics Code of Practice.[20] Since the SE must observe the EU regulations on community statistics, the compliance of the fiscal statistics produced by the SE with the underlying *ESA 2010* methodology is scrutinized by Eurostat on a regular basis. The regular Excessive Deficit Procedures (EDP) dialogue visits conducted by Eurostat review institutional responsibilities for GFS, EDP reporting, data sources, as well as the implementation of the *ESA 2010* methodology, specifically the delimitation of general government, recording of specific government transactions, and the application of accrual principles.

[18] Official Statistics Act https://www.riigiteataja.ee/en/eli/517122019002/consolide.

[19] Regulation (EC) No 223/2009 of the European Riigikogu and of the Council on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Riigikogu and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009.

[20] See https://ec.europa.eu/eurostat/documents/4031688/8971242/KS-02-18-142-EN-N.pdf/e7f85f07-91db-4312-8118-f729c75878c7.

31. Estonia's fiscal statistics also adhere to the Special Data Dissemination Standards (SDDS). Estonia meets the SDDS requirements since 2000. The SE's website includes the National Summary Data Page of Estonia where data on central and general government operations and debt are published according to the SDDS requirements. Based on the IMF 2018 Observance report,[21] Estonia met the punctuality requirement for most data categories with the exception of data on central government where some delays were observed. On the other hand, Estonia exceeded the SDDS timeliness requirements for the reporting of general government operations.

1.4.2. External Audit (Advanced)

32. The consolidated annual financial statements of the State are audited by the independent NAO in accordance with international auditing standards.[22] The NAO is a constitutional office headed by an Auditor General appointed for 5 years by the Riigikogu (Estonian Parliament) upon the recommendation of the President. The Auditor General may only be removed from office by the Riigikogu for incapacity lasting more than six months or conviction of a criminal offense. The MoF submits its consolidated annual financial statements[23] to the NAO by June 30 each year, for which the NAO completes its audit report by August 31. Both reports are submitted by the MoF to the Riigikogu within seven working days of receiving the NAO report, and at the same time published on the MoF's website. The Riigikogu generally concludes its debate on the consolidated report in November, ahead of the vote on the next year's budget in December. Compliance with this audit timetable has been good. The NAO also performs a number of other audits each year using a risk-based approach, and provides guidelines for third-party audits of government institutions, local governments and public corporations performed by private audit companies. It also undertakes performance audits of the Health and Unemployment Insurance Funds.

33. The NAO reports have consistently provided positive opinions on the financial statements in recent years, with only one qualification issued in 2019. The NAO considers the level of accounting[24] to be good, with few errors in the financial statements. The audit process benefits from the NAO's direct access to the MoF's accounting IT system allowing it to examine detailed transactions and to start its annual audit prior to receiving the official reports. The 2019 qualification was the first in 6 years and concerned the stock of fixed assets managed by the defense forces which the NAO was unable to reconcile. During its meeting with the IMF

[21] See https://dsbb.imf.org/content/pdfs/AnnualReports/2018/EST_SDDS_AR2018.pdf.

[22] This paragraph is based on the provisions under Chapter XI of the Constitution (https://www.riigiteataja.ee/en/eli/ee/rhvv/act/521052015001/consolide), the National Audit Office Act of 2002 (https://www.riigiteataja.ee/en/eli/519122019013/consolide#) and the State Budget Act of 2014 (https://www.riigiteataja.ee/en/eli/ee/Riigikogu/act/527042020002/consolide). The NAO follows both INTOSAI and ESAI 200 and 400 standards.

[23] This report includes both consolidated and unconsolidated accounts of general government as well as the execution report of the state budget.

[24] Accounting is on a full accrual basis, including at local government level (see Accounting Act of 2002 https://www.riigiteataja.ee/en/eli/530102013006/consolide). The State Budget is also presented on an accrual basis.

team, the NAO raised concerns over the readability of the annual report and its 2019 one-off report on the budgeting process raised concerns over the limited in-year monitoring of budgetary expenditure despite the online availability of data from a published database. The NAO has a policy of yearly follow up of any qualifications and a practice of following up on its recommendations in its specialized audits and one-off reports every 3–4 years.

1.4.3. Comparability of Fiscal Data (Good)

34. The Consolidated Annual Report of the State includes a Report on the Implementation of the State Budget that presents outturn data comparable to the original budget and reconciled with the financial statements. This annual budget execution report shows the actual outcome based on the budget methodology and is presented alongside the financial statements based on the accounting standards of the state. The report also includes a table comparing the economic categories presented in the budget execution and those in the accounting financial performance statement. This comparison specifies and quantifies the categories not included in the budget but reported in the statement of financial performance due to the methodological differences (e.g., resulting from a change in the fair value of biological assets and profit/loss from financial investments). The table is accompanied by a note explaining the specific methodological differences. The NAO also assesses the reconciliation of the budget execution data and financial statements and found that it is clearly presented in the Consolidated Annual Report of the State.

35. The Consolidated Annual Report of the State also presents a reconciliation between the financial statements and the *ESA 2010*-based fiscal balance. The reconciliation table explains the differences between the general government's operating balance coming from the consolidated financial statements and the net lending/net borrowing compiled by the SE following the *ESA 2010* methodology. The differences relate to (i) items which are included in the financial performance statement but do not impact the *ESA 2010* based revenue and expenditure and thus should be eliminated;[25] (ii) expenditure which are not reported in the financial performance statement and should be added into the *ESA 2010* accounts;[26] and (iii) adjustments to the time of recording of some categories.[27] Based on the reconciliation table, the difference between the general government's operating balance and the net lending/ net borrowing accounted for -0.3 percent of GDP in 2019 and 1.1 percent of GDP in 2018. In addition, the MoF publishes a methodological note following the EU requirements for budgetary frameworks of the Member States (Directive 2011/85),[28] explaining the differences between the fiscal balance

[25] Such as the revaluations of assets, super-dividends, provisions except for standardized guarantees, holding gains/losses from sale of shares, and write-downs.

[26] Such as the net acquisition of non-financial assets.

[27] Such as taxes that are recorded on a time-adjusted basis in the *ESA 2010* accounts.

[28] See https://www.rtk.ee/sites/default/files/methodological_reconciliation_table.pdf

reported in the monthly report on general government revenue and expenditure[29] (compiled from the financial statements) and the *ESA 2010* net lending/ net borrowing.

36. While a reconciliation between the state budget execution and net lending/net borrowing is presented in the EDP reporting, there is no published reconciliation of gross revenue and expenditure data. The EDP notification Table 2A[30] includes a reconciliation of the budget balance with the net lending/net borrowing of each subsector of the general government. However, the gross revenue and expenditure data presented in budgets outturn reports and in the fiscal statistics are not reconciled.

37. Monthly state budget execution reports present sufficient details on revenue comparable to the budget, the expenditure side is presented at a much more aggregated level than in the budget. The monthly budget implementation report prepared by the SSSC and published by SE presents only five categories of expense,[31] which is insufficient to allow an appropriate level of scrutiny of in-year developments in budget execution. The NAO also expressed some concern on the lack of monitoring of in-year expense in their audit report in 2020 on the risks associated with financial forecasting and monitoring national fiscal policy.[32] Similarly, the parliamentary oversight committees expressed frustration with the lack of information on in-year fiscal developments, in particular on the expenditure side. Waiting for the annual financial reports to become available is deemed insufficient for monitoring month-to-month fiscal developments.

1.5. Conclusion and Recommendations

38. Fiscal reporting in Estonia is well established and meet good or advanced practices in all but one area (Table 1.5). Fiscal reports follow international, regional, and national reporting standards and cover the entire public sector. Financial statements are compiled on an accrual-basis and monthly, quarterly and annual source data are comprehensively captured in an electronic system. The institutional coverage, timeliness and frequency of reporting on the whole of the public sector places Estonia on the forefront of good fiscal reporting practices. SE is an independent institution subject to the European Statistics Code of Practices. SE uses these source data to also report fiscal statistics in accordance with the *ESA 2010* framework. The integrity of the financial statements is ensured by the regular audits performed by the NAO. The limited and insignificant qualifications are testimony to the high quality of the data.

[29] See https://www.rtk.ee/saldoandmike-kasutajad/avaliku-sektori-raamatupidamine/valitsussektori-finantsnaitajad

[30] See https://ec.europa.eu/eurostat/documents/1015035/11440377/EE-2020-10.pdf/8fca381e-cd57-beda-1fb5-cb5af9a3bc33

[31] These categories of expenditure are: (i) grants and other transfers; (ii) labor cost and operating expense; (iii) other operating expense; (iv) financial expense; and (v) purchase and maintenance of tangible and intangible assets.

[32] See Overview of the risks associated with financial forecasting and monitoring national fiscal policy https://www.riigikontroll.ee/tabid/206/Audit/2501/language/en-US/Default.aspx.

39. However, some practices could be further improved in the short and medium term. In-year budget execution reports are weak on reporting on a breakdown of expenditure that is comparable to the budget. This weakness hampers the ability to monitor the implementation of the budget during the year. The format of fiscal reports could also be further improved by publishing more user-friendly formats of these reports that are adapted to the needs of various users. Summary reports on the overall performance of government, with useful supplementary reports containing the details could be considered. With regards to the coverage of stocks, some deficiencies exist in the recognition and valuation of non-financial assets. This results in an underestimation of the value of the assets of government. With regards to tax expenditure, it was noted that there is no ceiling on the size of tax expenditure. Furthermore, the policy objectives behind existing tax expenditure could be more clearly communicated and the monitoring of the actual (rather than only estimated) costs of these policies could be improved.

40. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

Recommendation 1.1: Improve the integrated fiscal reporting in the consolidated PSFS and fiscal statistics by:

- including data on stocks of mineral resources;
- using fair/market valuation of assets and liabilities; and
- reporting on holding gains/losses and other changes in the volume of assets and liabilities.

(MoF and SE, medium term)

Recommendation 1.2: Improve the disclosure and management of revenue loss due to tax expenditure by:

- requesting line ministries to prepare rationales and performance indicators for tax expenditure in their respective functional areas;
- including tax expenditure outturns alongside estimates for the budget year;
- including a section on tax expenditure in the annual budget documentation that details their policy rationale and performance information that allows the impact of tax expenditure to be monitored.

(MoF, for the 2022 State Budget Strategy)

Recommendation 1.3: Consolidate the information, which is already available internally or is fragmented in various reports, into more user-friendly disseminated reports on:

- debt issued and its holders by the *ESA 2010* sectors;
- detailed monthly and quarterly comparable budget execution reports that allows for a clear assessment of all fiscal aggregates against budgeted amounts;
- a statement of general government operations presenting reconciliation of above and below the line operations;
- a bridge table between the old and new GFS time series for major revisions; and
- monthly spending from the contingency reserve.

(MoF and SE, medium term)

Table 1.5. Estonia: Summary Evaluation: Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	**Coverage of Institutions**	**Advanced:** Fiscal data cover all the public sector institutional units	**Low:** The coverage of public sector in the fiscal reporting is comprehensive	
1.1.2	**Coverage of Stocks**	**Good:** Data on non-financial and financial assets and liabilities are available, although some deficiencies in coverage and valuation exist	**Medium:** The market value of fixed assets is higher by 32.5 percent of GDP and unreported natural resources 1.4 percent of GDP	**1.1**
1.1.3	**Coverage of Flows**	**Advanced**: Fiscal reports cover cash flows, accrued revenue, expenditure, financing, and partial information on other economic flows	**Medium**: Accumulated holding gains on public sector fixed assets accounted for 32.5 of GDP since 2005	**1.1**
1.1.4	**Coverage of Tax Expenditure**	**Good:** The estimated revenue loss from tax expenditure by sector is published annually	**Low:** Tax expenditure have been reduced and are low (0.9 percent of GDP) compared to European peers	**1.2**
1.2.1	**Frequency of In-Year Reporting**	**Advanced:** Monthly fiscal data on general government are published within a month	**Low:** Monthly fiscal data cover all general government sub-sectors	
1.2.2	**Timeliness of Annual Financial Statements**	**Advanced:** The final annual financial statements of government are prepared by end May and published within six months after the end of each financial year	**Low:** Annual financial statements are timely	
1.3.1	**Classification**	**Good:** Fiscal reports use an economic, administrative and functional classification but not a program classification	**Low:** A comprehensive program classification is being introduced and first actual outcome against programs expected in 2021	
1.3.2	**Internal Consistency**	**Good:** Fiscal reports include stock-flow reconciliation and cash flow with the operating balance, but not on debt holders	**Low:** Data on debt holders by the national account sectors exist	**1.3**
1.3.3	**Historical Revisions**	**Good:** Revisions to historical fiscal statistics are reported and explained, but without a bridge table between the old and new time series	**Low:** Detailed information on revisions of fiscal statistics exists	**1.3**
1.4.1	**Statistical Integrity**	**Advanced:** SE is professionally independent and observes international standards	**Low:** SE is subject to Eurostat governance rules	
1.4.2	**External Audit**	**Advanced:** Independent National Audit Office audits financial statements by August each year in accordance with INTOSAI and ESAI standards	**Low:** Audits of the last 5 years have been positive, with only one minor qualification in 2019	
1.4.3	**Comparability of Fiscal Data**	**Good:** Budgets outturns are comparable and reconciled with financial statements and fiscal statistics, but lacking in-year comparable expenditure data	**High**: Lack of in-year comparable budget execution expenditure data hampers timely monitoring of developments in budget execution	**1.3**

II. FISCAL FORECASTING AND BUDGETING

41. Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. This chapter assesses the quality of Estonia's fiscal forecasting and budgeting practices against the standards set by the four dimensions of the IMF's fiscal transparency code:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the economic and fiscal forecasts, and budget proposals.

2.1. Comprehensiveness of Budget Documentation

2.1.1. Budget Unity (Basic)

42. The annual State Budget Act includes estimates of gross revenue, expenditure and financing of the budgetary central government but excludes own source revenue of extrabudgetary funds and the spending from these own sources. The expenditure side of the State Budget is structured according to 19 main institutions – State Chancellery, 7 constitutional bodies and 11 ministries—then further broken down by main economic category and from 2020 by programs. The budgets of the 140 dependent agencies of budgetary central government are included in their parent institution's appropriation. The State Budget includes transfers to the central government's extrabudgetary funds.[33] These transfers, collectively represent around half of their revenue (Table 2.1). A similar practice exists at local government level concerning their extrabudgetary funds.

Table 2.1. Estonia: State Budget Transfers to Extrabudgetary Funds

	2015	2016	2017	2018	2019
	EUR millions				
Transfers to extrabudgetary funds:	796	743	810	867	849
- current transfers	633	657	688	752	752
- capital transfers	163	86	122	115	97
	Percent				
Share of State Budget expenditure	11.9	10.8	11.1	10.6	9.8
Share of extrabudgetary funds' revenue	58.7	57.2	55.0	53.9	48.6

Source: MoF

[33] These comprise 22 government institutions set up by special laws, 74 non-profit institutions belonging to the state, and 13 business enterprises controlled by the state (the latter do not generally receive transfers from the state budget) (for further details regarding government entities see 1.1.1).

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43. While the pay-as-you-go Pension Fund covering the whole society, is fully integrated within the State Budget, the Health Fund and Unemployment Insurance Funds are independent social security funds not presented alongside the State Budget. Their financial plans are approved by their respective governing boards and are not presented to or adopted by the Riigikogu. The social security contributions destined to the two funds are included in the State Budget revenue and transferred to them through their respective parent ministries (Table 2.2).

Table 2.2. Estonia: Budget Transfers to Health and Unemployment Insurance Funds

	2015	2016	2017	2018	2019
	EUR millions				
Social security contributions	1,110	1,179	1,282	1,407	1,541
	Percent				
Share of State Budget expenditure	16.6	17.2	17.5	17.2	17.7
Share of HIF and UIF revenue	97.6	95.8	88.6	79.0	74.4

Source: MoF

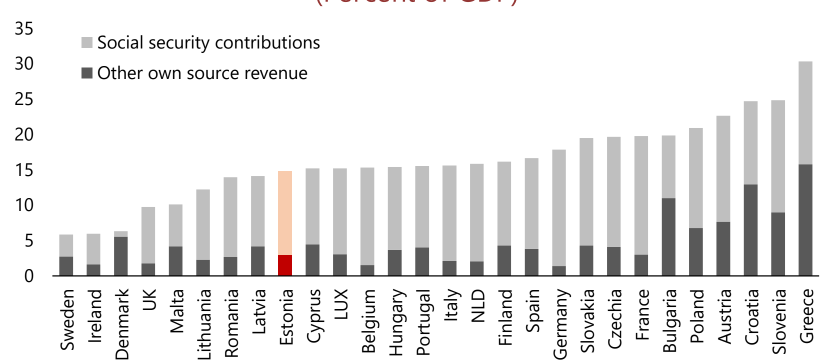
44. The authorities report that general government own source revenue amounted to around 3.7 percent of GDP in 2019. This figure excludes the social security contributions of the two social security funds as these are recorded on the state budget (Table 2.3). Central government own revenue in Estonia are just below EU member state average (Figure 2.1).

