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FINAL FINDINGS

EDP dialogue visit to Croatia

13-14 December 2021 (Part I)

10-11 January 2022 (Part II)

Executive summary

Eurostat undertook an EDP dialogue visit to Croatia on 13-14 December 2021 (Part I) and on 10-11 January 2022 (Part II), as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, data exchanges and institutional cooperation, to review data sources for the EDP/GFS data compilation and to verify the implementation of ESA 2010 methodology, mainly for the sector classification of units, for the accrual recording of investment, taxes and other flows, and for the recording of specific government operations. Due to the COVID-19 pandemic, Eurostat and the Croatian statistical authorities agreed to hold the meeting by video conference.

First, Eurostat reviewed the institutional responsibilities in the reporting of EDP and GFS data and took note of the recently updated Memorandum of Understanding together with Annexes. Following the updated MoU, the role of the Working Group for Sector Classification was strengthened and the position of the Croatian Statistical Institute in the sector classification decisions was reinforced. Eurostat encouraged the Croatian statistical authorities to formalise a cooperation with the State Audit Office and with the Fiscal Policy Commission.

Concerning the data sources, Eurostat took note that the current system of FINA collecting financial statements of budgetary and extra-budgetary users would soon be replaced by a new IT solution. Following a number of Eurostat's comments about the clarity and timeliness of the information provided, the Croatian statistical authorities will update the EDP Inventory published by Eurostat.

Furthermore, Eurostat reviewed the application of the market/non-market test for the sector classification of entities and requested to adapt the 50% formula, following the arguments provided during the discussion. Some selected government controlled entities reported in the dedicated Questionnaire were also discussed in detail.

A particular attention was devoted to the recording of taxes and social contributions. In particular, Eurostat reviewed the recording of government measures (e.g. tax and social contributions deferrals) undertaken in this area by the Croatian government as a response to the COVID-19 crisis. Other issues such as para-fiscal charges and tax refunds were also discussed.

As regards interest, Eurostat reviewed the data sources and the recording of interest in national accounts. Following the comments of Eurostat expressed in the meeting, the Croatian statistical authorities will provide further clarifications in follow up notes.

A number of recent and planned acquisitions of military equipment was discussed in relation to the recording of military expenditure. Concerning the recording of the gross fixed capital formation, the Croatian statistical authorities committed to continue the analysis of the gross fixed capital formation data for the years 2002-2014. Eurostat took note that revisions for those years to be implemented by the agreed change in data sources, were still pending.

On the issue of the specific government transactions, Eurostat reviewed various measures introduced by the Croatian government in the context of the COVID-19 pandemic, with a focus on the newly introduced guarantee schemes.

In relation to the capital injections, a specific case of capital injection in kind provided by government to a shipyard was discussed. In addition, the Croatian statistical authorities were requested to investigate similar cases when government, as one of the rank of creditors, received recoveries in kind from the bankruptcy procedure of an entity, following the previous cash guarantee calls.

Concerning Public Private Partnerships, concessions and Energy Performance Contracts, Eurostat mainly discussed the availability of information and the recording of the projects in national accounts. In relation to the concessions, the recording of Bina Istra motorway according to two possible approaches was discussed in detail. Concerning Energy Performance Contracts, Eurostat took note of the standardized EPC contract to be used by public entities and invited the Croatian statistical authorities to send it to Eurostat for consultation.

The recording of super dividends, emission permits and decommissioning was also discussed.

Finally, Eurostat welcomed the transparent and responsible approach by the Croatian statistical authorities to the EDP/GFS related work.

Final findings

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Croatia on 13-14 December 2021 (Part I) and on 10-11 January 2022 (Part II). After agreement with the Croatian statistical office, the meeting was held as a virtual meeting due to restrictions caused by the COVID-19 pandemic.

Eurostat was represented by Mr Luca Ascoli, Director of Directorate D ‘Government Finance Statistics (GFS)’. Eurostat was also represented by Ms Gita Bergere, Mr Philippe de Rougemont, Mr Vassil Georgiev and Ms Daniela Ilavska.

The European Central Bank (ECB) and DG ECFIN were also represented, as observers.

The Croatian statistical authorities were represented by the Croatian statistical office (CBS), the Croatian Ministry of Finance (MOF) and the Croatian Central Bank (CNB).

The previous Eurostat EDP dialogue visit to Croatia took place on 16-18 December 2019.

The overall purpose of this EDP dialogue visit was mainly to review the EDP arrangements in place and to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2019), as well as Eurostat's decisions, are duly implemented as regards the production of the Croatian EDP and Government Finance Statistics (GFS) data.

The main aim of this dialogue visit was to assess the existing statistical capacity, data exchanges and institutional cooperation, to review data sources for EDP/GFS data compilation, bridge tables and data availability, to discuss the implementation of ESA 2010 methodology, mainly for the sector classification of units, accrual recording of taxes, EU flows and interest. In addition, Eurostat reviewed the recording of specific government operations such as capital injections, dividends, guarantees and of the government measures undertaken in the context of COVID-19 outbreak.

