STATISTICAL COMMISSION and ECONOMIC   WORKING PAPER No 2
COMMISSION FOR EUROPE

CONFERENCE OF EUROPEAN STATISTICIANS

<u>**OECD Meeting of National Accounts Experts**</u>
**UN/ECE session on issues of concern
  to economies in transition**
(OECD, Paris 12 October 2001)

GG SECTOR IN ESTONIAN NATIONAL ACCOUNTS

Paper submitted by Statistical Office of Estonia*

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I . Delimitation of the general government sector

On the basis of ESA95 the ***general government*** sector is defined in the following way:
a) Central government (S.1311) – units financed from state budget; so called extrabudgetary funds which in fact present non-market NPIs mainly financed and controlled by general government (except social security funds)
b) Local government (S.1313) – units financed from local government budget
c) Social security funds (S.1314) – State Medical Insurance Fund, State Social Security Fund, state and municipal health care institutions (mainly hospitals)

The main used classification is COFOG (the data from government allow straightforward application of the COFOG classification; an allocation of these items to COFOG categories is made every year) which is the base for dividing government output between different activities. There have been made efforts to have parallel calculations on the basis of NACE classification (for the time being it is an ongoing process).

Borderline cases in the delimitation of GG sector
As a result of fast growing and changing economy there exist several borderline cases also in Estonia. Most of them have been solved but all the time some new cases appear. For the time being the most important borderline case is the correct treatment of hospitals and other health care institutions. Most of them still belong to the central or local governments but quite many have changed their legal form (Ltd, foundation) as a result of restructuring of health care system. Legal form itself can`t be the basis for classification of institutional units. More important is the control element and who is financing whom and in what extent.
For the time being most of provided health care services are mainly financed through compulsory social security. State Health Insurance Fund has special contracts with state, municipal and as well private health care institutions. The extent of health care services is fixed in the contract what will be financed through compulsory social security contributions. In addition they have also some own revenues (e.g. visit fee, payments by uninsured persons, rents, etc.) which makes the sectorisation more complicated.
There are several questions which need answers:
1) If private hospitals have contracts with State Health Insurance Fund (purchase of service from privat sector) and the price of the provided service is more or less fixed in the contract, is it market or non-market producer?
2) If it is non-market producer (income from the above mentioned contract covers more than 50% of expenses and the price of the service is fixed) and mainly controlled (indirectly through the contract) by the State Health Insurance Fund, most of the private hospitals (and some other health care institutions) must be classified into general government sector. Even if they are limited liability companies and directly controlled by the share holders.
3) What is the experience of other countries? In what extent the government buys such service from limited liability companies and other private bodies?

4) What is the market price if the price of most health services is fixed on the basis of contracts between State Health Insurance Fund and institutions which provide health care service? There is no other competitive price.

II . Data sources

Here are presented data sources that are used in NA context:

Central government – from the Treasury`s database we can get information (monthly, quarterly) on expenditures of all state budgetary units; monthly we get from the Ministry of Finance (MoF) the statement of state budget revenues by type of taxes and other kind of income; approximately 8 months after the end of year we get from the MoF annual execution statement (revenues, expenditures, annexes incude information on some assets and liabilities, foreign debt, overviews, etc) of the state budget which includes also annual statements of so called extrabudgetary funds; quarterly we have information only for bigger extrabudgetary funds.

Local government – approximately 25 days after the end of the month we get from the MoF monthly local budget execution statement (by type of revenue and expenses; more important elements of expenses are presented also by kind of activity); the same information is used also for quarterly national accounts; annual more detailed execution of local budget statement has been made available usually 8-10 months after the end of year, but last two years we have not received from the MoF the annual statement at all because of problems in implementing new bookkeeping and data collection systems.

Social security funds – quarterly we get statement on revenues and expenditures for both State Health Insurance Fund and State Social Security Fund, annual data are presented in the annual execution statement of state budget; data for state and municipal health care (mainly hospitals) institutions are received quarterly from the Ministry of Social Affairs (survey form for state and municipal health care institutions is worked out in co-operation with Statistical Office of Estonia (SOE)).

For general government units, SOE does not have any statistical surveys specially for NA purposes. But there exist some other sources in addition to the previously described data sources:
City government of Tallinn (e.g. more detailed information on subsidies, etc);
Direct contacts with GG units if necessary;
Other units in the Statistical Office which survey general government units;
Etc.

Possible impact of the wrong classification

The correct classification of units is very important because there are several calculation methods depending on the institutional sector. It means that everything starts from right

delimitation of institutional sectors. For example non-financial and financial accounts have different data sources and methods but the result must be the same.

Until now the institutional units in our statistical register did not have any characteristics of institutional sector they belong to but since this year all units will get such a characteristic. It helps to guarantee that different intitutions use the same classification (different sections inside Statistical Office, Ministry of Finance, Bank of Estonia, commercial banks, etc.).

There is a direct impact on GDP, general government net lending/borrowing and debt, etc. Taking into account the importance of these indicators it is extremely important to delimitate general government sector properly. The result of wrong delimitation can be overestimated or underestimated GDP, GG debt and net lending/borrowing.

For example if we reclassify hospital from non-financial corporations sector into general government sector the impact on GDP will be negative (lower GDP) but GG debt may be higher. Such an impact is negligible if only one or two institutions are classified into wrong sector but if there are many such cases the result may differ quite a lot from the correct treatment. It means that in Estonia we have to follow the restructuring process of health care system very carefully.