Table 2.3. Estonia: Own-Source Revenue
(Percent of GDP)

	2015	2016	2017	2018	2019
Own source revenue	15.2	15.0	15.1	15.2	15.6
- Social security contributions	11.3	11.4	11.4	11.7	11.8
- Other own source revenue	3.9	3.6	3.7	3.5	3.7

Source: MoF

Figure 2.1. Own Source Revenue of Central Government and Social Security Funds in European Countries, 2019
(Percent of GDP)



Source: Eurostat and staff estimates.

45. Other documents linked to the budget process provide fiscal data for the general government sector (Table 2.4). General government fiscal data is presented in the State Budget Strategy and Stability Programme issued annually at the end of April as well as in the Draft Budget Plan submitted to the EU in October. The mid-year State Budget Strategy and the explanatory note to the budget both include detailed medium-term analysis of sectors and medium-term projections of key fiscal indicators covering the general government. Starting with the 2020 budget data is presented also with a program classification, both in the State Budget and in the many explanatory documents submitted to Riigikogu alongside the Act, detailing program-based spending over the medium term (also see principle 2.3.2).

Table 2.4. Estonia: Fiscal Forecasting and Budget Documents

Document	Agency	Coverage			Accounting		Publication Date
		Institutions	Flows	Stocks	Basis	Classification	
Medium Term Economic Forecast	MoF	-	-	-	-	-	Early April and September
MT Budget Strategy and Stability Programme	MoF	GG and subsectors	Rev, Exp	Debt	Accrual	Nat, EU	End of April
Annual State Budget Act and Explanatory Notes	MoF	CG + GG indicators	Rev, Exp	Debt	Accrual	Nat, EU	End September
Program/Performance Annexes to Budget*	LM	CG	Rev, Exp		Accrual	Nat	October
Draft Budget Plan to EU	MoF	GG and subsectors	Rev, Exp	Debt	Accrual	EU	Mid October

Source: IMF staff. LM=Line Ministries * From the 2020 budget a program classification is included—first performance report is expected in 2021.

46. Finally, the adopted State Budget does not include carryovers from the previous year which average around 5 percent of total expenditure. The table listing carryovers and its value is formally presented to Riigikogu in a separate document before the annual State Budget Act is adopted but these carryovers are not voted on nor included in the annual State Budget Act. They must, however, be used for the same purpose for which they were originally approved. Over the last 6 years, carryovers have averaged just over 5 percent of total expenditure with more than 50 percent of carryovers relating to investment spending.[34] No limits are set for carryovers on investment spending which is easier to justify – for example delays in contracting or project implementation. Carryovers of current spending were limited to 3 percent of total expenditure, but in 2020 this limit was relaxed after cases of unused balances of current expenditure were found to have been reallocated to investment lines which were then carried over. While carryover provisions are appropriate for a restricted set of unavoidable circumstances

[34] Advice on carryovers can be found in an IMF technical guidance note on the topic (https://blog-pfm.imf.org/files/carry-over-of-budget-authority.pdf).

at the end of the year, care should be taken to avoid abuse and to always assess carryovers against the priorities of the next budget.

2.1.2. Macroeconomic Forecasts (Advanced)

47. The MoF publish economic forecasts twice a year including explanations of key macroeconomic forecasts and their components, as well as their underlying assumptions. The Spring Economic Forecast released in March/early April, provides four-year forecasts for real and nominal GDP, together with a decomposition into consumption, investment and net exports, and the projected contribution to growth from labor, capital and total productivity. Assumptions on external developments (including oil prices, regional growth rates, and the Euro: Dollar exchange rate) as well as forecasts for inflation, employment, the current account balance and interest rates are presented and discussed. The preparation of forecasts includes a well-established practice of consultation with stakeholders, both within and outside of government, culminating in the publication of tables giving comparisons with other forecasts. The spring forecasts underpin the medium-term State Budget Strategy finalized in April. The Summer Economic Forecast, published in August/early September each year, provides an update that informs the draft annual State Budget finalized in September. Estonia's Fiscal Council provides an opinion on both spring and summer forecast, with much of the policy debate focusing on potential GDP and the size of the output gap, and hence the size of Estonia's structural deficit (also see principle 2.4.1).

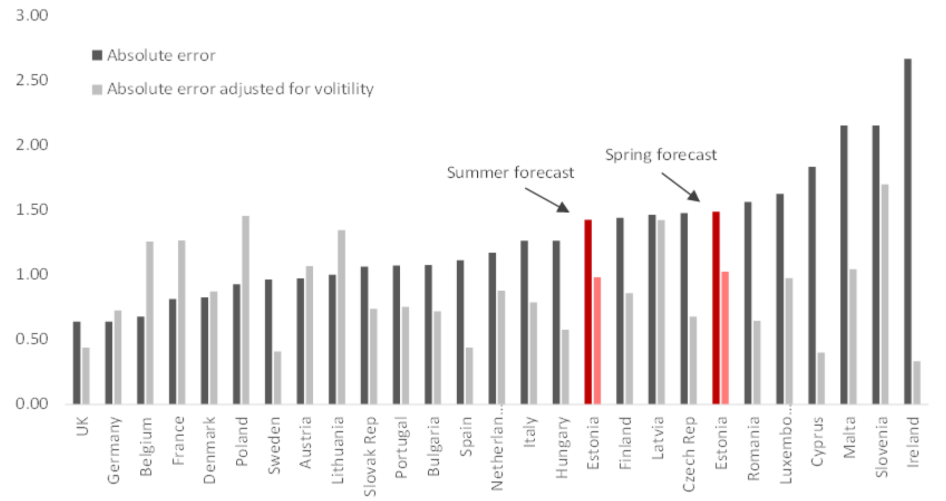
Table 2.5. Estonia: Published Documents Containing Macroeconomic Forecasts

Document	Month published	Macroeconomic forecasting content
Spring Economic Forecast	March/April	Assumptions behind the forecast. Comparison with the forecasts of other forecasters. Risk scenario.
Fiscal Council Opinion on Spring Forecast	April	Discussion of forecasts and fiscal performance
State Budget Strategy and Stability Programme	April	Comparison with previous forecasts. Discussion of 'risk scenario'. Sensitivity analysis.
Summer Economic Forecast	August/September	Assumptions behind the forecast. Comparison with the forecasts of other forecasters. Risk scenario.
Fiscal Council Opinion on Summer Forecast	September	Discussion on economic cycle, structural fiscal position
Draft Annual Budget Memorandum	September	Sets out macroeconomic developments to accompany the Annual State Budget
Draft Budgetary Plan	October	Discussion of Summer Forecast. Comparison of economic forecasts. Changes from the Spring forecast.

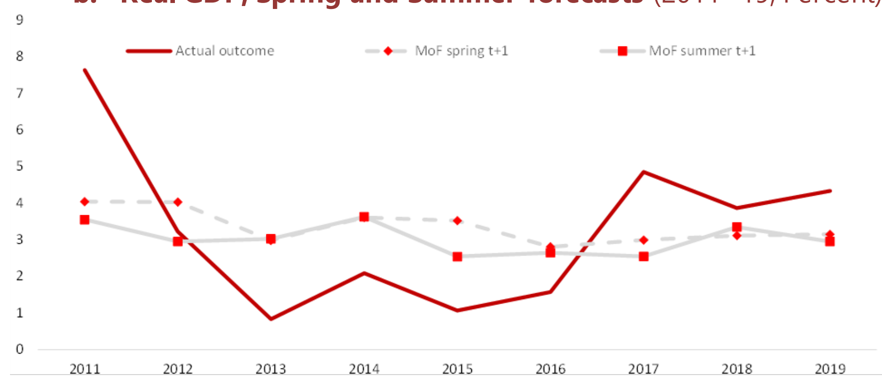
48. Estonia's real GDP forecasts have exhibited above average errors, partly reflecting the high volatility of GDP growth (Figure 2.2). The summer forecast for real GDP growth has exhibited an average error of 1.5 percentage points between 2012-2019, higher than the EU average. There has also been an optimism bias, although this has reversed in recent years. Nevertheless, as discussed in Section 2.1.3 these errors don't appear to have a large impact the accuracy of the revenue forecast, which is unbiased and has a smaller than average error in comparison to EU peers.

Figure 2.2. Medium-Term Macroeconomic Forecast Error for Real GDP Growth

a. Real GDP Forecast Accuracy – Absolute Error for Budget Year (average 2012–19)



b. Real GDP, Spring and Summer forecasts (2011–19, Percent)



Source: MoF

49. Article 16 of the State Budget Act of 2014 includes a provision for the regular publication of analysis of forecast errors. Such an analysis was first published in 2018 and a second analysis is planned for 2021, although there is no formal link between this work and revision in forecasting methods. Analysis of key economic relationships is presented in detail in the text of the Spring and Summer forecast documents, for example discussion of historical trends in investment or household consumption, the outlook for these variables and their impact on overall growth. Because the Estonian economy is not driven by any particular sector, the usual sector specific analysis is not a focus of this published discussion. Nevertheless, tables in the Stability Programme documents do give forecasts of growth in the primary, manufacturing, construction, and service sectors.

2.1.3. Medium-Term Budget Framework (Good)

50. **The State Budget Strategy, first introduced in 2000, provides four-year fiscal projections and budgetary aggregates and also cover these projections for the general government sector.** The State Budget Strategy is prepared by the MoF in April each year following the spring macroeconomic forecasts, and is adopted by Cabinet before the end of the month, after which it is published and submitted to the Riigikogu for information. For the past several years the document also serves as the Stability Programme that Estonia submits to the EU by the end of April. The State Budget Strategy discusses key policy changes for the coming four years, at both macro and sectoral levels, and sets out a four-year revenue, expenditure, and financing plan for the State Budget and aggregate fiscal projections for general government.

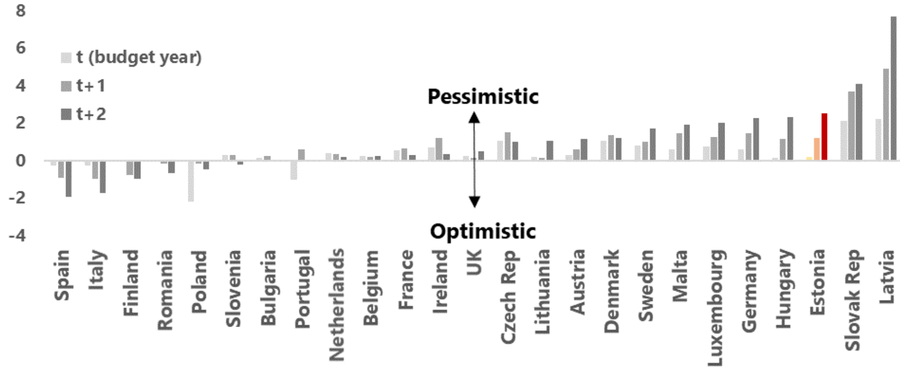
51. **The State Budget Strategy is based on four-year programs[35] submitted in March by the main central government budgetary entities, which include their investment proposals.** General government projections rely on the budget strategies of subnational governments adopted in October of the previous year. The State Budget Strategy projections for the budget year are considered as ceilings for the preparation of the annual budget as well as for the financial transactions between the state and subnational governments. Any subsequent changes to ceilings are usually limited to the impact of the summer macroeconomic forecasts. The four-year projections summarize the strategic goals and indicators for revenue, expenditure and financing for the central government budget, with expenditure allocations broken down by: (i) main budget entities—State Chancellery, 7 constitutional bodies and 11 ministries; (ii) main economic category; and (iii) from 2020 by program. A separate table provides a list of the projects included in the investment plan.

52. **Fiscal outturns have deviated moderately from the medium-term plans since 2012 (Figure 2.3, (a–d)) and on the whole display a conservative pessimistic bias.** While revenue and expenditure forecasts have deviated from outturns by around 2 percent of GDP in the third year, deviations in the second and first years have been 1 percent or less. The budget balance deviations have been within 0.5 percent of GDP. Estonia is one of the most conservative revenue forecasters in the EU based on its forecast error bias. Persistent forecast biases, both optimistic and pessimistic, can undermine budget credibility over the longer term. Nevertheless, this conservative approach to medium-term forecasting has helped contain upward pressures on expenditure and allowed the build-up of fiscal reserves at both central and local government levels, as well as in its extrabudgetary funds, to cater for periods of economic downturn, such as the current Covid-19-related crisis.

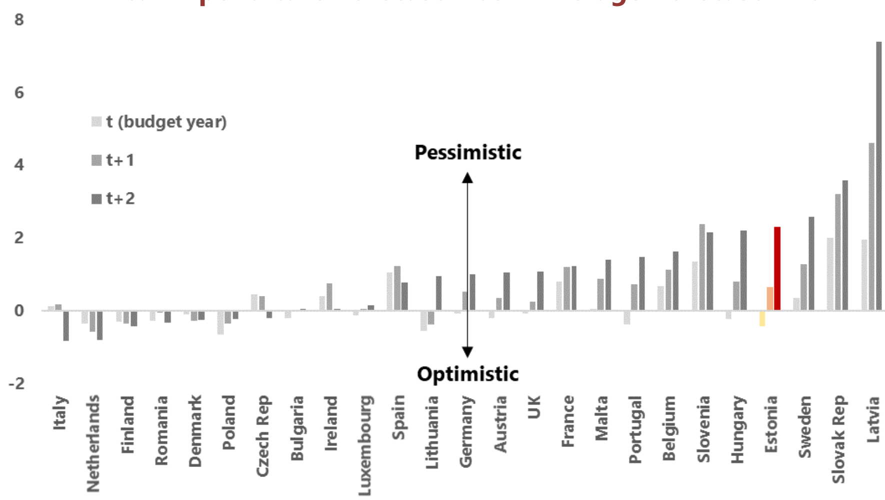
[35] These programs are based on the 7–10 year development plans.

Figure 2.3. Average Medium-Term General Government Fiscal Forecast Error, 2012–19
(Percent of GDP)

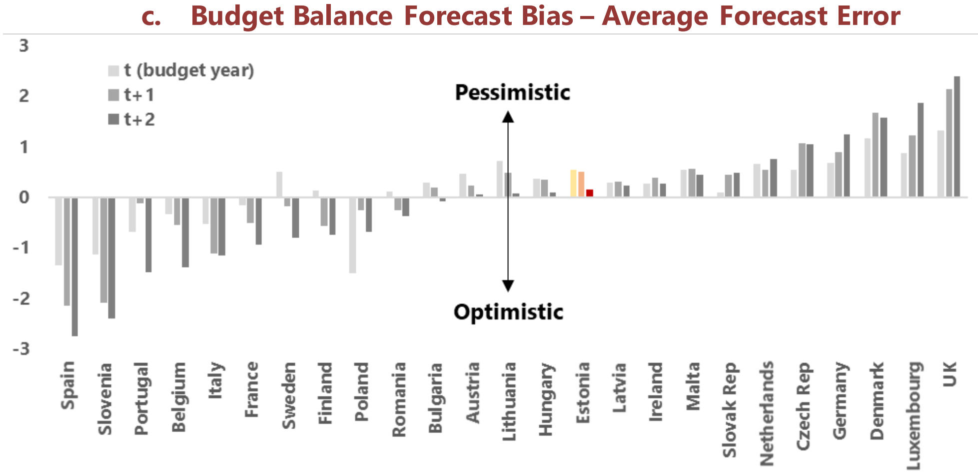
a. Revenue Forecast Bias – Average Forecast Error



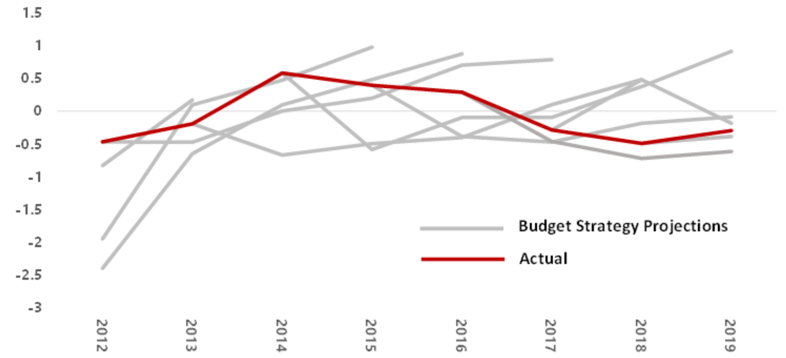
b. Expenditure Forecast Bias – Average Forecast Error



c. Budget Balance Forecast Bias – Average Forecast Error



d. Budget Balance Forecast Bias – Budget Strategy Forecasts over Time



Source: Stability Program, IMF staff estimates.