With regard to procedural arrangements, the *Main conclusions and action points* were sent to Croatia for review. Within the following months, the *Provisional findings* will be sent to Croatia for review and comments. Afterwards, *Final findings* will be sent to the Croatian statistical authorities and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat is grateful to the Croatian statistical authorities for accepting a video conference meeting instead of the usual on-the-spot visit. Eurostat appreciated the information provided by the Croatian statistical authorities prior to the EDP dialogue visit and also thanked the Croatian statistical authorities for the cooperation during the virtual meeting and considered that the discussions were transparent and constructive.

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and GFS compilation

1.1.1. Memorandum of Understanding and cooperation among statistical authorities

Introduction

Under the current institutional framework, the CBS is responsible for the sector delimitation and the maintaining of the Statistical Business Register and for the compilation of ESA quarterly and annual non-financial accounts, COFOG and EDP tables (in cooperation with CNB and MOF). Quarterly and annual financial accounts and Maastricht debt are compiled by the CNB. Planned figures for EDP reporting are provided by the MOF.

The cooperation and exchange of relevant data in the EDP/GFS area is administered by a formal cooperation agreement (Memorandum of Understanding) that was concluded between the CBS, CNB and MOF and recently updated on 31 January 2020.

The national EDP working group comprises experts from the CBS, CNB and MOF¹. It meets several times a year (once or twice each quarter, and more often before/during the EDP notifications) in order to discuss issues and to facilitate the EDP reporting.

The Working Group (former Sub-committee) for Sector Classification includes experts from the CBS, CNB and MOF and discusses various issues concerning the sector classification of all institutional units in Croatia, as well as the delineation of the general government sector.

Discussion and methodological analysis

Cooperation among statistical authorities

The Croatian statistical authorities informed Eurostat that there were no changes in the distribution of institutional responsibilities in EDP/GFS compilation and dissemination since the 2019 EDP dialogue visit. Eurostat enquired about the existence of a cooperation with the State Audit Office (*Državni ured za reviziju*) and with the Fiscal Policy Committee (*Povjerenstvo za fiskalnu politiku*).

Concerning the State Audit Office, the Croatian statistical authorities confirmed that the findings from audit reports, which provided relevant information for the GFS/EDP statistics, were already used in the revision of deficit and debt figures in the past. This was, for instance, the case of the housing support programme in April 2021, where the recording in national accounts was revised following the audit results concluding on an incorrect recording of the programme in public accounts. The Croatian MOF confirmed that the findings of the State Audit Office were afterwards accordingly reflected in the updated budgetary and accounting rules. As a drawback, it was pointed by the Croatian statistical authorities that the State Audit Office's reports usually come with a delay of three months

¹ According to the new MoU concluded in 2020, representatives from relevant institutions such as the State Audit Office might be invited to meetings, if relevant.

after the audit, which might thus postpone the implementation of the outcomes in the EDP notification.

The cooperation with the Fiscal Policy Committee was not existent at the time of the meeting due to a significant delay in appointing the managing bodies of the Committee. The Croatian statistical authorities however confirmed the ongoing efforts to establish an official agreement between the CBS and the Fiscal Policy Committee as soon as possible.

Eurostat recommended to the Croatian statistical authorities to formalise a systematic cooperation with both the above-mentioned authorities with a view that the Croatian statistical authorities might benefit from the provision of information concerning the EDP/GFS relevant data.

Memorandum of Understanding

Eurostat asked about the updated Memorandum of Understanding (MoU) or '*Sporazum o suradnji*' in Croatian that was concluded between the CBS, CNB and MOF on 31 January 2020 and, in particular, about the updated Annexes. The latter ones define important details of the working arrangements such as the data deliveries, reporting obligations, schedules and composition of working group meetings, process of the S.13 delimitation, etc. The Croatian statistical authorities confirmed that the update of the Annexes was finalised with almost a one-year delay, i.e. in December 2021 and that the new arrangements would therefore be applicable only since January 2022.

As regards the changes implemented with the updated MoU, they mainly concerned the shortened delivery deadlines so that the CBS and CNB will receive data from the MOF for extra budgetary units already at the end of February each year. By the beginning of March, data for social security funds should arrive and, by 8 March, data for the remaining central government and for local government units should be available.

Eurostat enquired about the provision by the MOF of specific information about concessions in public infrastructure, such as the duration of the construction period, amount and recording in public accounts. The MOF confirmed in the meeting that the updated MoU included such provision. Currently, however, these data were not delivered as most concession contracts were negligible in terms of value. In addition, the MOF pointed at the problem of confidentiality that, in general, restrained the contracting parties to disclose concession contracts.

Inter-institutional Working Group

Eurostat recalled the issue discussed in previous EDP visits, according to which the national EDP working group was not able to take a decision about the sector classification of units due to a non-availability of some members. The Croatian statistical authorities explained that this issue was solved in the updated MoU and that, currently, the working group met on a regular basis, i.e., each six weeks or on an ad-hoc basis if needed. The situation where the working group was paralysed to take a decision due to the non-appearance of a member was thus not relevant anymore. The Croatian statistical authorities committed to provide minutes of one of the meetings.

Upon the Eurostat's enquiry, it was also confirmed that the updated MoU reinforced the position of the CBS in the decision making process. In a specific provision, the updated MoU stipulates that, in case of the absence of a consensus, first at the working group and then at the Committee for managing of implementation of the Agreement on Cooperation, the final decision on the sector classification is independently taken by the CBS, or following the consultation with Eurostat. The consultations with Eurostat might be performed at the request of any member of the Committee.

The Working Group for Sector Classification meets to discuss the delimitation of the general government sector and, for this purpose, follows the procedure defined by the so-called *gantogram* (annex 5 to the MoU). According to this procedure, the general government delimitation for the previous year is provisionally determined by 15 January each year and finalised by 5 July of the same year, after receiving final reports of government units. In 2021, due to COVID-19 implications, this process was exceptionally finalised in July. The updated list of general government units is afterwards used for the compilation of the October EDP notification and for the transmission of the Questionnaire on government controlled units by the end of December.

Findings and conclusions

(1) In relation to the institutional responsibilities, Eurostat took note that there was currently no formalised agreement between the Croatian statistical authorities and the State Audit Office. Taking for example the recent findings of the State Audit Office on the housing support programme that were accordingly reflected in the GFS/EDP data, Eurostat thought that the Croatian statistical authorities might benefit from the provision of information from the State Audit Office and accordingly encouraged to formalise a more systematic cooperation.

Deadline for a progress report: end of June 2022

(2) Similarly, the Croatian statistical authorities will consider the possibility to establish a cooperation with the Fiscal Policy Commission on the provision of data relevant for the EDP/GFS data compilation.

Deadline for a progress report: end of June 2022

(3) The Croatian statistical authorities informed Eurostat about the updated Memorandum of Understanding ('Agreement on Cooperation' in Croatian) that was concluded in January 2020. Eurostat took note that the Annexes to the MoU were updated in December 2021. Apart from other changes, the Annexes shortened deadlines for data deliveries and will be therefore applicable from the April 2022 EDP notification for the first time.

Following the updated MoU, the role of the Working Group for Sector classification was emphasised and the position of the CBS in the sector classification decisions was reinforced. Eurostat took note that the Working Group currently meets on a regular basis and minutes from each meeting are available to the Working Group members. The Croatian statistical authorities committed to send minutes from one of these regular meeting to Eurostat.

Deadline: end of December 2021²

1.1.2. Personnel capacity issues in CBS

Introduction

In previous EDP visits, Eurostat identified issues in relation to inadequate personnel resources in the CBS and to insufficient methodological expertise at the CBS in order to compile quality and timely EDP/GFS data. Eurostat was also concerned by a significant staff turnover within the CBS that could have a negative effect on the production and dissemination of data.

In the 2019 EDP visit, the Croatian statistical authorities informed Eurostat about two measures aimed at solving the problem of insufficient personnel capacity at the CBS. These legislative measures were adopted as a part of the prior-commitments³ in the perspective of Croatia joining the euro zone. In particular, in 2019 the CBS adopted the new Regulation on Internal Organisation of the CBS (approved by government in August 2019) and the new Ordinance on internal order of the CBS.

Discussion and methodological analysis

In the meeting, Eurostat enquired about the current situation in the CBS and CNB, as regards the adequacy of personnel and, in particular, about the potential improvement in a number of experts working for the EDP/GFS area.

First, the CBS clarified that, currently, four persons worked for the EDP/GFS unit, i.e. one additional expert had been hired compared to the 2019 EDP dialogue visit. Moreover, there is an IT expert working for another department, who is however at the disposal of the GFS/EDP unit when needed. According to the CBS, the recruiting of other GFS/EDP experts was ongoing⁴.

The CBS representatives also informed about the project aimed to improve the data processing of macroeconomic statistics in the CBS, covering also the GFS/EDP statistics. The main objective was to introduce an upgraded IT solution to data management, rather than an improvement in data sources. The project was however still at the initial stage and, therefore, CBS promised to provide more information later on, when this will be available.

Second, as regards the personnel resources in CNB, Eurostat was informed that, currently, two experts worked in GFS/EDP area and two experts in monetary and financial statistics. The recruiting of additional staff, mainly in the financial accounts statistics, was currently ongoing. Concerning the data processing, the CNB experts mainly rely on MS Excel but also use the connections to other programs. It was mentioned in the meeting that the usage of different programs and, especially, of many different forms of data sources (heterogeneous forms coming from various data providers) hampered the aggregation and processing of data. The main provider remains the MOF, while other data come directly from central government

² The minutes from the meeting of the WG that took place on 29 January 2019, were sent on 17 December 2021.