53. Outturn data for two previous years, although available in various other documents, is not presented in the budget strategy diminishing the impact of an otherwise robust medium-term budgeting framework. Although in the last few years an estimate of the current year's outturn is now presented in some of the budget strategy tables, outturn data for the previous two years should be available by the time the budget strategy is completed. In brief, it should be relatively straightforward to include outturns in the budget strategy documentation to provide context and enhance understanding of budgetary developments and show the impact of planned policy changes.

2.1.4. Investment Projects (Basic)

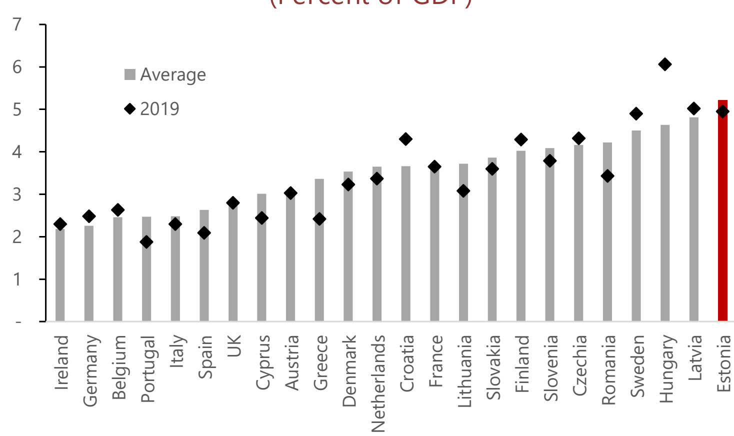
54. The budget documentation includes details of on-going and new investment projects over the four years of the budget strategy but does not present total costs. Investment spending is aggregated by ministry in the annual State Budget Act, except for a few major projects which are presented separately. Details of investment projects are presented in the four-year investment plan included in the Explanatory Memorandum to the budget, but this does not present the total project costs for multi-annual projects. The failure to present total projects costs has been raised as a matter of concern in a 2020 audit report on public investment by the NAO.

55. Investment project appraisals are conducted but are not always comprehensive and not published in the case of domestically funded projects. Appraisals of large projects are undertaken and do provide comprehensive technical, economic, and financial analysis prior to project approval, although as noted in the 2019 PIMA report, there is no standardized approach. Appraisals generally include risk assessments for which costed mitigation plans are prepared. Project financial plans usually include a 5 percent risk mitigation contingency reserve. While the appraisals of EU-funded projects are published at the tender stage, those for domestically funded projects are generally not published. The 2020 NAO report on investment planning found that most ministries do not undertake any ex-post evaluation of cost-effectiveness and wider socioeconomic impact of completed projects.

56. The 2017 update of the Public Procurement Act has led to the establishment of a modern and transparent procurement process based largely on open tender procedures through a fully operational e-procurement system. There are around 10,000 procurements per year with a value of EUR 2-3 billion, most of which (by value) is done through open tender. The Act prescribes common procurement standards and reporting in line with EU directives, which are fully transposed into the Act. The MoF has responsibility for preparing policy and regulations, supervising the procurement process, and managing the e-procurement system. Complaints are handled by an independent Public Procurement Review Committee in the first instance, while failing complainants can also proceed to the courts. The NAO regularly monitors larger procurements.

57. General government investment in Estonia has averaged 5.2 percent of GDP[36] over the last decade compared to an EU average of 3.5 percent of GDP (Figure 2.4). Over this period, Estonia has kept a consistently high level of public investment spending within a range of 4.5 and 6.5 percent of GDP.

Figure 2.4. General Government Investment, 2010–19
(Percent of GDP)



Source: Eurostat

58. The absorption rate of EU structural funds in Estonia, over half of which co-finance public investments, has improved in recent years but remains a matter of concern. As of end-2020, Estonia's absorption rate for the 2014–20 EU financing cycle stand at around 55 percent for the structural funds as a whole, with all projects expected to finish by 2023, the end of the extension period for this cycle. Estonia has been one of the better performers regarding absorption rates. The new financing round is expected to include around EUR 1.8 billion allocated to public investments for the period 2021–29.

59. The government plans to use the recent Public Investment Management Assessment (PIMA) recommendations to guide their public investment management

[36] This figure represents gross investment. In contrast, Table 0.2 presents net investment in non-financial assets.

reforms going forward. The reforms will include: (i) ensuring realism in costing the long-term planning framework; (ii) standardizing the appraisal methodology; (iii) establishing central monitoring of public investment projects; (iv) presenting total costs for major multi-year projects; (v) strengthening the oversight of PPPs and reporting on their fiscal risks; and (vi) establishing a pipeline of prepared projects. In addition, issues raised in the recent report of the NAO should also be addressed, in particular the need for strengthening ex-post evaluation practices in line ministries to better assess the cost-benefit and socio-economic impact of completed projects.

2.2. Orderliness

2.2.1. Fiscal Legislation (Advanced)

60. Fiscal legislation provides a clear framework for preparation, approval and execution of the budget. The Constitution of 1992 provides the key responsibilities and dates for the preparation, implementation, and audit of the State Budget: (i) draft budget to be submitted no later than 3 months before the start of the fiscal year; (ii) Riigikogu to adopt it as an Act before the start of the fiscal year, failing the budget can be temporarily executed for up to two months on basis of 1/12 after which President to call elections; and (iii) Auditor General to submit audit report alongside annual report by end-August.

61. The State Budget Act of 2014 as amended, and its subsidiary regulations provide detailed rules and procedures governing the preparation, adoption, execution, reporting and auditing of the State Budget. Key provisions of the State Budget Act related to budget formulation include: (i) fiscal rules; (ii) Four-year State Budget Strategy (Estonia's MTBF) to be adopted by government no later than eight months before the start of the fiscal year and submitted to the Riigikogu for information; (iii) contents of the State Budget Act and associated Explanatory Memorandum; (iv) appropriation structure of the budget, which includes performance areas and programs from 2020; (v) budget amendment rules and conditions for supplementary budget; and (vi) oversight by the Fiscal Council. The provisions related to budget execution and reporting include mostly MoF responsibilities related to: (i) managing a single treasury account system for general government and the state's cash flow; (ii) management of debt; (iii) in-year monitoring of the state budget; and (iv) preparation of the annual financial statements and reports by end June and their audit by end-August followed within seven days by their submission to Riigikogu. The Accounting Act of 2002 prescribes the chart of accounts, the accounting rules and the format of financial statements. One weakness in the State Budget Act is the absence of provisions for publication of in-year budget execution reports, despite the fact that accounts are submitted by government institutions on a monthly basis to the MoF and by public corporations on a quarterly basis.

62. The Local Government Financial Management Act of 2010 provides the legal framework for preparation, execution and reporting of sub-national budgets. The act requires local governments to prepare a 4-year budget strategy by mid-October each year, followed by a draft budget to be submitted to the local government council no later than one month before the start of the budget year. The council should adopt the budget before the start of the fiscal year, although the act allows spending to start should this not happen. Article 25 of the act stipulates that the state must compensate local governments for any reduction in revenue or increases in expenditure arising from state level action. Article 46 of the State Budget Act establishes a formal consultation framework with local governments regarding issues such as transferable taxes, expenditure grants, and imposition of state functions.

2.2.2. Timeliness of Budget Documents (Advanced)

63. Article 115 of the Constitution requires the State Budget to be submitted to Riigikogu no later than three months before the beginning of the budget year. Article 118 stipulates that the State Budget passed by the Riigikogu comes into force at the beginning of the budget year. The same article allows for spending in case the budget is not adopted at the start of the budget year on the basis of one-twelfth of the previous year's budget for the first two month, after which, according to Article 119, the President shall declare extraordinary elections. Article 27 of the State Budget Act defines the budget year as January 1 to December 31.

64. The timetable required by law has been fully respected in the last six years (Table 2.6). Following adoption by Riigikogu, the budget act is sent to the President for signature and then published in the official gazette. In all years, the budget has been gazetted before the start of the budget year.

Table 2.6. Estonia: Dates of Budget Submission and Approval, 2015–20

	Required by	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Submission to Riigikogu	3 months before the start of budget year (end of September)	09/24/14	09/29/15	09/28/16	09/27/17	09/26/18	09/25/19
Final approval by Riigikogu	Before the start of budget year (January 1)	12/10/14	12/09/15	12/19/16	12/13/17	12/12/18	12/11/19

Source: Riigikogu website

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Advanced)

65. Estonia's fiscal policy objectives are set out in accordance with provisions of the State Budget Act, 2014. Chapters 1 and 2 of this law defines a number of fiscal policy objectives for central government and the wider general government sector and sets out a framework for reporting on them, as well as outlining the role of the Fiscal Council in assessing them. The law makes reference to the relevant EU fiscal policy directives that Estonia must observe as a member of the Eurozone, and sets out Estonia-specific fiscal policy rules that align with these directives.

66. The government provides regular public reporting on its compliance with the structural deficit fiscal rules, and achievement against this objective is assessed by the

Fiscal Council (also see 2.4.1). The State Budget Strategy in spring and the draft next year's draft budget in September outline the government's plans for achieving the fiscal rules as part of a broader discussion of national and international economic developments. The annual State Budget documents produced in the autumn summarise the government's plan for meeting fiscal policy rules in the forthcoming annual budget and over the medium term. The government also reports to the European Commission on compliance with both European and its own national fiscal rules through its annual Stability Programme document.

67. Government reporting on compliance focuses almost exclusively on the structural deficit rule and provides only implicit reporting of the other rules. The discussion of the spring and summer macroeconomic forecasts in the State Budget Strategy and the annual budget plan provides a great deal of detail on performance against the structural deficit rule. The fiscal rules targetting the financial position of individual central government institutions are not expressly reported on, although the MoF considers this to be implicitly reported through the annual budget process. The debt rule is not explicitly mentioned in recent reports, although this may be because Estonia's general government debt has been very low in recent years, at 8.4 percent of GDP in 2019, although rising to 18.5 percent by October 2020 as a result of Covid-19 related borrowinwg. Explicit reporting on performance against all fiscal rules would strengthen the fiscal policy reporting process. Regarding the structural balance rule, the Fiscal Council reports its opinion each year regarding whether the government has met the requirements of the relevant legistlation for the preceding year, as summarized in Table 2.7 below. In the four years presented, government met the requirements of the relevant rule in half of the years. In 2020, the government suspended the fiscal rules by triggering the emergency clause in Section 9 of the 2014 Act to allow government to deal with the impact of the Covid-19 pandemic.

Table 2.7. Estonia: Fiscal Council Opinions on Achievement of Structural Balance Rule, Fiscal Years 2016–19

Fiscal year	Date of opinion	Fiscal Council opinion on achievement of the structural balance rule
2015	July 2016	The Fiscal Council finds the outcomes for the fiscal year 2015 to be in line with the current legal framework and with the budget policy targets set for this year.
2016	July 2017	The Fiscal Council finds that based on the current estimate, the general government structural budget position for 2016 is in line with the State Budget Act
2018	April 2019	The Fiscal Council finds that the target set for the structural fiscal position in 2018 went unmet.
2019	April 2020	The Fiscal Council finds that the government did not meet its budget targets for 2019 or the requirements of the correction mechanism that are necessary if structural balance is to be regained.

Source: Estonian Fiscal Council reports; note that the fiscal rule changed during 2017 and no opinion for this fiscal year is available on the Fiscal Council website.

68. The fiscal rules were amended in 2017 and further amendments have been considered by the MoF. The 2017 changes allowed more flexibility in operating the structural deficit rule in light of previously accumulated surpluses. The new amendments being considered in 2019, that would also have had the effect of loosening the structural deficit rule, have been suspended in light of the rapid and significant deterioration in fiscal circumstances as a result of the Covid-19 pandemic. Caution should be exercised regarding amending fiscal rules too often. As noted by the Fiscal Council, frequent amendment of fiscal rules risks undermining their credibility and therefore their ability to guide fiscal policy in line with stated policy objectives.

2.3.2. Performance Information (Basic)

69. A major performance budgeting reform first piloted in 2019 has been rolled out in the 2020 budget to link expenditure more closely to results. Prior to this reform, some performance information – both past results and planned activities – could be found in the State Budget Strategy, and in other documents such as the Estonia 2035 Plan and sector development plans. However, this information was not comprehensive across all areas of policy nor clearly linked to the budget. In the 2020 budget documents expenditure programs are divided into 21 performance areas and 45 lower-level programs; each of which is supported by lower level measures, activities and service areas. Based on experience with the implementation in 2020, the performance areas in the 2021 budget was consolidated into 17 performance area. Specific costs are attached to each of these levels to enable government and Riigikogu to compare spending in each performance area and sub-division over time in relation to delivery of outputs and outcomes. This information is available in the State Budget, the budget explanatory documents, and in specific program documents available on ministries' websites.

70. Once the full performance reports against the 2020 budget becomes available, Estonia's score under this principle would improve. Reporting of the financial outturn and performance achieved against each program area in the State Budget is expected in 2021. Once this is done, a full cycle of program budgeting and reporting on it will link the resources spent to the results achieved in each program area. This would improve Estonia's assessment under this principle.

2.3.3. Public Participation (Not Met)

71. Budget documentation provides no accessible summary of the implications of the government's fiscal and budgetary policy for typical citizens; nor are there opportunities for them to participate in budget deliberations. Key government documents produced over the budget cycle (e.g., spring and summer macroeconomic forecasts, medium-term budget stategy, annual State Budget, annual report of the state) are technical documents intended for a relatively expert audience. While MoF does often produce summary slides of its macroeconomic forecasts; this has not been consistently done in each year and the information included is again at a relatively technical level. The budget contains no systematic distributional analysis of the impact of the government's tax and spending proposals on different groups of citizens and households.

72. There is also no specific opportunity for citizens to provide input into the State Budget preparation process, although local governments do provide for such input. The MoF website provides general contact details but it does not provide a formal means of encouraging and/or organizing citizen input into the budget process. In practice, business, labor, and other economic interest groups have informal contact with the MoF over the course of the budget year to feed their views into the policymaking process. Local governments, in contrast, do manage a formal process of citizen consultation in the development of their budgets.

2.4. Credibility

2.4.1. Independent Evaluation (Advanced)

73. Estonia established an independent Fiscal Council in 2014 to evaluate forecast credibility and fiscal performance, in line with the EU fiscal governance framework for Member States. The Fiscal Council, established by an amendment to the Bank of Estonia Act of 1993, operates as a small independent unit located within the Bank of Estonia. The unit consists of six members,[37] all in their second five-year terms of office, supported currently by three part-time economists on the payroll of the Bank of Estonia. Although financially dependent on the Bank of Estonia, the Fiscal Council's independence is established under Article 4.2 of the Bank of Estonia Act. Article 4 also defines the tasks and specifically requires them to provide its opinion on the objectives of the general government structural budget position presented in the Budget Strategy and Stability Programme, as well as on its achievement for the previous budgetary year, prior to the budget's approval. Unlike some Fiscal Councils in the region, the Estonian Fiscal Council does not have the capacity to prepare its own forecasts or undertake much in the way of analytical work.

74. Opinions of the Fiscal Council are posted on its website and presented to the Riigikogu as well as the media. The Fiscal Council must provide its opinions within two weeks of the macroeconomic and fiscal forecasts being published, after which the MoF has two weeks to justify disregarding the opinion should it choose to do so. To date the Fiscal Council has provided its opinions on time at the key stages of the budget calendar and has enjoyed a highly cooperative relationship with the MoF which has readily provided the Fiscal Council access to the data and information it needs to perform its assigned tasks.

75. The opinions of the Fiscal Council have generally endorsed the MoF projections, with some concerns expressed in recent years over adjustment timeframes and fiscal rule changes. The opinion in 2020 expressed some concern over the timeframe for post-Covid-19 adjustment, arguing for a faster return to pre-crisis fiscal policy than the government proposed. It has also raised concerns in recent opinions about the frequency of changes to the fiscal rules —changes were made in 2017 and the MoF was considering making further changes in 2019

[37] The chair is a professor of macroeconomics at the University of Tartu, and of the other members 2 are from the Bank of Estonia – Deputy Governor and Head of the Economics and Research Department – one is from the private sector and the other two from academia (also University of Tartu).

primarily aimed at relaxing the requirement to compensate accumulated deficits with surpluses in times when GDP growth is higher. While the 2019 changes have now been shelved, the Fiscal Council considers that its concerns about frequent changes remain valid, especially where these are done to avoid breaking the fiscal rule (although the national rule is stricter than the EU requirements).