³ https://ec.europa.eu/info/sites/default/files/economy-finance/com_opinion_on_hr_erm-ii.pdf

⁴ According to the information received in September 2022, the process for new recruitments was cancelled.

bodies: the Ministry of Defence, government agencies (e.g., data on government holdings), the nuclear fund FFRNEK, the Croatian Regulatory Authority (HAKOM) and others. The CNB intended to work on the simplification and unification of heterogeneous data sources in the future, in cooperation with the other statistical authorities.

Findings and conclusions

(4) The Croatian statistical authorities informed about a planned IT project that was aimed at replacing the current manual compilation of EDP/GFS statistics with a centralised IT database solution. Eurostat took note that the project was in an initial public procurement phase.

Deadline for a progress report: end of June 2022

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

1.2.1.1. Automated compilation procedures and IT infrastructure

Introduction

The main data sources used for the compilation of non-financial and financial accounts and EDP tables are the financial reports submitted by budgetary and extra-budgetary units to FINA – the institution responsible for collecting and disseminating financial data from various units included in the general government sector. The reports follow a "modified accrual principle", i.e. expenditure is on an accrual basis (with some exceptions) and revenue is on a cash basis. The second important data source is the money and banking statistics (MBS) produced by the CNB. Other data sources concern the MOF reports on debt securities, government holdings, EU funds, data on military equipment received from the Ministry of Defence, data on loans and borrowings of the Croatian Bank for Reconstruction and Development (HBOR), etc.

Eurostat followed up on the progress in implementing the IT project on financial and statistical reporting that was discussed in two previous EDP dialogue visits and on the related upgrade in the automation of compilation procedures in the CBS.

Discussion and methodological analysis

At the beginning, Eurostat recalled the description of data sources from the EDP Inventory currently published on Eurostat's website. Budgetary and extra-budgetary units of central and local government subsectors submit the financial reports, the so-called FINA reports, on a quarterly basis. From other central and local government bodies, the CBS directly receives preliminary statements (balance sheets, profit and loss accounts) in March that are used for the April EDP notifications. Final statements for those units are available in June and they are used for the October EDP notifications. Other data sources mainly consist of reports of social security funds, annual financial reports published for nonfinancial corporations and non-profit institutions and other complementary information received from various data providers.

Eurostat noticed that the description of data sources in the currently published EDP Inventory does not appropriately describe that fact that the main data source for the compilation of financial accounts of the main central government unit was the MBS and debt securities statistics, both produced by the CNB. The Croatian statistical authorities were asked to amend accordingly the respective parts of the EDP Inventory. In particular, the main data source should be indicated in part (9) Other of the table 2 in part 3.2.1 *Data sources for main Central Government unit* and further described in part 3.2.1.1 *Details of the basic data sources*. Other supplementary data sources such as the SAP report and balance sheets, also used for the compilation of financial accounts, should be described in part 3.2.1.3.2 *Supplementary data sources used for the compilation of financial accounts*.

In relation to the complementary data sources received by the CBS from the CNB, Eurostat enquired about the following sentence from the EDP Inventory: “*Data for capital transfers regarding debt assumptions, capital injections and guarantees called, as well as data for ETS and UMTS are delivered by HNB to DZS on a quarterly basis for all subsectors of general government*”. According to the Croatian statistical authorities, the statement meant that the transactions in shares and other equity extracted from the SAP report (as well as other mentioned data) are delivered by the CNB to the national working group for EDP reporting, where their classification as a financial transaction (F.5) is confirmed or not. If the analysis proves the operation to be recorded as a nonfinancial transaction, the equity acquisition is reclassified to a capital transfer (D.9pay).

SAP report

Separately, Eurostat enquired about the budget execution report (referred in bilateral discussions as the SAP report), which is generated by the SAP IT system of the State Treasury. According to the EDP Inventory, the SAP report provides data on current and capital revenue and expenditure and financial transactions, on a cash basis. In the meeting, it was further specified that the SAP report provided data on transactions, i.e., debits/credits for central government budgetary units participating in the Single Treasury Account and for the Employment and Pension Funds (part of S.1314). The structure of the report strictly follows the Chart of Accounts (classes 1-9) used in public accounting. The SAP report does not show balance sheets positions (class 0). It was, however, not clear from the discussions with the Croatian statistical authorities whether the data reported in the SAP report were on a cash basis (as indicated in the EDP Inventory) or on a modified cash basis (as presented by the Croatian MOF in the meeting). It was therefore agreed that the Croatian statistical authorities would provide to Eurostat an extract/copy of the SAP report together with a note describing the methodology of reporting. Consequently, the Croatian statistical authorities will correct and update all respective parts of the EDP Inventory in order to clarify the content, accounting basis, coverage and use of the SAP report in the GFS/EDP compilation.

The discussion further focused on the use of the SAP report. It was earlier clarified that the report, apart from other information, provided data about disposals and acquisitions of loans, borrowings, securities and equities. The CNB uses the SAP report as a complementary source of information for the compilation of financial accounts and of the EDP Questionnaire table 10. Eurostat recalled the issue of non-availability of data on gross transactions, i.e., of gross lending/gross loan repayments for certain other central government bodies, already discussed in previous EDP visits. The Croatian statistical authorities confirmed that the data sources received from these entities (profit and loss statements, balance sheets) had not been changed

since the previous visit and, therefore, they did not allow obtaining the data on the increase in F.4A and the decrease in F.4A. As a result, F.4 transactions currently reported in EDP tables are rather estimated, based on net balances.

In the absence of this information, Eurostat recommended to use the debit/credit entries from the SAP report. In particular, if the gross lending data (increase in F.4A) from the financial statements are not available, debit transactions in lending from the SAP report could be used as a proxy of the gross lending. Subsequently, the calculated difference to the change of stocks of AF.4 loans assets could be used as a proxy of loan reimbursements. The Croatian statistical authorities committed to provide such compilation of the gross lending and reimbursements and the reconciliation with the stock positions of AF.4A for the period 2019-2020 to Eurostat.

The situation was however different for the HBOR, the national development bank classified inside general government, that is not included in the SAP reporting but for which the transactions in lending were significant. Eurostat thought that, in such case, the debit/credit recording for lending operations should also be available from the HBOR's general ledgers and asked the Croatian statistical authorities to examine the possibilities to obtain such information directly from the HBOR. The Croatian statistical authorities will accordingly inform Eurostat about the outcome.

IT project on Financial and statistical reporting

Eurostat enquired about the IT project that was aimed to provide an access, to both CBS and CNB, to data from the financial statements of the budgetary users in a shorter time and in a more user-friendly and processable way. The access to individual general ledgers of the budgetary units, as proposed by Eurostat, was however not foreseen. From the information provided prior to the EDP visit, Eurostat took note that the IT project on Financial and statistical reporting was already operational and that the financial statements for the first quarter 2022 were the first ones foreseen to be collected through this IT solution.

The main change lies in an automatic uploading of financial statements by users via the web application of the Croatian MOF, instead of collecting and processing the financial reports by FINA, as it was organised in the current system. The FINA will however continue to collect the financial statements for entities not participating to the IT project, i.e. for non-profit institutions (submitting the reporting form NPF) and corporations (submitting the form GFI-POD). In addition, MOF took over from FINA and it will maintain and regularly update the Register of budgetary and extra-budgetary users, i.e. the list of providers of data to the IT system. The Croatian statistical authorities also mentioned a series of workshops and trainings already organised for data providers as well as for data users (national authorities).

From the discussions in the meeting, Eurostat understood that the financial statements of entities were to be uploaded to the system and, after 8 March (deadline for the provision of data by the MOF according to the MoU), they might be retrieved by both the CBS and CNB in .csv format. The CNB suggested creating an interface, in order to access the data immediately after their loading, which was however not considered as feasible from the Croatian MOF's point of view. It was further specified that the CNB and CBS would have their own role to enter the application, similar to the one of data users; however, their access would still be different from the one of the MOF.

Concerning the level of detail, Eurostat took note that the coverage and content of collected data remained the same and that it was thus only the technical way in which to collect the financial reports, which has changed. Upon Eurostat's enquiry, the Croatian statistical authorities confirmed that, although the national accounts were currently not compiled at the level of an individual unit, the detailed data for individual entities, e.g., for ministries allowing to do so, were available.

Automation of data compilation procedures

In the 2019 EDP dialogue visit, Eurostat pointed at several problems linked with an insufficient automation of data compilation procedures in GFS/EDP statistics in the CBS, potentially implying a risk of lower quality data. Following Eurostat's recommendations, the CBS introduced several improvements that facilitated the upgraded automated compilation of ESA tables.

In the meeting, the CBS representatives informed about a separate MS Access database that has been created to integrate raw data from all existing sources (PR-RAS, balance sheets, SAP report and other sources). Such summarised data are afterwards transferred to Excel tables. The raw data included in the first Excel sheet are automatically transposed, using the bridge tables in the second sheet. A third sheet was created for ESA adjustments and changes resulting from sector reclassifications, in order to keep the transposed data and ESA-related adjustments separate and easy to be independently updated in case of need. The last Excel sheet then presents the ESA transposed data, including the specific ESA adjustments and sector classification changes, to be submitted to Eurostat. In case of data updates, both raw data and transposed variables thus can be easily updated, using the automatic links, without time-consuming manual updates observed in the previous data processing.

The new compilation system allows the compilation of nonfinancial accounts separately for units or groups of units at the level 41 – extra-budgetary users of the State Budget, including social security funds. Following this change, non-financial and financial accounts for certain other central government bodies, such as tourist boards, port authorities, etc., might be compiled and reconciled. Eurostat however noticed that the 'main entity' of the central government was not compiled as a sum of the levels 11 – budgetary users of the State Budget non-consolidated - and level 13 – the State Budget -, but rather as a residual of the central government and the remaining other central government bodies. As a result, the consolidation intra-subsector and between subsectors was not provided in the reconciliation table requested by Eurostat.