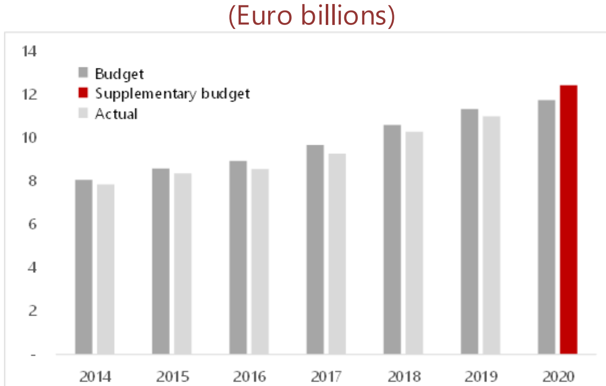
2.4.2. Supplementary Budget (Advanced)

76. Any change to the total appropriation requires ex-ante Riigikogu approval, while all other changes allowed by law must also be reported ex-ante to Riigikogu. The State Budget Act strictly regulates reallocations within the budget[38] and requires the government to submit a State Budget Amendment Act no later than two months before the end of the budget year to regularize these reallocations (Article 43). Should the government decide to increase or reduce total appropriation, it must submit a Supplementary Budget Act for approval no later than three months before the end of the budget year (Article 44).

77. A supplementary budget was adopted in 2020 for the first time in a decade due to the exceptional circumstances related to the Covid-19 pandemic. The Supplementary Budget Act of April 2020 projects an 11.6 percent shortfall of revenue (EUR 1.4 billion), a 6 percent increase in spending (EUR 0.7 billion) over the original budget, to be covered by additional financing needs of EUR 2 billion. Prior to 2020 supplementary budgets were not considered necessary as spending has remained consistently within the overall budget ceiling—in the 6 years up to 2019, outturns averaged around 97 percent of initial budget (Figure 2.5).

Figure 2.5. Budgeted versus Actual Expenditure, 2014–20

(Euro billions)



Source: Consolidated Annual Reports for the State – 2014 to 2019. Original and Supplementary Budget Acts of 2020.

[38] Article 56 allows up to 5 percent change to indirect costs within a program within an overall cap of 0.25 percent change within an expenditure area. Exceptions are made for externally funded spending, defense related spending and changes related to reorganization.

2.4.3. Forecast Reconciliation (Basic)

78. **The mid-year State Budget Strategy and Stability Programme includes an appendix table summarizing changes in forecasts from the previous year's vintage.** Table 2.7. taken from the 2020–23 budget strategy document presents changes between the 2018 and the 2019 medium-term forecasts for real and nominal GDP, consumer price index, nominal budgetary position, and debt of general government. However, changes in revenue and expenditure are not included and there is no accompanying explanation to the table.

79. **The fiscal framework section of the State Budget Strategy for 2020–23 does however include a discussion of fiscal policy objectives and tabulates the impact of revenue and expenditure measures.** As explained in the State Budget Strategy, the measures shown in Table 2.8 are aimed at limiting the structural deficit to 0.4 percent of GDP in 2020 to avoid breaching the fiscal rules and at achieving a balanced budget from 2021 onwards.

Table 2.8. Estonia: Comparison Between Vintages of Stability Programs

	2018	2019	2020	2021	2022	2023
Real GDP growth (percent)						
• Previous version	4.0	3.2	3.0	2.9	2.9	-
• Current update	3.9	3.1	2.7	2.7	2.6	2.5
• Difference	-0.1	-0.1	-0.3	-0.2	-0.3	-
Nominal GDP growth (percent)						
• Previous version	7.6	6.3	5.8	5.4	5.4	-
• Current update	8.6	6.0	5.5	5.3	5.0	4.9
• Difference	1.0	-0.3	-0.3	-0.1	-0.4	-
Harmonized consumer price index (TPI) (percent)						
• Previous version	3.0	2.5	2.6	2.1	2.1	-
• Current update	3.4	2.2	2.3	2.1	2.1	2.1
• Difference	0.4	-0.3	-0.3	0,0	0.0	-
Nominal budgetary position of general government (percent of GDP)						
• Previous version	0.2	0.5	0.4	0.2	0.1	-
• Current update	-0.5	-0.4	0.1	0.4	0.3	0.2
• Difference	-0.7	-0.9	-0.3	0.2	0.2	-
General government debt (percent of GDP)						
Previous version	8.5	7.7	6.9	6.2	5.3	-
Current update	7.9	8.2	7.7	7.1	6.5	5.9
Difference	-0.6	0.5	0.8	0.9	1.2	-

Source: State Budget Strategy 2020-23 and Stability Programme 2019, Appendix I, Table 8.

80. **Furthermore, the Draft Budget Plan submitted to the EU in mid-October includes, in addition to updated fiscal policy objectives and related revenue and expenditure measures, projections based on a no-policy change scenario.** While this provides a useful baseline for the revenue and expenditure measures, it does not present the differences between the no-change scenario and previous forecasts. In contrast, the Budget Memorandum submitted alongside the Draft State Budget Act does not include any substantial discussion of forecast changes from previous vintages.

Table 2.9 Estonia: Revenue and Expenditure Measures — 2020–23 Budget Strategy

(Percent of GDP)

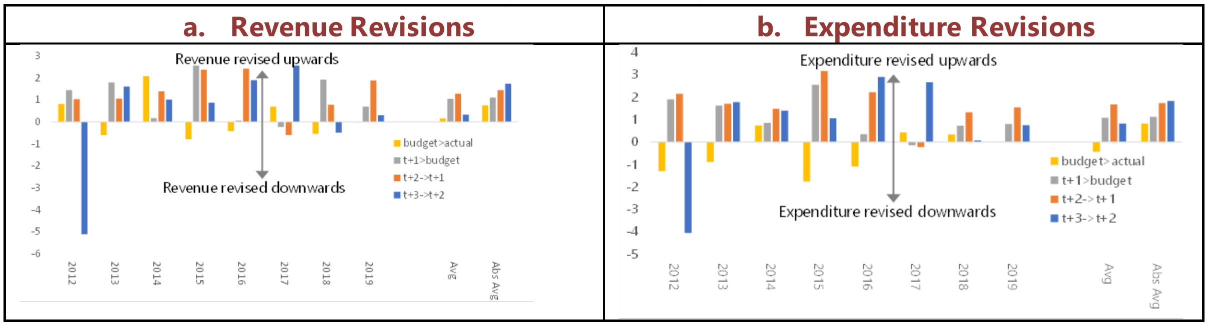
Measure	2019	2020	2021	2022	2023
Taking into account revenue from the new external funds period	-	-	0.33	0.94	0.60
Reduction of excise duty on alcohol	-0.04	0,01	0,01	0,01	0,01
Staggering the rise of excise duty on tobacco	-	-0.02	-	0.02	0.04
Effect of the higher price of CO2 on the budget position	-	0.07	0.06	0.04	0.03
Additional dividends with income tax	-	0.08	0.22	0.04	-
Shift in selling and additional sales of frequency licenses	-0.06	0.06	0.05	-	-
Additional income tax exemption for pensioners	-	-0.05	-0.06	-0.07	-0.07
Other revenue	-	0.01	0.02	-	-
Total revenue measures	**-0.10**	**0.15**	**0.63**	**0.99**	**0.61**
Changes in operating expense and activity grants	-0.01	0.11	0.09	-0.08	-0.11
Changes in investment	-	0.15	0.18	0.17	-0.09
Changes in social expenditure	-	-	-0.01	-0.02	-0.03
Increase in transport grants	-	-0.03	-0.03	-0.03	-0.02
Other expense	-	-	-	-	-0.01
Total expenditure measures	**-0.01**	**0.22**	**0.22**	**0.04**	**-0.26**
TOTAL	**-0.11**	**0.37**	**0.85**	**1.03**	**0.35**

Source: State Budget Strategy 2020-2023 and Stability Programme 2019, Table 65

81. **Estonia's practices related to forecast reconciliation only partially meet the requirements under this principle, although much of the information needed for reconciliations is available in different parts of the budgetary documentation.** The State Budget Strategy table of vintage changes for five indicators and the table of impacts of policy measures shown above only partially address the comparison requirement of the law and the reconciliation standards expected under this principle. The practices do not appear to fully address the requirement of Article 25 of the State Budget Act of 2014 which stipulates that the State Budget Strategy should include a "comparison between the previous and updated budget strategy if the policy objectives have changed compared to the previous budget strategy." The Budget Memorandum submitted to the Riigikogu in September does not provide any updated comparison between forecast vintages.

82. **A more comprehensive reconciliation between vintages of forecasts could help explain the not insignificant revisions to revenue and expenditure projections over the years.** As can be seen in Figure 2.6, while forecast revisions for budget year tend to be quite small, revisions to years 2–4 range between 1 and 2 percent of GDP.

Figure 2.6. Revisions to Medium-Term Plans, 2012–19
(Percent of GDP)



Source: Stability program. IMF staff estimates

2.5. Conclusion and Recommendations

83. Estonia's fiscal forecasting and budgeting practices follow good or advanced practices in many areas. The assessment against the code, summarized in Table 2.9, shows that the budget, framed in the context of prudent independently-assessed medium-term forecasts and spending plans, is submitted and adopted in a timely manner, and implemented as planned, in accordance with the provisions of a comprehensive legal framework.

84. There is scope, however, to enhance transparency and accessibility of the budget documentation. Transparency of the medium-term budgetary forecasts can be enhanced by presenting outturns of previous two years and current year estimated outturn alongside 4-year projections, while the transparency of the budget documentation can be improved by providing further information on own-revenue of extrabudgetary funds and social security funds and on total costs of investment projects, as well as by providing more detailed reconciliation between forecast vintages. The assessment notes that transparency of the budget document will be further enhanced once the current program/performance approach has completed a full budget cycle. Finally, accessibility of the budget documentation to the broader public would be improved by the publication of an annual citizen's guide to the budget

85. Based on the above assessment, the evaluation highlights the following priorities for improving transparency of fiscal forecasts and budgets:

Recommendation 2.1: Strengthen budget unit by including extrabudgetary funds and social security funds' financial plans in budget annex; and by introducing a regulatory cap on size of carryovers. (MoF, for 2022 budget)

Recommendation 2.2: Improve the transparency and effectiveness of investment decisions by implementing the recommendations of the PIMA report, including:

- Publish total project costs in budget documents;
- Standardize and publish project appraisals for large projects;
  (MoF and LMs, medium term)

Recommendation 2.3: Facilitate improved citizen understanding of, and involvement in, the budget process by:

- Developing a 'Citizens Guide' to the annual budget containing in non-technical terms a summary of the macroeconomic situation and the government's tax and spending plans alongside a distributional analysis of the budget's impact on different types of citizens and households. (MoF, 2022 budget); and
- Implementing a formal process for encouraging citizen participation in the budget process. (MoF, 2022 and 2023 budget.)

Recommendation 2.4: Include a comprehensive forecast reconciliation table, accompanied by explanations, in the budget strategy and an update in the budget memorandum. (MoF, for 2023-2026 budget strategy.)

Table 2.10. Estonia: Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	**Budget Unity**	**Basic:** Significant own-source revenue not reflected in the budget; no limit on carryovers.	**Medium:** Own source revenues of 3.7 percent of GDP not reflected in budget; carryovers amount to 5 percent of expenditure.	2.1
2.1.2	**Macroeconomic Forecasts**	**Advanced:** Budget documentation includes forecasts and explanations of key macroeconomic variables, their components and assumptions.	**Medium:** Absolute average error of Estonia's real GDP forecast for the budget year is 1.5 percent, higher than the EU average.	
2.1.3	**Medium-Term Budget Framework**	**Good:** Mid-year budget strategy provides reliable projections and establishes ceilings, but actual outturns are not shown alongside projections.	**Low:** Revenue and expenditure forecasts have deviated from outturns by 2 percent of GDP in the third year, deviations in the second and first years have been 1 percent or less.	
2.1.4	**Investment Projects**	**Basic:** Procurement is through open and competitive tender, but total project costs are not published, and appraisal methodology is not standardized.	**Medium:** Annual public investment budget (5 percent of GDP) are not monitored centrally; projects are not tracked for potential cost overruns and delays; information on total project costs is not readily available.	2.2
2.2.1	**Fiscal Legislation**	**Advanced:** Comprehensive fiscal legislation defines key dates, budget documents and responsibilities	**Low:** In-year budget comparable execution reporting is not adequately prescribed.	
2.2.2	**Timeliness of Budget Documents**	**Advanced:** Budget submitted in September to Riigikogu and adopted in December in last 6 years	**Low:** Deadlines strictly adhered to even in election years and under the current Covid-19 related crisis	
2.3.1	**Fiscal Policy Objectives**	**Advanced:** Numerical fiscal rules set out in law and government regularly reports performance against them.	**Medium:** Adjustments to the fiscal rules and not meeting targets in two of four years risk undermining its credibility; some fiscal rules are not explicitly reported on.	
2.3.2	**Performance Information**	**Basic:** Actual outcome of performance information currently not yet available.	**Low:** Programs implemented in 2020 Budget – once performance reports become available in 2021 it will lead to significant improvement in Estonia's assessment	
2.3.3	**Public Participation**	**Not met:** No provision for formal participation of citizens in the budget process; budget documentation does not include easily accessible explanations of budget impact on ordinary citizens	**Medium:** Improving public participation in and understanding of the budget would enhance public buy-in and taxpayer responsibility at relatively low cost	2.3
2.4.1	**Independent Evaluation**	**Advanced:** Fiscal Council established in 2014 evaluates spring and summer forecasts and reviews fiscal outcomes	**Low:** Fiscal Council regularly publishes opinions prescribed by law, but in-depth analysis and research limited by capacity constraints	
2.4.2	**Supplementary Budget**	**Advanced:** The conditions for using supplementary budgets are well regulated and rarely used	**Low:** Only one supplementary budget in recent years linked to 2020 Covid-19 pandemic	
2.4.3	**Forecast Reconciliation**	**Basic:** Vintage changes reported for 5 macro indicators published along with impact of new revenue and expenditure policies. However, reconciliation remains partial and explanations limited.	**Medium:** Revisions of 1 to 2 percent of GDP for years 2-4 demand clearer explanations	2.4

III. FISCAL RISKS

86. Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of Estonia's fiscal risk analysis, management and reporting practices against the standards set by three dimensions of the IMF's FTC:

- General arrangements for the disclosure and analysis of fiscal risks;
- The management of risks arising from specific sources, such as government contingencies and guarantees, public-private partnerships, and the financial sector, and;
- Coordination of fiscal relations and performances between central government, local governments, and PCs.

87. Estonia discloses information on fiscal risks in a number of fiscal documents that come from various sources (Table 3.1). Many of these are produced by the MoF through the annual fiscal policy and budget cycle comprising twice-yearly macroeconomic forecasts and medium-term and subsequent annual budget proposals. Other information relevant to fiscal risk reporting is disclosed annually in reports such as the Consolidated Annual Report of the State and SOE Ownership Report. Institutions outside the MoF that contribute fiscal risk information include the Bank of Estonia, Eurostat, and other EU working groups.

Table 3.1. Estonia: Reports Related to Fiscal Risks

Report	Related Risks and Issues	Author
State Budget Strategy Stability Programme of Estonia	Medium-term macroeconomic risks, including scenario analysis; government debt and deficit plans; implications for expenditure and revenue; and forecasts for the long-term sustainability of government finances	MoF (annually)
Liabilities of the State Treasury	Liabilities of the State Treasury in the form of debt, listed by bond amount, date issued, maturity of bond, overall average maturity, and credit ratings. Comparison with total general government debt is updated annually.	MoF (updated quarterly)
Financial Stability Review	Financial sector resilience and overall macro-fiscal risks from the financial sector	BoE (twice a year)
Consolidated SOE Annual report	Adherence to SOE governance and transparency guidelines, disclosure and costing of noncommercial activities, and sector and individual SOE financial performance	MoF (annually)
National Risk Assessment	An assessment of various threats that could impact Estonia, including both environmental and other (nuclear, cyber-attacks)	MoI (annually)
Consolidated Annual Report of the State	Central government, general government, and public sector assets and liabilities; and change in these assets and liabilities over preceding years.	MoF (annually)
Pensions sustainability review	Sustainability of the current pensions system under various demographic, macroeconomic, and policy scenarios	MoF (every five years from 2023)
EU Ageing Working Group	Sustainability of public finances under the pressure of health, pensions, and other age-related expenditure, as forecast under various demographic and macroeconomic scenarios	EU with Estonia country contribution (every three years, next due 2021)
Local government financial capability radar	Monitors local government developments aimed at early detection of risk of financial difficulties	MoF (annually)

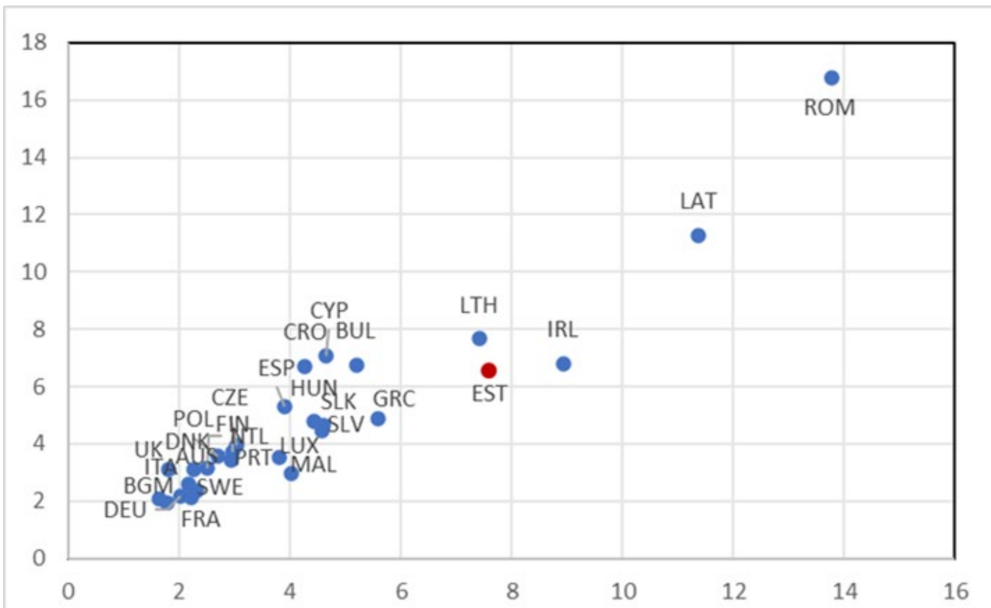
Notes: MoI = Ministry of Interior, MSSL = Ministry of Social Security and Labor, MoH = Ministry of Health

3.1. Disclosure and Analysis

3.1.1. Macroeconomic Risks (Good)

88. Estonia faces a relatively high level of macroeconomic volatility. Standard deviations of growth in nominal GDP and revenue are higher than most other EU countries, but on a similar level to smaller comparable countries in the region (Figure 3.1). This reflects Estonia's situation as a small and open economy that is heavily integrated with its European neighbours. This relatively high volatility puts a premium on the importance, understanding, and management of macroeconomic risk.