The above-mentioned reconciliation however could not be applied for the levels 12 and 13 because the financial accounts were currently not compiled at such detail. Eurostat acknowledged certain progress in the automated data compilation but thought that, for the purpose of data reconciliation and reducing the statistical discrepancies (currently exceeding 0.2% of GDP in some years), these data should be compiled by the CNB at the required level. The Croatian statistical authorities were therefore asked to provide an updated table reconciling the nonfinancial and financial accounts for S.13 units or groupings of units, showing the budgetary units (levels 12+13) and separately the consolidation (in column 22).

Findings and conclusions

(5) Concerning data sources, Eurostat understood that the SAP report provided data on transactions, i.e. debits/credits for central government budgetary units participating in the Single Treasury Account, according to the Chart of Accounts (classes 1-9), without balance sheets positions.

In the absence of gross lending data (increase and decrease in F.4A), Eurostat recommended using debit transactions from the SAP report as a proxy of the gross lending (with the difference to change in stocks of loans assets being used as a proxy of reimbursements). The Croatian statistical authorities will provide such compilation of gross lending and reimbursements and the reconciliation with stock positions of AF.4A for the period 2019-2020.

Deadline: end of February 2022

(6) In relation to the previous action point, Eurostat took note that HBOR is not included in the SAP reporting and, therefore, debit/credit transactions as described in the previous action point are not immediately available to the Croatian statistical authorities. Nevertheless, Eurostat thought that such debit/credit recording for lending operations should also be available from the HBOR's general ledgers and asked the Croatian statistical authorities to examine possibilities to obtain such information directly from HBOR.

Deadline: end of February 2022

(7) Eurostat observed that the current description of data sources for the main central government unit in the EDP Inventory does not appropriately reflect the fact that the main data sources for the financial accounts compilation are money and banking statistics and debt securities statistics, though other supplementary data sources such as SAP report and balance sheets are also used. The Croatian statistical authorities were therefore requested to adapt the related text of the EDP Inventory and tables accordingly.

Deadline: end of May 2022

(8) The Croatian statistical authorities will adapt the EDP Inventory in order to clarify in sufficient detail the content, accounting basis, coverage and use in the GFS/EDP compilation of the SAP report that is regularly provided by the MOF to the CBS and CNB.

Deadline: end of May 2022

(9) Eurostat understood that the accounting basis of the SAP report recently changed. The Croatian statistical authorities will provide to Eurostat an extract/copy of the SAP report and a description of the accounting principles currently applied for the SAP report, in particular whether the report provides stock positions or only flows and whether the flows are reported on a cash or modified accrual basis.

Deadline: end of February 2022

(10) The Croatian statistical authorities will amend the current text of the EDP Inventory: "Data for capital transfers regarding debt assumptions, capital injections and guarantees called, as well as data for ETS and UMTS are delivered by HNB to DZS on a quarterly basis

for all subsectors of general government” in order to reflect more clearly the fact that transactions in shares and other equity (extracted from the SAP report) are delivered by the CNB to the working group for EDP reporting, where their classification as a financial transaction (F.5) is confirmed or not. If the latter, the equity acquisition is reclassified to a capital transfer (D.9pay).

Deadline: end of May 2022

(11) Eurostat took note that the current system of FINA collecting financial statements of budgetary and extra-budgetary users would soon be replaced by the new IT solution, according to which the reporting units upload their financial statements directly through a web application, and not through FINA as before. The financial statements of non-profit institutions and corporations remain to be collected by FINA. In order to access the data collected by the MOF, the CBS and CNB will have the possibility to enter the web application. Eurostat took note that the level of detail accessible to CBS and CNB remained the same.

(12) The Croatian statistical authorities will send an updated table reconciling the NFA and FA accounts for S.13 units or groupings of units, showing the budgetary units (levels 12+13) and separately consolidation (in column 22).

Deadline: end of May 2022

1.2.2. Compliance with Council Directive 2011/85

Introduction

The fiscal data and reconciliation table compiled according to Council Directive 2011/85 are published by the Croatian MOF. The CBS publishes data on contingent liabilities. At the time of the EDP dialogue visit, the CBS published data on guarantees in % of GDP for the period 2015-2020. The data for off-balance PPPs and non-performing loans (NPLs) covered the period 2017-2020. The data for liabilities of government controlled entities classified outside general government and participation of general government in the capital of corporations covered the period 2017-2019 (2020 data to be published by the end of December 2021). Compared to the 2019 EDP visit, the Croatian statistical authorities commenced to publish data on nonperforming loans of general government.

Discussion and methodological analysis

Prior to the visit, Eurostat analysed the consistency of data nationally published by the CBS with those submitted to Eurostat according to official reporting deadlines. As a result, some inconsistencies were identified for guarantees and for liabilities of public corporations. Concerning the data on guarantees, Eurostat pointed at the inconsistency in data published on the CBS's website by end-October 2021 with the data reported in the October 2021 EDP notification for the period 2018-2020 and with the Supplement to EDP notification reported in December 2020 for the years 2018 and 2019. The Croatian statistical authorities committed to analyse the issue and to report to Eurostat.

As requested prior to the visit, the Croatian statistical authorities submitted to Eurostat the Questionnaire on government controlled entities classified outside general government for 2020. Some minor inconsistencies were observed by Eurostat for 2017, when comparing the nationally published figures with the data reported in Eurostat's database. Similarly, the Croatian statistical authorities will analyse the issue and inform Eurostat about the results.

Furthermore, Eurostat reviewed the data on liabilities of public corporations for 2020, reported by the Croatian statistical authorities, ahead of an official reporting deadline (end of December 2021). In 2020, the total outstanding liabilities of government controlled entities increased to 10.26% of GDP, compared to 8.36% of GDP in 2019, which seemed to be mainly related to the liabilities of the *Hrvatska Postanska Banka*. This information and the clarification for such development was provided by the Croatian statistical authorities, later on, in the meeting.

Findings and conclusions

(13) The Croatian statistical authorities will clarify the inconsistencies in the stock of guarantees published on the CBS's website according to the Council Directive 2011/85 with the data reported in the October 2021 EDP notification for 2018-2020 and in the Supplement to EDP notification for 2018 and 2019 reported to Eurostat in December 2020.

Deadline: end of February 2022⁵

(14) The Croatian statistical authorities will clarify the difference observed in the stock of liabilities of government controlled entities classified outside general government for 2017, as published on the CBS's website according to the Council Directive 2011/85, and as reported to Eurostat in the Questionnaire on government controlled entities classified outside general government (and published in the Eurostat's website).

Deadline: end of February 2022⁶

(15) Eurostat observed a significant increase in the liabilities of government controlled entities classified outside general government for 2020 that seemed to be related to the *Hrvatska Postanska Banka*. The Croatian statistical authorities committed to clarify the reason for such increase.

Deadline: end of January 2022⁷

1.2.3. EDP Inventory

Introduction

⁵ The explanation was sent on 22 February 2022 and the nationally published data on guarantees were accordingly corrected.

⁶ The issue was clarified on 10 March 2022. The inconsistency was related to the rounding of reported figures.

⁷ The Croatian statistical authorities clarified later on in the meeting that the major part of the increase was related to the increase of deposits and to some structural operations in the *Hrvatska Postanska Banka*.

The latest updated version of the EDP Inventory was provided to Eurostat in March 2021 and published on Eurostat's website in May 2021.

Discussion and methodological analysis

Eurostat thanked the Croatian statistical authorities for providing the updated EDP Inventory in March 2021 and recalled that the document, published on the Eurostat's website, should be kept up-to-date, including the Annex 1 (list of S.13 units). In relation to this, Eurostat pointed at the recent methodological changes such as the new debt instrument AF.2L/F.2L that accordingly need to be reflected. The Croatian statistical authorities were therefore invited to provide an updated EDP Inventory by the end of May 2022.

Findings and conclusions

(16) The Croatian statistical authorities will update the EDP Inventory, reflecting recent changes in the compilation of EDP/GFS statistics, new Maastricht debt instrument (AF.2L), renaming of some government units (DAB to HAOD), etc.

Deadline: end of May 2022

2. Follow-up of the previous EDP dialogue visit of 16-18 December 2019

Introduction

The previous EDP dialogue visit to Croatia took place on 16-18 December 2019 and resulted in 58 action points. There are still a number of open action points that are only partially completed or have not been addressed by the Croatian statistical authorities yet.

Discussion and methodological analysis

Eurostat commented on a number of open action points from the previous EDP dialogue visit. The intention was to discuss most of them under respective points of the agenda. The remaining ones were followed up under this item.

First, Eurostat asked about any new developments as regards the forced conversion of bank loans from CHF to EUR in 2015. In 2015, bank customers were allowed to convert their loans denominated in CHF into EUR-denominated loans (via an option, mostly concerning mortgage loans) at a favourable (for the customers) historical exchange rate. The CNB estimated that the negative effect from such conversion to the banks was approximately HRK 7 billion in total. Accordingly, four banks initiated an international arbitration court dispute in order to claim this amount from the Croatian government. During the meeting, the Croatian statistical authorities informed Eurostat that five banks have suspended the lawsuits while two banks did not. According to the Croatian statistical authorities, there were no implications on government deficit or debt.