Figure 3.1. Volatility of Nominal GDP and Revenue Growth 2000–19
(standard deviations compared to average trend over period)



Source: World Economic Outlook

89. The twice-yearly spring and summer macroeconomic forecasts contain a short risk scenario setting out what the main fiscal aggregates could look like under a set of more pessimistic assumptions. The risk scenario considers the impact of these more pessimistic assumptions, but does not provide a probablistic estimate of the likelihood of this situation occuring. The risk scenario is much less detailed than the main forecasts. It identifies the risk scenario through a short analysis of the potential negative impacts of global and regional economic trends on Estonian GDP growth. Forecast values for aggregate fiscal variables based on the risk scenario are provided, but a detailed breakdown of the these into the main sub-categories is not provided; nor does it provide a full discussion of all relevant macroeconomic variables that determine those fiscal outcomes. The risk scenario is presented as a single standalone alternative fiscal forecast rather than as a series of possible outcomes in the manner of a sensitivity analysis.

Table 3.2. Estonia: Summer 2019 Macroeconomic Forecast Base and Risk Forecast

	Risk scenario			Difference from base forecast		
EUR millions	2019	2020	2021	2019	2020	2021
General government budgetary position	-69	-105	-233	-1	-149	-234
Central government	-105	-34	-45	-1	-83	-117
Social security funds	52	0	-37	0	-42	-76
Local authorities	-17	-71	-151	0	-24	-41
% of GDP						
General government budgetary position	-0,3%	-0,4%	-0,8%	0,0%	-0,5%	-0,8%
Central government	-0,4%	-0,1%	-0,2%	0,0%	-0,3%	-0,4%
Social security funds	0,2%	0,0%	-0,1%	0,0%	-0,1%	-0,3%
Local authorities	-0,1%	-0,3%	-0,5%	0,0%	-0,1%	-0,2%

Source: MoF Summer 2019 macroeconomic forecast

90. Other budget documents contain some discussion of alternative fiscal forecasts and a basic sensitivity analysis. The State Budget Strategy 2019 summarizes the summer forecast and discusses differences between it and the European Commission forecast for debt and deficit-related fiscal variables. A short sensitivity analysis discusses these forecasts in relation to a change in interest rates. The spring and summer macroeconomic forecasts and the Stability Programme 2019 contains a comparison of government macroeconomic and fiscal forecasts with those from other private and public forecasting institutions (both Estonian and international) alongside limited discussion as to the differences between them. It also contains an explanation for divergences between the previous year's plans and actual outturn.

3.1.2. Specific Fiscal Risks (Not Met)

91. Government does not publish a summary statement of the main risks to public finances, nor do they collate such a report for internal use. Nevertheless, a relatively large amount of information on fiscal risks is available to policymakers. Components of information on risks are presented in various reports, analyses, and modelled scenarios produced through different policy processes. However, they are not formally brought together in one institutional process for comprehensive review. This informal approach makes holistic consideration of short, medium, and long-term fiscal risks across the public sector more difficult to undertake. It also reduces transparency, since it does not result in a published document for external users.

92. Estonia is exposed to a range of specific fiscal risks with a maximum total exposure of 110.3 percent of GDP (Table 3.3). The main risks are from the government's backstopping of the depositor guarantee fund, liabilities in public corporations, and contingent liabilities of government. While collectively these risks are sizeable, many of them have a relatively low—arguably even remote—likelihood of materialization and are currently managed within existing processes and procedures. Including the long-term demands of health expenditure in the context of an ageing population and implicit social security pension liabilities dramatically increase this total by a further 266.9 percent of GDP.

Table 3.3. Estonia: Exposure to Selected Fiscal Risks

Specific fiscal risk	Maximum exposure (€ million)	Percent of 2019 GDP	Institution reporting / Source of estimate/Publicly reported
General government			
Explicit contingent liabilities	5 199	18.5	MoF, annual state report, public
o/w ownership interest in international institutions	*1 538*	*5.5*	MoF, annual state report, public
o/w guarantees given	*386*	*1.4*	MoF, annual state report, public
o/w EFSF	*1 543*	*5.5*	MoF, annual state report, public
o/w grant award and pass through liabilities	*437*	*1.6*	MoF, annual state report, public
Public sector			
Total liabilities (excluding equity) of financial and non-financial public corporations	11 622	41.3	MoF – total outstanding liabilities excl. equity in adjusted public sector balance sheet*
Financial sector			
Maximum extent of deposit insurance guarantee (net of assets)	14 017	50.0	MoF, depositor guarantee fund, not publicly reported
Contingent events			
Natural disasters	130	0.5	Last recorded incident for Estonia in Emergencies database
Long-term risks			
NPV of health spending change (2019-2050)	6 266	22.3	IMF Fiscal Monitor
Social security pension liabilities	68 772	244.6	IMF staff estimates included in PSFS

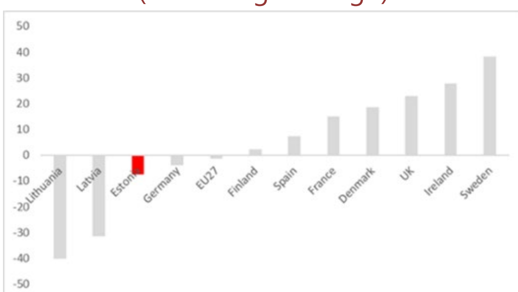
Source: IMF staff calculations. * the unadjusted public sector balance sheet is publicly reported.

3.1.3. Long-term Sustainability of Public Finances (Good)

93. The MoF sets out long-term fiscal projections related to ageing in its annual State Budget Strategy and Stability Programme and as part of the three-yearly EU Ageing Working Group reports. Recent documents contain forecasts for fiscal aggregates to 2060 (2017, 2018) and 2070 (2019). The 2020 State Budget Strategy/Stability Programme does not continue this practice, but this is recognized as an exception given the fiscal uncertainty generated by the impact of Covid-19. The EU Ageing Working Group process produces cross-country analytical reports on the impact of ageing populations on macroeconomic variables and public finances every three years. Each supporting country profile includes a long-term projection for health, pensions, and other age-related spending in the context of a summary fiscal forecast. The cross-country analysis contains a 'baseline' and 'risk' scenario for main areas of age-related spending. In addition, and as part of the budget process, the MoF publishes a macroeconomic forecast to the year 2070.

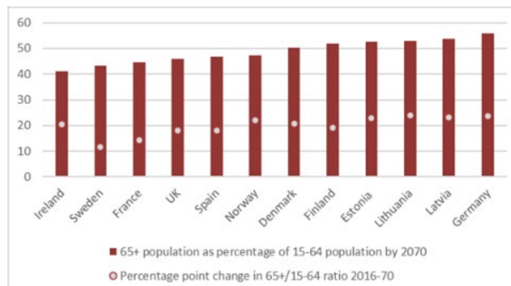
94. Long-term fiscal forecasts are necessary given Estonia's long-term population dynamics. In line with the other Baltic states, but in constrast to Nordic and other Western European countries, Estonia's population is expected to decline by 8 percent by 2070, primarily due to relatively low birth rates (Figure 3.2). This will occur alongside a 40 percent increase in the old-age dependency ratio, defined as the percentage of population that are 65+ compared to 15–64 old population.This is broadly in line with the EU average and many comparator countries (Figure 3.3). A shrinking and ageing population will put additional demands on public spending.

Figure 3.2. Expected Change in Population 2015–70, Selected Countries
(Percentage change)



Source: Eurostat

Figure 3.3. Old-Age Dependency Ratios by 2070, Selected Countries

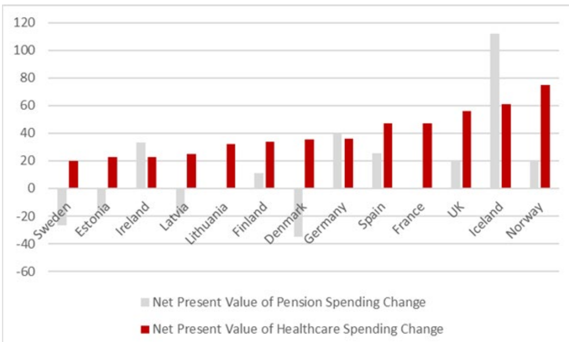


Source: Eurostat

95. Current projections suggest a significant long-term rise in healthcare spending that is partially off-set by declining spending on pensions—if current policies persist. According to the IMF Fiscal Monitor the net present value of the estimated change in healthcare spending up to 2050 is estimated at 23 percent of 2019 GDP. This will be partially offset by a projected fall in the net present value of public pension spending of 16 percent of 2019 GDP over the same period (Figure 3.4). This reflects the relatively low replacement rate of Estonian pensions compared to other countries. In light of the already quite high levels of pensioner poverty that are expected to grow along with the aged population in absolute terms under current policies, this raises concerns about the long-term social viability of the public pension system.

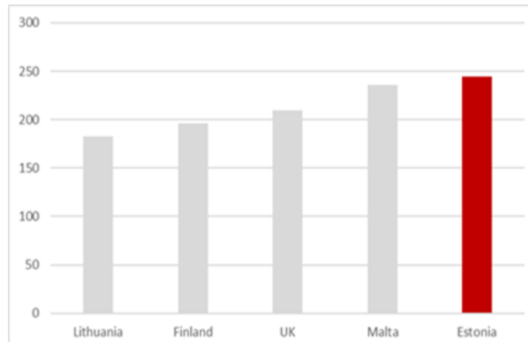
96. Estonia also incurred implicit social security pension liabilities that are not recorded on the public sector balance sheet in a similar way to other countries in the region. These are presented in the public sector financial overview in Table 0.2 as a memo item. Whereas public sector employee pension liabilities represent a legal and/or contractual obligation between government and its current and former employees, social security pensions typically cover employees in the private sector and represent entitlements which are amenable to policy changes by government. Estonia carries the highest level of social security pension liabilities among countries that have recently undergone an FTE and for whom an estimation has been made (Figure 3.5). While these liabilities do not, strictly speaking, directly accrue to the public sector, government is likely to face significant political pressure to ensure that pensions entitlements are honored – meaning that these liabilities represent a form of fiscal risk.

Figure 3.4. Projected Change in the Net Present Value of Pensions and Healthcare Spending for Selected Countries, 2019–50
(Percentage of 2019 GDP)



Source: IMF Fiscal Monitor, October 2018

Figure 3.5. Social Security Pension Liabilities, Selected Countries
(Percentage of 2019 GDP)



Source: IMF estimates from recent FTEs. Estonia figure is 2019; Lithuania, 2015; Malta, 2016; Finland, 2013; and UK, 2014/15

97. The government produces regular long-term forecasts of pensions sustainability through two processes. Government is obliged by the State Pension Insurance Act (2001) and the Funded Pensions Act (2004) to periodically prepare an analysis of the financial sustainability of the pensions system. The first analysis was done in 2016 and resulted in a published document containing analysis, alternative scenarios based on different demographic assumptions, and options for reform of the system. The next analytical study is expected in 2023 and then every five years after that. Estonia also participates in the European Commission's Ageing Working Group. This process also results in country-specific analysis of long-term expenditure on pensions under various demographic and economic scenarios.

98. The long-term sustainability analysis of the Health Insurance Fund is also regularly done, but it is not published. In 2014, the fund that finances the bulk of national health expenditure published a sustainability analysis for the fund up to 2060. This initial analysis was then adapted for regular internal use and the results are presented annually to the supervisory board of the fund. While the results of this analysis are shared with the MoF, it is not mandated by law or regulation, nor routinely published, as is the case for pensions sustainability analysis.

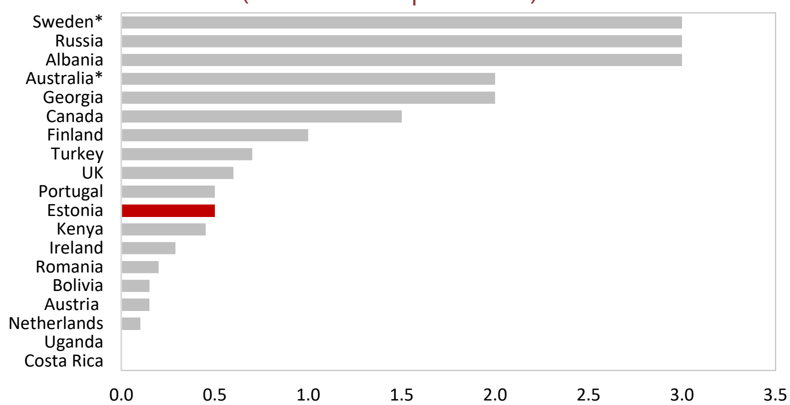
3.2. Fiscal Risk Management

3.2.1. Budgetary Contingencies (Good)

99. The annual budget contains reserves to deal with unexpected spending. A reserve fund (the Vabariigi Valitsuse reservi), regulated under the State Budget Act (Section 58), is appropriated as part of the annual budget. Following regulation RT I, 05.08.2014 the MoF then divides this into the "Unforeseen Expenditure Reserve" (Sihtotstarbeta Reserv) and the "Special Purpose Reserve" (Sihtotstarbeline Reserv). The former is the principle contingency reserve, with spending from the reserve averaging 0.5 percent of GDP between 2016 and 2019 (Figure 3.6). The Special Purpose Reserve is issued during the annual budget for known expenditure where it has yet to be decided under which ministry this expenditure shall be allocated.

Figure 3.6. Size of Contingency Reserves in Select Countries

(Percent of Expenditure)



Source: IMF Fiscal Transparency Evaluations and other IMF staff estimates.

*Indicates reserve at end of MTBF

100. There are general criteria for the use of reserves, but no restrictions on the types of spending that may be funded from them. The State Budget Act states that the Unforeseen Expenditure Reserve is for "unforeseeable expenditure, investments and financing transactions which cannot be planned in the legislative proceeding of the draft State Budget." Procedures for the allocation of funds from the reserve are set by regulation, with the MoF overseeing the process. Requests for funds must be accompanied by an explanatory memorandum in which "a detailed calculation of the requested amount, justification of the necessity to allocate funds, analysis of possibilities to cover expense at the cost of available resources, and other relevant information" should be included.

101. Monthly budget execution reports do not report on the allocation of contingency expenditure during the year. Nevertheless, Finance Orders are published on the government website detailing some allocations.[39] A breakdown of allocations is published in the Consolidated Annual Report of the State[40] and spending is audited by the NAO and the reports published. The audit reports of the NAO have noted that some spending from the reserve may not be accurately classified as 'unforeseen.' Estonia also has a larger stabilization reserve that operates more as a sovereign wealth fund than contingency reserve and that is designed to

[39] See for example https://www.riigiteataja.ee/akt/315082020001.

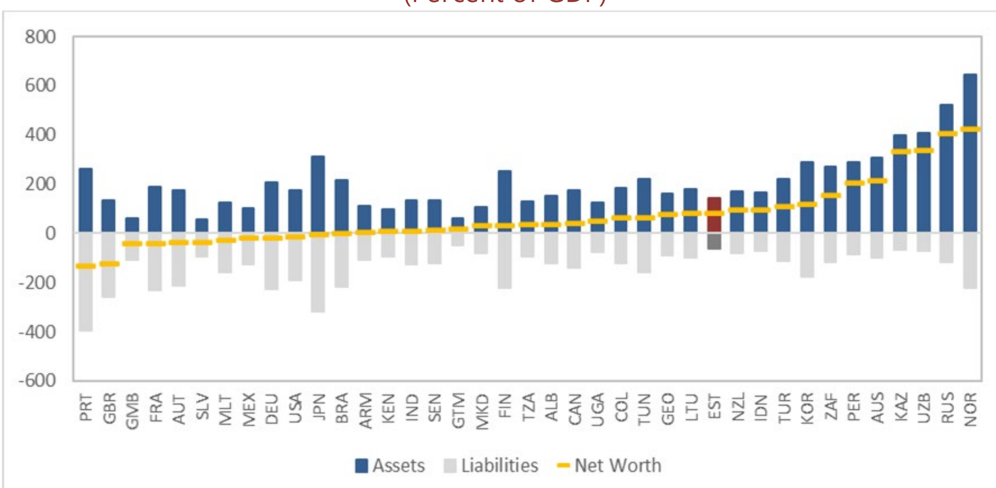
[40] See Table "Vabariigi Valitsuse reservi kasutamine" in the Consolidated Annual Report of the State.

cover "extraordinary situations or a crisis with material effect." No expenditure has been incurred from this fund since 2009.

3.2.2. Management of Assets and Liabilities (Good)

102. The Consolidated Annual Report of the State disclose overall assets and liabilities through consolidated PSFS that include a balance sheet. The balance sheet sets out central government, general government, and public sector assets and liablities (also see 1.1.2). For 2019, the public sector held total assets of EUR 40,344 million (143.5 percent of GDP) and liabilities of EUR 17,333 million (63.1 percent of GDP) excluding implicit social security pension liabilities; yielding a net asset position of EUR 22,610 million (80.4 percent of GDP). This overall positive net public sector worth puts Estonia in a relatively strong position compared to many other countries (Figure 3.7 below).

Figure 3.7. Public Sector Balance Sheets and Net Worth, Selected Countries
(Percent of GDP)



Source: Estonia Consolidated Annual Report of the State 2019 and IMF estimates (Portugal, Russia 2012; Albania, Kenya, Peru, Tunisia, Turkey, 2013; Brazil, Guatemala, Tanzania, 2014; Austria, Uganda, 2015; Armenia, Australia, Canada, Colombia, El Salvador, Finland, France, Gambia, Georgia, Germany, India, Indonesia, Japan, Kazakhstan, Korea, Lithuania, Malta, Mexico, New Zealand, North Macedonia, Norway, Senegal, South Africa, United Kingdom, United States, Uzbekistan, 2016).

103. The MoF publishes several statements of its principles and plans in relation to specific aspects of asset and liability management, alongside analysis of certain risks. The government sets out a summary of its policy with regard to cash and liquidity management on its website alongside the legal requirements for managing public cash flow and the stabilization reserve.[41] Annual State Budget Strategies and Stability Programmes set out the government's medium-term borrowing strategy alongside an analysis of risks to that strategy. The government

[41] https://www.rahandusministeerium.ee/et/eesmargidtegevused/riigikassa/riigi-rahavoo-juhtimine-ja-finantsreservid

has also set out its principles for providing government loans or guarantees in a regulation.[42] The government's approach to managing its investments in SOEs is now guided by a January 2020 policy document.[43]

104. At a disaggregated level, key asset and liability analysis and information is published in various documents and other media:

- A breakdown of government borrowing and the state of the liquidity reserve are disclosed on a quarterly basis on the MoF website.[44]
- Government's debt situation, analysis of risks to its borrowing strategy, and forward plans are set out in the mid-year State Budget Strategy and Stability Programme.
- A full list of state loans on-lent and government guarantees is published and regularly updated.[45]
- Individual SOEs report quarterly on their finances and operations to their parent ministry; must report their finances every quarter on their website; and must report every year in line with general company financial reporting rules. All SOEs also input their financial data quarterly directly into the state accounting system at the SSSC.

105. Fiscal risks from government debt liabilities are limited at present. Estonia has a low—but rising—level of general government debt alongside substantial liquid reserves. Total general government debt was 8.4 percent of GDP at the end of 2019, rising to 18.5 percent by October 2020[46] with an average maturity of 7.34 years[47] (Figures 3.8 and 3.9). Although this is a steep and sudden rise, Estonia remains well within the debt limits set by national and European fiscal rules, and this debt level is low compared to that of similar countries. Estonia is a relatively high-rated borrower according to ratings agencies.[48] There are no exchange rate risks as government debt is entirely denominated in Euro. Liquid reserves are high at around 60 percent of government borrowing in 2020 and are managed centrally through an integrated Treasury Single Account (TSA) arrangement.

[42] https://www.riigiteataja.ee/akt/115042014013?leiaKehtiv

[43] https://www.rahandusministeerium.ee/sites/default/files/osaluspoliitika_pohimotted_20200116.pdf

[44] https://www.rahandusministeerium.ee/et/eesmargidtegevused/riigikassa/riigi-rahavoo-juhtimine-ja-finantsreservid

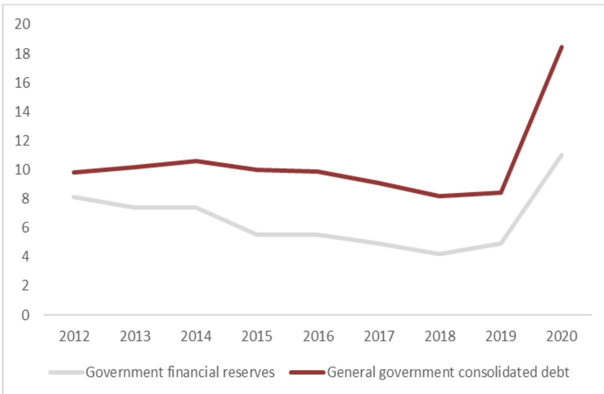
[45] https://www.rahandusministeerium.ee/et/eesmargidtegevused/riigikassa/riigi-finantsvarad-ja-kohustused/valitsuse-antavad-riigisisesed-laenud

[46] These values are from Eurostat, and relate to general government debt calculated on a 'Maastricht' basis.

[47] Debt includes currency and deposits, loans, and debt securities but excludes other accounts payable and insurance reserves on standardized guarantees.

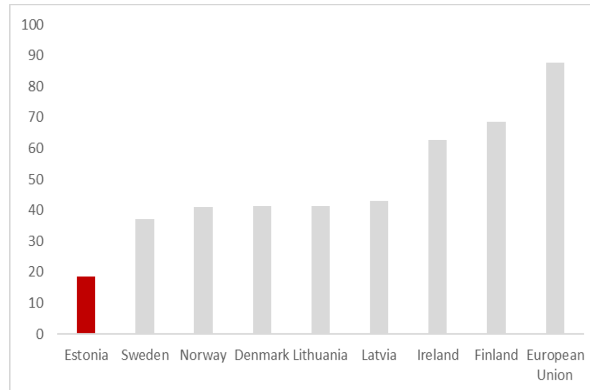
[48] According to the MoF website, for the three leading ratings agencies Estonia's credit rating is: AA- (Standard and Poors); A1 (Moody's); and AA- (Fitch).

Figure 3.8. Government Financial Reserves and Debt, 2012–20
(Percent of GDP)



Source: MoF
Note – 2020 figures are up to Q2 for debt, and up to Q3 for financial reserves

Figure 3.9. General Government Debt, Selected Countries, Q2 2020
(Percent of GDP)



Source: Eurostat

106. **A well-established legal framework regulates key aspects of asset and liability management.** The State Budget Act (2014), State Asset Act (2009), and Public Procurement Act (2007) set out a comprehensive legal framework for different aspects of asset acquisition and management, and ensure that all borrowing is authorised by law. The budget approved by Riigikogu provides for annual limits on overall government borrowing and ceilings for the issuing of government guarantees and on-lending. Fiscal rules in the State Budget Act (2014) limit extrabudgetary central government institutions' ability to incur debt and local governments are similarly constrained by borrowing limits set out in the Local Government Finance Act (2010) (also see principle 3.3.1). SOE asset and liability management is overseen by their respective supervisory boards, members of which are appointed by respective supervisory boards, members of which are appointed according to proposals of the relevant nomination committee established by the government, and in line with the wider corporate governance legal framework. In the case of foundations supervisory board members are appointed by parent ministries, with one board member appointed by the finance ministry.

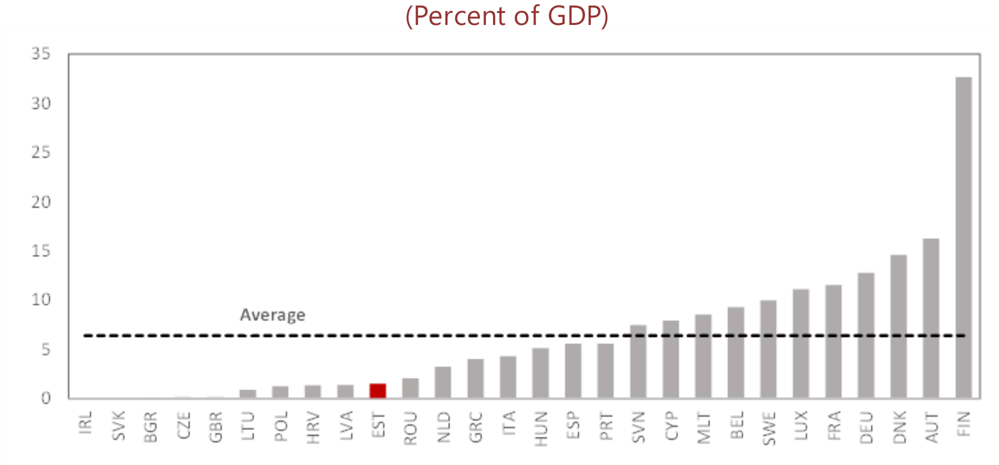
107. **While the above actions are in accordance with good practice, the government does not have a comprehensive asset and liability strategy for the entire public sector.** Publication of the annual public sector balance sheet and its year-on-year change is a useful summary of the government's financial position but this does not contain a discussion of reasons for annual changes in overall assets and liabilities or future plans for managing the overall net worth of the public sector. A strategy that covers these issues would be particularly useful in the current climate where government liabilities in the form of new borrowing could be rising rapidly, alongside sizeable changes in liquidity reserve, and where SOEs could be facing a more challenging economic situation.

3.2.3. Guarantees (Good)

108. Estonia publishes regular information on government guarantees and there are limits on total exposure. Every quarter the MoF publishes on its website a detailed report listing all previous and existing loans and guarantees issued by the central government, including information on the creditor and borrower, date of issuance, the intended purpose of the loan or guarantee, and the date the guarantee expires. Additionally, the State Consolidated Annual Reports includes a summary table listing outstanding guarantees. The State Budget Act requires the government to set an annual limit on the total value of outstanding guarantees, to be agreed by Riigikogu, and to publish this annually in the explanatory memorandum to the annual budget. For 2020 this limit is EUR 1,572 million. Information on the probability of guarantees being called is not published.

109. The stock of guaranteed public debt is comparable with regional peers, and small compared to the rest of the EU (Figure 3.10). State backed guarantees totaled 1.5 percent of GDP at end-2019, which rises to 7.0 percent of GDP if guarantees to the European Financial Stability Facility (which falls outside of the European System of Account 2010 definition) are included. Estonia's standardized guarantee schemes include covering export credits issued by commercial banks, housing loans, and student loan guarantees. The largest one-off guarantee relates to an investment in the health sector.

Figure 3.10. Government Guarantees in Europe, 2018
(Percent of GDP)



Source: Eurostat. Note, the data excludes liabilities under the European Financial Stability Facility

3.2.4. Public-Private Partnerships (Not met)

110. To date Estonia has made only limited use of PPPs, but there are plans to scale up their use. The current limited stock consists of a number of local government PPPs in housing and school buildings dating from the 2000s and seven private sector built and managed government buildings contracted through the State's Real Estate company (Riigi Kinnisvara Aktiaaselts, RKAS). Many of these PPPs are akin to long-term lease agreements, renewable every 10 years, with different end of contract options for the State. The authorities disclose no explicit contingent liabilities arising from existing PPP contracts. A PPP framework was adopted by the government in 2019 to guide the development of the next generation of PPPs, the first pilot being a large road widening scheme scheduled for tender in 2021.

111. There is no systematic disclosure of the government's rights and obligations with regard to existing PPPs. This largely reflects the small size and nature of the current PPP stock, the liabilities of which are less than 0.1 percent of GDP. Service payments are generally classified as other operating expense and within central government there is no disclosure of long-term contractual obligations, although some municipal governments detail PPP liabilities in their annual reporting. The expansion of PPPs under the new framework, however, will require administrative capacity to systematically report on the use of PPPs, record them in accordance to international standards, and assess and disclose their fiscal implications and potential fiscal risks.

3.2.5. Financial Sector (Advanced)

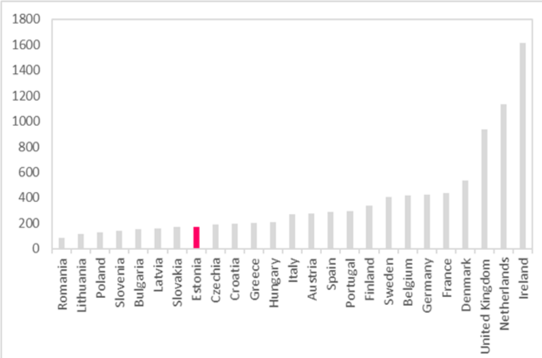
112. Government has little direct exposure to the financial sector. There are no state-owned banks and central government does not hold equity or investments in private banks. Government securities do not constitute a significant asset on financial institutions' balance sheets given that government debt is very low by international standards and government securities were issued in very limited quantities until 2020.

113. A deposit insurance scheme exists to cover government's direct obligations to guarantee deposits. The Guarantee Fund (Tagatisfond), established in 2003 provides the first port of call for deposit protection. As of 2019, it had current assets of EUR 242 million, comprising 1.7 percent of guaranteed deposits, more than twice the minimum level of 0.8 percent required under relevant EU rules. It was adequately capitalised to deal with the most recent bank resolution that occurred in 2018 without recourse to additional funding. The Guarantee Fund, having close cooperation with the Estonian Financial Supervisory Authority, is subject to regular financial reporting and internal stress tests and is considered a part of the general government sector. Although the scheme is considered part of the general government sector, the total potential liability for deposit insurance does not appear on the government's list of contingent liabilities and the total amount guaranteed by government is not regularly disclosed.

114. In line with relevant European directives, government is the ultimate guarantor for domestic deposits of up to EUR 100 000 in nine Estonian banks, while EU-wide resolution schemes cover deposits in larger banks. Total maximum potential liabilities stemming from these banks are high (up to EUR 14,259 million or around 50 percent of 2020 GDP). However, big banks (with maximum potential liabilities up to EUR 13,054 million) are considered for crisis management and not going to pay-out. The government considers the risk of being required to directly finance simultaneously pay-outs of deposits of the smaller banks (maximum potential liabilities up to EUR 1,205 million) as extremely low.

Figure 3.11. Sum of Financial Assets and Non-Equity Liabilities of Financial Corporations, 2019

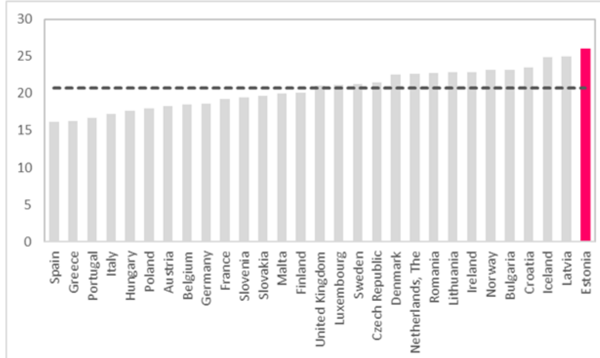
(Percent of GDP)



Source: Eurostat

Figure 3.12. Regulatory Capital to Risk-Weighted Assets, 2019

(Percent of GDP)



Source: IMF Financial Stability Indicators

115. The financial sector of Estonia is relatively small and key indicators of resilience were positive going into the challenging economic conditions of 2020. In 2019, the sum of the financial sector's assets and non-equity liabilities as a percentage of GDP were relatively low compared to most other European countries (Figure 3.11). Banks held capital buffers in excess of the required minimum; and above the European average. The Bank of Estonia financial stability report released in the second half of 2020 states that while risks to the financial system have grown significantly, Estonian banks continue to be profitable and operate with strong capitalisation (Figure 3.12).

116. The Bank of Estonia assesses the resilience of the financial sector through its financial stability reports which are published twice a year. They outline the current status of Estonia's financial sector in the context of European and international financial market developments and in light of current macroeconomic trends. They discuss the general stability of the financial sector as well as identifying particular major risks and discussing them in terms of a 'current situation' and 'risk scenario.' The Bank of Estonia is in regular discussion with the MoF regarding the policy implications of its financial stability report findings.

117. While the financial stability reports do not explicitly include the detailed results of stress test modelling, the Bank of Estonia confirm that such modelling is regularly undertaken. During 2019 and 2020 only one (2019/1) of the four stability reports contained an extended discussion of the results of a stress test on the financial sector—in this case, a scenario involving a fall in GDP of 10 percent, increase in unemployment to 13 percent, and decline in real estate prices by 48 percent. More commonly, the results of stress test modelling are factored into the 'risk scenario' table presented in the document summary, and generally inform the wider discussion of the financial sector's resilience in the rest of the report.

3.2.6. Natural Resources (Basic)

118. Shale oil and forests account for the majority of Estonia's natural resource wealth. Both these resources are economically significant, with value added from shale oil and forestry being equivalent to 1.4 percent and 1.5 percent of GDP respectively. Most shale oil is purchased by the state electricity company and used to generate power and heating. Consequently in per capita terms Estonia has a high level of natural resource wealth by European standards. There are also significant reserves of phosphates, but these are not currently being utilized. The Consolidated Balance Sheet of Mineral Resources of the Republic of Estonia[49] details field-by-field reserve estimates of known subsoil assets together with the volume of the previous year's extraction. The State Forest Management Centre, a government profit-making state agency which manages the states forest resources, details the volume of forest stock, annual harvesting and sales in its annual reports.[50]

119. Fiscal revenue from natural resource use are captured in government reporting of the state. Royalties are the principle fiscal revenue from mineral resources and totaled EUR 20 million (0.1 percent of budgetary central government revenue) in 2019, whilst dividends and income tax from the State Forest Management Centre comprise the fiscal revenue from forestry activities (Eur 51 million, or 0.3 percent of budgetary central government revenue). These are reported in the State Consolidated Annual Report[51] as well as published on the website of the State Environment Board[52] (mining and environmental use charges) and in the financial statements of the State Forest Management Centre (forestry sales, dividends, and income tax).

120. The value of natural resource stocks is only partially estimated. The value of the stock of the state's forest resources are presented in both the Consolidated Annual Report of the State and in the financial statements of the State Forest Management Centre, following the Accounting Standards Board methodology based on fair value. These assets are valued at 2.5 percent of GDP (EUR 692 million) as at the end-of 2019. For subsoil assets, Eesti Energia, the state owned electricity company, gives an off balance sheet estimate for their shale oil reserves in their annual report (EUR 392 million), whilst a calculation on the value of potential royalty payments is presented in the Consolidated Balance Sheet (calculated as the royalty rate multiplied by the active stock). However, no comprehensive estimate based on the future discounted cash flow arising from mineral extraction is presented, as per the *2008 SNA/ESA 2010/GSFM 2014* methodology.[53]

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[49] See Aasta Maavaravarude Koondbilansid report at https://geoportaal.maaamet.ee/est/Ruumiandmed/Geoloogilised-andmed/Maardlad/Maavaravarude-koondbilansid-p193.html

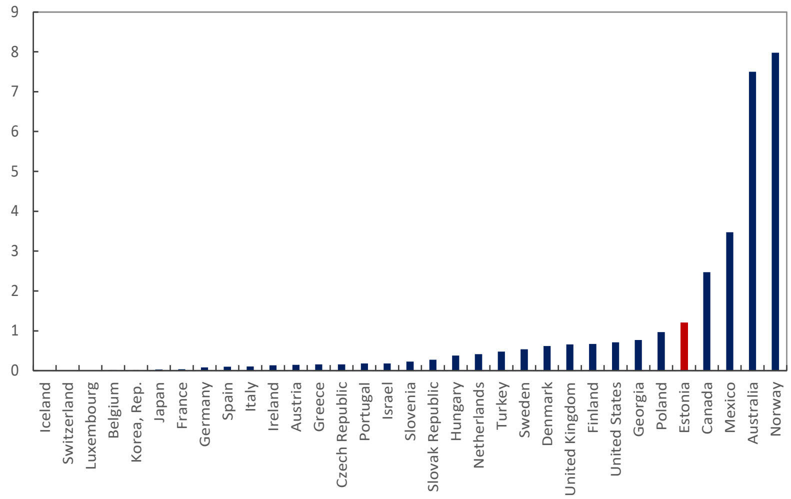
[50] See https://www.rmk.ee/organisation/publications-by-rmk/annual-reports-of-rmk

[51] See State Consolidated Annual Report, Annex A14.

[52] See https://www.keskkonnaamet.ee/et/eesmargid-tegevused/keskkonnatasu/keskkonnatasu-statistika.

[53] Calculated as the net present value of the expected pre-tax cash flows resulting from commercial exploitation.

Figure 3.13. Natural Resource Rents, 2019
(Percent of GDP)

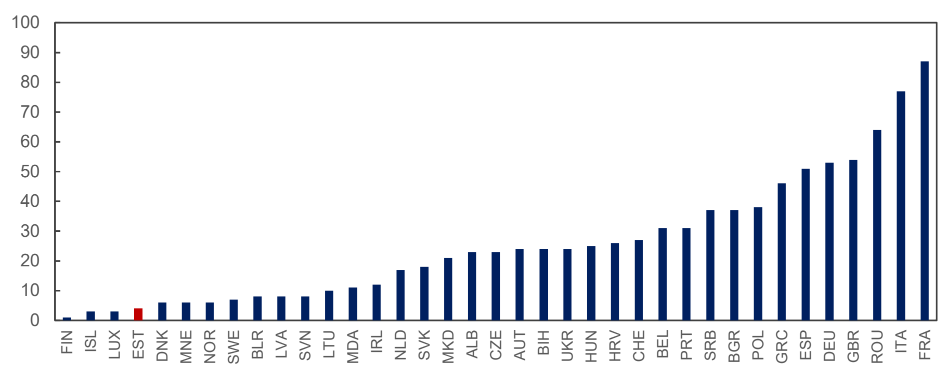


Source: World Bank World Development Indicators.
Total natural resource rents are the sum of oil, natural gas, coal (hard and soft), mineral and forest rents.

3.2.7. Environmental Risks (Basic)

121. **Natural disasters can pose risks to public finances although historically these have been small in Estonia.** Estonia appears less vulnerable than most countries to environmental risks (Figure 3.14). Earthquakes are a very low risk according to the European Seismic Hazard Map and the International Disaster Database lists only a handful of events over the past 20 years, with storms and cold weather events being most frequent. Extra-tropical storm Erwin in 2005 has been the most significant event, causing an estimated US Dollar 130 million in damages (0.9 percent of GDP).

Figure 3.14. Number of Natural Disaster Events, 2000–20



Source: International Disaster Database

122. **Although government produces qualitative assessments of environmental risks, they do not produce estimates of the potential fiscal impact of natural disasters based on their past incidence.** In 2017 the government introduced legislation requiring individual

emergency risk assessments to be prepared and updated every three years. These assessments, undertaken by the relevant competent authorities, should include an assessment on a five-point scale of the probability of the occurrence of an emergency (which would include environmental risks) and an assessment of the direct financial cost together with assessments of other impacts. However, in practice there are few completed risk assessments, and none include any estimate of potential costs, either to the state or to the wider economy. Furthermore, there is no central guidance detailing how to estimate these costs or how to manage these in accordance with a published strategy.

3.3. Fiscal Coordination

3.3.1. Subnational Governments (Advanced)

123. The consolidated balance sheet of all 79 subnational governments[54] is included in the Consolidated Annual Report of the State issued by June each year. The information is based on financial statements submitted by each local government to the State Chief Accountant through the SSSC each year which then prepares a consolidated report of the public sector. During the year, subnational governments also report their monthly accounts with a one-month lag to the SSC and based on that, the MoF's Local Government Financial Management Department then prepares a consolidated report used to monitor the aggregate which enables to monitor local government fiscal position. Subnational governments are required to present quarterly budget execution reports to their councils, but adherence varies across subnational governments.

124. Fiscal risks in subnational governments are mitigated by strict controls over their borrowing. The Local Government Financial Management Act of 2010[55] limits local government borrowing to between 60 and 100 percent of their operating revenue, depending on their primary surplus.[56] Target ceilings for consolidated local government are set in the annual State Budget Strategy, following consultations with local government representatives. The consolidated deficit and debt position of subnational governments is closely monitored by the MoF as part of its responsibility to respect the general government fiscal rules and Article 35.1 of the Local Government Financial Management Act allows the MoF to impose restrictions if the general government fiscal position deteriorates.

125. Subnational governments' expenditure is around a quarter of general government expenditure (around 10 percent of GDP) while their debt represents a third of general government debt (or 2.7 percent of GDP). The consolidated budget balance position of

[54] Number of local governments were reduced from 213 in a 2017 reform of subnational governments, there are now 15 towns and 64 rural municipalities in Estonia.

[55] See Local Government Financial Management Act of 2010.

[56] If six times the primary surplus is greater than operating revenue, then the upper debt limit is 100 percent of operating revenue. If six times primary surplus is less than 60 percent of operating revenue then the upper limit is 60 percent of operating revenue.

subnational governments shows a small deficit of just under 0.1 percent of GDP. However, the share of local government debt, although still quite small as a percentage of GDP, should raise some concerns regarding the finances of some subnational governments going forward. The debt burden as well as the operating balance position is not evenly distributed within subnational governments as can be seen in Figures 3.15 and 3.16. This suggests that some subnational governments may be struggling and are not as self-reliant as others. At 20 percent, self-reliance of Estonia's subnational governments is the second lowest in Europe (Figure 3.17).

Figure 3.15. Local Government Debt, 2019
(Percent of Operating Revenue)

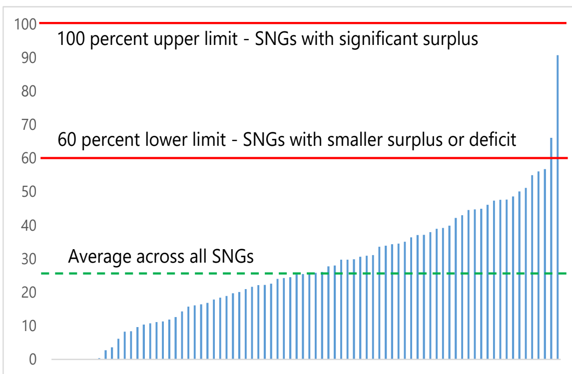
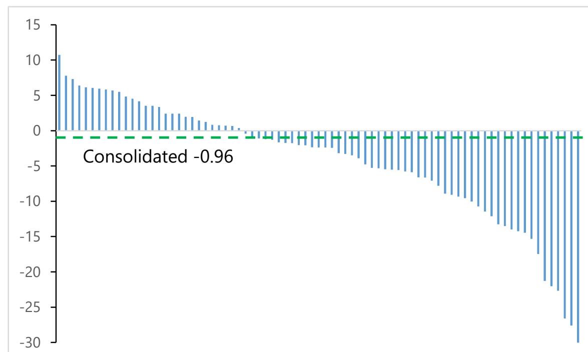
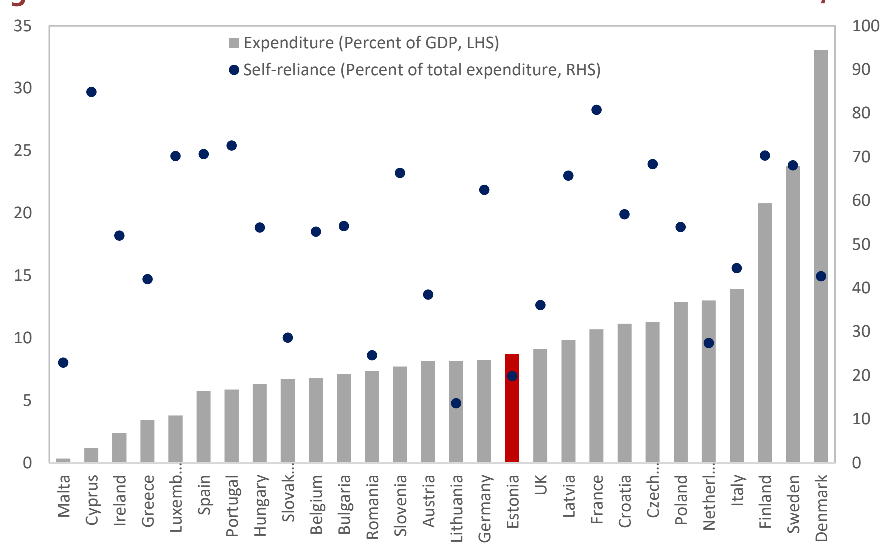


Figure 3.16. Local Government Budget Balance, 2019
(Percent of Operating Revenue)



Source: MoF, Estonia. IMF staff estimates

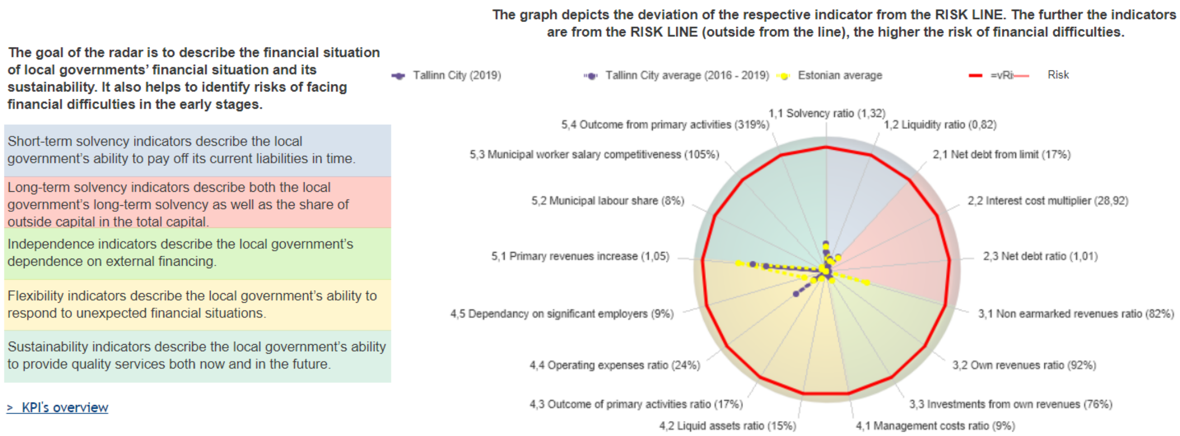
Figure 3.17. Size and Self-Reliance of Subnational Governments, 2019



Source: IMF GFS database

126. The MoF has established a local government financial capability radar page on its government financial data website.[57] The radar aims to provide early detection of risks to the sustainability of the finances of an individual local government against 17 indicators (Figure 3.18).

Figure 3.18. Local Government Financial Capability Radar for Tallinn City



Source: MoF Financial data portal.

3.3.2. Public Corporations (Good)

127. The State Assets Department of the MoF produces a detailed annual report on the financial performance of State-Owned Enterprises (SOEs) and their main transactions with government. The report includes a consolidated aggregated analysis of the SOEs included in the public corporation sector, including discussions on revenue, expense, profitability and capital structure. The report details the dividends paid from SOEs to the state, as well as the transfers from the state budget to SOEs, the latter being small at under EUR 0.2 million in 2019. More granular financial information is available in the Consolidated Annual Report of the State, including a distinction between subsidies and capital transfers, and payments of taxes and royalties by SOEs. This report also details local government owned enterprise that are not monitored by the State Assets Department of the MoF.

128. The Estonian SOE sector is well capitalized. Assets more than cover non-equity liabilities, with local government owned enterprises having near zero levels of debt (Figure 3.19). In comparison to European peers, SOE non-equity liabilities are, below the EU average of 33.5 percent of GDP (Figure 3.20).

129. The government adopted a Corporate Participation State Ownership Policy in January 2020. This document lays out the principles behind government ownership in its various companies, the governance structures for SOEs, reporting requirements, a dividend policy, the

[57] See https://Riigiraha.fin.ee.

approach to compensating public service obligations, and government's obligations as a shareholder.

130. Quasi-fiscal activities are not routinely analysed nor costed. The Corporate Participation State Ownership Policy states that public service obligations and other quasi-fiscal activities should not be financed by cross-subsidization, rather SOEs should be adequately compensated by the state for these activities. However, the authorities acknowledge that this does not happen in practice and are currently not monitored or measured.

Figure 3.19. SOE Assets and Non-Equity Liabilities (Percent of GDP)

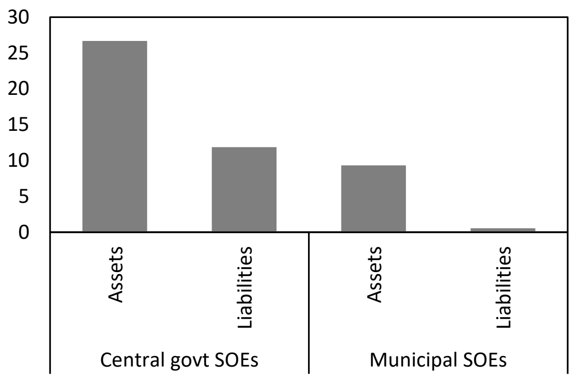
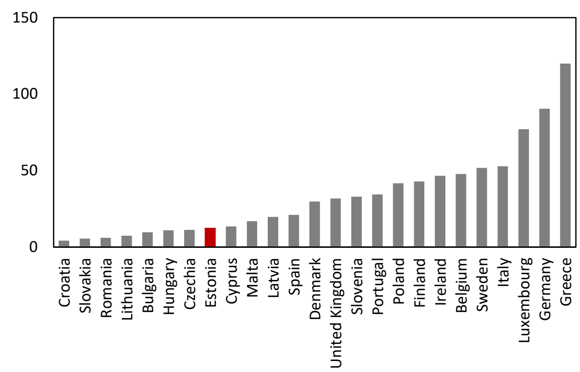


Figure 3.20. Total Non-Equity Liabilities of SOEs, 2019
(Percent of GDP)



Sources: State Consolidated Annual Report, Eurostat.

3.4. Conclusion and Recommendations

131. Estonia meets good or advanced practice in eight of the code's 12 dimensions. This is above the average for European peers; however there remains significant scope to further enhanced analysis and reporting (Table 3.4). There is a well-established framework for the use of budget contingencies, and various specific risks are periodically analyzed. Government's exposure to macroeconomic risks are well understood and monitored and exposure to risks from the financial sector are regularly analyzed and reported on. However, consolidated information on all fiscal risks are not presented, costed, or considered in a holistic manner.

132. Based on the above assessment, the evaluation highlights the following priorities for improving transparency of fiscal forecasts and budgets:

Recommendation 3.1. Deepen existing macroeconomic risk analysis by including more extensive sensitivity analysis and probablistic fan-charts; and retrospective comments on the realization of previously published risk scenarios. (MoF, medium term)

Recommendation 3.2. Prepare and publish an annual Fiscal Risk Statement that discusses the size and nature of material specific fiscal risks to the public finances including amongst others: (MoF, medium term)

- an evaluation of the likelihood and potential fiscal impact of guarantees being called (MoF, medium-term); and
- the potential cost of emergencies based on guidance to be developed on how these costs should be estimated (MoF in cooperation with Ministry of Interior, medium-term).

Recommendation 3.3. Regularly publish long-term projections for the health fund and for health expenditure sustainability similar to that for pensions sustainability. (MoF, medium term)

Recommendation 3.4. Develop and publish a comprehensive strategy covering government's policy towards managing all of its assets, liabilities, and overall net worth in the short, medium and long-term. (MoF, short term)

Recommendation 3.5: Identify SOEs which undertake quasi-fiscal activities and accurately cost these activities and report on them in the annual report on SOE performance. (MoF in cooperation with respective SOEs, short-term).

Table 3.4. Estonia: Summary Evaluation: Fiscal Risks

	Principle	Rating	Importance	Rec
3.1.1	**Macroeconomic Risks**	**Good:** Twice-yearly forecasts contain detailed discussion of factors affecting the macroeconomic and fiscal aggregates, alongside a basic alternative risk scenario	**High:** Macroeconomic volatility is relatively high and the impact of Covid-19 has brought additional uncertainty	**3.1**
3.1.2	**Specific Fiscal Risks**	**Not met:** There is no single summary report setting out all major risks to the public finances	**Medium:** Identified risks amount to 110 percent of GDP and are monitored individually but need to be pulled together	**3.2**
3.1.3	**Long-term Fiscal Sustainability**	**Good:** Long-term fiscal and age-related expenditure forecasts are regularly published with some consideration of risk scenarios, alongside periodic detailed analysis of pensions sustainability – although health sustainability analysis is not published	**Medium:** The NPV of social security pension and health liabilities are 245 and 22 percent of GDP respectively	**3.3**
3.2.1	**Budgetary Contingencies**	**Good:** The budget includes an allocation for contingencies with access criteria; however, no comprehensive report on these spending is produced	**Low:** At 0.5 percent of total expenditure in 2017 falls in the mid-range of select EU countries	**1.3**
3.2.2	**Asset and Liability Management**	**Good:** Liability and asset management is authorized by law and government's financial position is analyzed and disclosed; but there is no comprehensive asset management strategy	**Low:** Total assets and liabilities of respectively 143.5 and 63.1 percent of GDP; yielding a net assets of 80.4 percent of GDP	**3.4**
3.2.3	**Guarantees**	**Good:** All government guarantees, their beneficiaries, and the gross exposure created by them are published quarterly. The maximum value of new guarantees or their stock is authorized by law. However, the probability of guarantees being called is not published	**Low:** The stock of guarantees is low, and the last time a guarantee was called was 5 years ago	**3.2**
3.2.4	**Public-Private Partnerships**	**Not met:** Obligations under public-private partnerships are not regularly disclosed	**Medium:** The existing stock of PPPs is small, but plans to increase their use increase importance to monitor and report on risks and performance	**3.2**
3.2.5	**Financial Sector Exposure**	**Advanced:** Government support to the financial sector is quantified and managed; financial sector stability is regularly assessed	**Low:** Risks to the public finances from the relative small financial sector are low	
3.2.6	**Natural Resources**	**Basic:** The government publishes annual estimates of the volume of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue. However, the value of shale oil stocks is not comprehensively estimated	**Medium:** Natural resources are important for Estonia. Monitoring the value of their stocks is important given the volatility of their prices	**1.1**
3.2.7	**Environmental Risks**	**Basic:** The government identifies and discusses the main risks from natural disasters in qualitative terms, but do little quantification of potential fiscal impacts	**Low**: Natural disaster occurrences have historically been low	**3.2**
3.3.1	**Sub-national Governments**	**Advanced**: Financial reports of subnational governments are consolidated monthly and closely monitored by MoF; there is a strict legal limit on their borrowing	**Low:** Consolidated subnational government sector is financially sound, but a few have high debt and significant deficit	
3.3.2	**Public Corporations**	**Good:** All transfers between the government and public corporations are disclosed and based on a published ownership policy; a report on the overall financial performance of the public corporation sector is published annually. However, quasi-fiscal activities are not quantified	**Low:** Assets cover non-equity liabilities of SOEs, and the sector is broadly profitable	**3.5**

Appendix I. Government Fiscal Transparency Action Plan (2021–24)

Recommendation	2021	2022	2023	2024
1.1. Improve further fiscal reporting				
(a) Expand the coverage of non-financial assets in the general government balance sheet by including stocks of mineral resources	Include in the 2020 consolidated balance sheet an estimation of the shale oil reserves (MoF and Ministry of Environment).	Elaborate accounting guidance on the valuation of mineral resources (MoF and Ministry of Environment)		
(b) Report stocks of non-financial assets at market value and holding gains and losses and other changes in the volume of assets and liabilities	Elaborate accounting guidance on the market/fair valuation of fixed assets (MoF)	Develop accounting policies that will allow realistic valuation of fixed assets (MoF)	Implement policies that will result in fair valuation of significant fixed assets (MoF)	Apply market valuation of assets and liabilities in the PSFS and report on the related holding gains/losses and volume changes (MoF)
1.2. Improve the disclosure and management of revenue loss due to tax expenditure				
Strengthen the oversight and reporting on tax expenditures	Work with line ministries to prepare rationales and performance indicators for tax expenditure in their respective functional areas to be included in the 2022 State Budget Strategy (MoF and line ministries)	Include tax expenditure outturns alongside estimates for the budget year Include a section on tax expenditure in the annual budget documentation in the context of the performance budgeting reforms currently underway (MoF)		

Recommendation	2021	2022	2023	2024
1.3. Consolidate and disseminate readily available information in user friendly reports				
Consolidate the information which is already available internally or is fragmented in various reports and disseminate user friendly reports.	Disseminate a detailed monthly and quarterly comparable budget execution reports that clearly allows an assessment of all fiscal aggregates against budgeted amounts (MoF) Disseminate data on the GG debt and its holders by the *ESA 2010* sectors (SE) Disseminate a statement of GG operations presenting reconciled above and below the line operations (SE) Disseminate a bridge table between the old and new GFS time series for each major revision (SE) Disclose monthly spending from the contingency reserve (MoF)			
2.1. Improve budget unity				
(a) Present key data from financial plans of extrabudgetary funds and social security funds as an informational annex to the draft State Budget,	Present a summary table of consolidated central government extrabudgetary funds' financial plans in	Present a detailed tables of significant central government extrabudgetary funds'	Present detailed tables of all central government	

Recommendation	2021	2022	2023	2024
in support of the budget transfers being made to these institutions.	budget memorandum/annex for the 2022 budget. (MoF) Present a summary table with financial plans of Health and Unemployment Funds in budget memorandum/annex for the 2022 budget. (MoF)	financial plans in budget memorandum/annex for the 2023 budget. (MoF) Present detailed tables with financial plans of the Health and Unemployment Funds in budget memorandum/ annex for the 2023 budget. (MoF	extrabudgetary funds' financial plans in budget memorandum/ annex for the 2024 budget. (MoF)	
(b) Restrict the size of carryovers.	Amend the State Budget Act to reintroduce a cap on the overall size of carryovers, in line with best practice. (MoF)	Apply the new cap on carryovers to the 2023 budget. (MoF)		
2.2. Improve transparency of medium-term budget framework.				
Disclose outturns of previous years alongside medium-term projections to provide a better understanding of revenue and expenditure trends.	Add columns for outturns of two previous years, alongside current year estimated outturn and four years of projection, in the main medium-term budget framework tables of the State Budget Strategy for 2022-2025. (MoF)	Require program/ performance supporting documents to include at least two outturn years alongside projections for the 2023 draft State Budget. (MoF)		

Recommendation	2021	2022	2023	2024
2.3 Improve the transparency and effectiveness of investment decisions.				
(a) Establish centralized project monitoring that facilitates the tracking of total costs from inception to completion.	Establish a project monitoring database which includes reporting of both financial and physical progress. (MoF/MoP in collaboration with LMs)	Establish a project review process, using the new database, for projects at risk or those which have delays or cost overruns. (MoF/MoP and LMs)		
(b) Ensure approval of public investment spending by the Riigikogu is supported by a full understanding of total costs.	Require line ministries to include total project costs, historical as well as future, in the multi-year investment plans they submit for the State Budget Strategy and the annual Draft Budget Memorandum for the 2022-2025 budget. (MoF, LMs to supply plans)	Use the new database to generate the multi-year investment plans for the 2023-2026 budget documents. (MoF/MoP in collaboration with LMs)		
(c) Standardize the appraisal requirements and process for all large projects, irrespective of funding.	Review current appraisal practices in Estonia, agree framework for future large project appraisal requirements, and issue new regulation that will standardize appraisal processes. (MoF/MoP/key LMs and SOEs)	Ensure all large projects follow the new standardized appraisal requirements, providing training and guidance where necessary. (MoF/MoP/LMs/SOEs)		
2.4 Ensure successful implementation of the performance budgeting reforms.				
Ensure successful implementation of the performance budgeting reforms by	Ensure that all budget expenditure information,	Continue these practices in future years, iterating		

Recommendation	2021	2022	2023	2024
strengthening the links in the budget documentation between the inputs provided through the budget and the outputs and outcomes delivered in particular program and performance areas.	and all output/outcome results information, related to the first round of performance budgeting in the 2020 budget is presented, analyzed, and discussed in the budget documents produced for the 2022 budget. (MoF) Consult with stakeholders in the performance budgeting process (e.g. line ministries, service delivery agencies, Parliament) regarding their experience of the first full round of performance budgeting and reporting and make necessary amendments to future processes. (MoF)	and improving the processes and procedures as required. (MoF)		
2.5 Facilitate improved citizen understanding and involvement in budget process.				
Facilitate improved citizen understanding of, and involvement in, the budget process by: a) Developing a 'Citizens Guide' to the annual budget containing in non-technical terms a summary of the macroeconomic situation and the government's tax and spending plans alongside a distributional analysis of the budget's impact on different types of citizens and households.	Publish a non-technical summary of the Summer macroeconomic forecast setting out a broad 'storyline' for how international and national economic developments are affecting Estonia's macroeconomic and fiscal position and what this	Expand the distributional analysis of the impact of the budget to include a wider range of individuals and households. (MoF) Implement the chosen citizen participation option in the process of		

Recommendation	2021	2022	2023	2024
b) Implementing a formal process for encouraging citizen participation in the budget process.	means for the forthcoming 2022 budget. (MoF) Publish a non-technical summary of the proposed 2022 budget setting out overall fiscal policy approach; the headline tax and spending measures; and the budget's impacts on the finances of the typical citizen, and the typical household. (MoF) Draw on international comparative experience to develop an options paper setting out different ways for improving citizen input into the budget process that are appropriate to Estonia's institutional context (MoF)	preparation for the 2023 budget. (MoF)		
2.6 Include comprehensive forecast reconciliations				
Present a comprehensive reconciliation between forecast vintages to ensure a better understanding of fiscal developments.	Review reconciliation tables presented in other countries with good practices and agree on a format to adopt for Estonia. (MoF, in consultation with CB, FC and other experts)	Include a comprehensive forecast reconciliation table, based on the agreed model, accompanied by explanations, in the State Budget Strategy and an update in the draft State Budget Memorandum		

Recommendation	2021	2022	2023	2024
		for 2023-2026 budget. (MoF)		
3.1 Deepen macroeconomic risk analysis				
Deepen existing macroeconomic risk analysis by: • Using more extenstive sensitivity analysis and probablistic fan-charts to model risk for both macroeconomic and fiscal variables; and • Including in future forecasts a retrospective comment on realization or not of previously published risk scenarios.	Extend the analysis in the Spring and Summer 2021 forecasts to include clearer sensitivity analysis around key macroeconomic variables; and extend this to generate probabilistic fan-chart models for both macroeconomic and fiscal variables. (MoF) In the risk scenario discussion in the Spring and Summer macroeconomic forecasts, refer back to previous risk scenarios in the previous year and discuss the degree to which the risk scenario unfolded, and/or was avoided, and implications for the current forecast. (MoF)	Continue this practice in future years (MoF)		

Recommendation	2021	2022	2023	2024
3.2. Prepare and disseminate an Annual Fiscal Risk Statement.				
Coordinate the publication of an annual Fiscal Risk Statement that discusses the size and nature of a full range of specific fiscal risks, including PPPs, to the public finances.	As part of the preparation for the 2022 budget, draft an internal paper that outlines a full list of all potential risks to the public finances from various sources, including from PPPS, with estimation of exposure, likelihood, government's approach to managing that risk, and implications for the 2022 budget. (MoF)	As part of the preparation for the 2023 budget, repeat this practice and develop and publish a public version of this risk statement.		
3.3. Improve disclosure of health spending sustainability				
Regularly publish long-term projections for the health fund and for health expenditure sustainability similar to that for pensions sustainability	Include in budget legislation, or other suitable legislation, an obligation for periodic (e.g. every 3-4 years) published health fund and health spending long-term sustainability analysis, in the same way as is currently done for pensions; starting in 2022. (MoF) If legislation is not possible or appropriate, publicly commit to producing such analysis on a periodic (e.g.	Publish the health spending sustainability analysis in accordance with the new legal requirement/ commitment.		

Recommendation	2021	2022	2023	2024
	every 3-4 years) basis; starting in 2022 (MoF)			
3.4. Develop a comprehensive asset and liability management strategy.				
Develop and publish a comprehensive strategy covering the government's policy towards managing all of its assets, liabilities, and overall net worth in the short, medium and long-term	Using the PSFS, gather together all existing government policies and strategies, or other documents relevant to public sector assets and liabilities for review (MoF)	Based on analysis of existing strategies and policies, draft a whole-of-public sector asset and liability management strategy or policy for ministerial approval and publication (MoF)	Implement the approved strategy across public sector assets and liabilities (MoF)	
3.5. Evaluate, estimate and publish the likelihood that guarantees being called.				
Evaluate, estimate, and publish the likelihood and fiscal impact of guarantees being called		Undertake analysis of existing guarantees to estimate the likelihood and fiscal impact of guarantees being called. (MoF)		
3.6. Strengthen guidance on cost of emergencies.				
Strengthen guidance on how the costs of emergencies is estimated as part of the risk assessment process		Update guidance for the competent authorities responsible for various risks on how to estimate the potential fiscal impact of emergencies (MoF, Ministry of Interior)		

Recommendation	2021	2022	2023	2024
3.7. Identify and cost quasi-fiscal activities of State-Owned Enterprises				
Identify SOEs that undertake quasi-fiscal activities and accurately cost these activities and report on them in the annual report on SOE performance.	Work with SOEs to identify and cost quasi-fiscal activities (MoF)	Include cost estimates of quasi-fiscal activities in annual SOE report. (MoF)		