Second, Eurostat followed up on the recording of government claims on the *Forte Nova Group*, a successor company created after the restructuring of the *Agrokor Group*. Similarly to the previous case, the issue was followed up in a number of EDP dialogue visits. From previous discussions, Eurostat took note that, after the private holding company *Agrokor*

Group experienced significant financial distress, a special law was passed in 2017 that considered the *Agrokor Group* as ‘too big to fail’. Consequently, the holding company was restructured according to the Settlement plan. This plan enacted the HBOR, together with a group of the largest creditors, to assume control over the newly created *Forte Nova Group*. In 2017, the major part (HRK 505 million) of the HBOR’s claim of a total value of HRK 539 million was recognised as new debt and of the company and it was intended to be repaid as loans. Another part of the claim of HRK 4.5 million was converted into so-called new instruments and HRK 34 million remained under legal dispute. A negligible part of the loans (HRK 0.3 million) was written-off.

Eurostat enquired about the new developments in the case and, in particular, about the HBOR’s claim that was, according to the Settlement plan, collateralised for the total value of the claim. Eurostat further enquired about the conversion of part of the loans into equity instruments, which should be capital injection tested. Further questions concerned the existence and the recording of claims of other government entities towards the *Forte Nova Group*. Since the Croatian statistical authorities were not in a position to provide answer to these questions, Eurostat asked for a detailed analysis of the statistical implications after the EDP visit.

Findings and conclusions

(17) Eurostat followed up on the forced conversion of bank loans from CHF to EUR in 2015 and on a potential impact of the court decisions on net lending/ net borrowing of general government or in GFS more generally. The Croatian statistical authorities will report back to Eurostat in case of any relevant implications.

*Deadline: end of January 2022*⁸

(18) Eurostat followed up on the HBOR’s claim (HRK 539 million) (and, potentially, other government bodies’ claims) on the *Agrokor group*, which was restructured in 2018. Another HBOR’s claim was converted into equity instruments. The Croatian statistical authorities will examine the recording of these claims and, notably, the appropriate recording of the part of the claim under legal dispute (HRK 34 million).

*Deadline: end of February 2022*⁹

3. Analysis of EDP tables – follow up of the October 2021 EDP notification

Introduction

Eurostat followed up on the issues discussed during the October 2021 EDP notification. Those mainly concerned the recording of deferred assets/deferred liabilities and other technical issues.

Discussion and methodological analysis

⁸ The action point was clarified during the meeting and will be followed up in case of any developments.

⁹ Some partial information was provided in the April 2022 EDP notification.

Eurostat recalled that, in the EDP Questionnaire table 4, the Croatian statistical authorities reported specific categories of other accounts receivable/payable (F.8), for which the content was not fully clarified. The first category concerned the ‘Receivables/payables of public corporations reclassified in S.1311/S.1313’, without providing further information about the content or type of receivables/payables. Eurostat therefore asked to disaggregate the item and to provide additional breakdown according to the type of F.8, so that an appropriate analysis of the transactions could be allowed. Regarding the ‘Other unspecified items’, the Croatian statistical authorities claimed that this item usually appears in an aggregated form in the balance sheet without further details on the content or on the counterpart. Eurostat took note but thought that, if this item showed significant values, the content should be properly analysed, starting with the largest units.

Deferred assets/deferred liabilities

In relation to another category of F.8, reported in the Questionnaire table 4 as ‘Deferred assets/deferred liabilities’, the Croatian statistical authorities had previously provided a note that aimed to explain the most important items included in this category. The main data source are the balance sheets of other government bodies. The deferred assets/deferred liabilities mostly refer to the time adjustments of distributive transactions. Notably, these items include the pre-paid expenses (account 191), undue revenue collection (192), continuous prepaid expenses (193) and prepaid revenues (194).

According to the note, two of them, namely pre-paid expenses (191) and the undue revenue collection (192), might include receivables/payables relating to discounts, premiums and EU funds. Eurostat considered that, since the adjustments related to ESA categories (discounts, premiums, EU funds, etc.) are separately recorded, e.g., there is a specific ESA adjustment that neutralises EU flows or the calculation of discounts/premiums by the CNB based on an ISIN code, there might be double recording of F.8 in national accounts. Furthermore, Eurostat thought that the high statistical discrepancy reported by the Croatian statistical authorities in EDP tables might exactly point to this fact.

The Croatian statistical authorities claimed that, for instance in case of the undue revenue collection (192), the receivables related to claims on EU funds could not be isolated from other receivables reported in this aggregated category because no further details were available. In such case, Eurostat recommended that the Croatian statistical authorities would make a statistical adjustment for those deferred assets/deferred liabilities that were already included in other categories of receivables/ payables (e.g. EU flows) or in other instruments (e.g. discounts, premiums, etc.), in order to avoid double counting these items. The Croatian statistical authorities will also provide an updated note on the recording and content of the deferred assets/deferred liabilities in public accounting.

Recording of HAOD’s operations

In the October 2021 EDP notification, Eurostat discussed the recording of operations undertaken by the Croatian insurance deposit agency (HAOD, former DAB). The HAOD is responsible for two main activities: (i) the deposit insurance collecting deposit insurance premiums and (ii) the resolution fund collecting contributions from banks to finance potential rescue operations. Prior to the visit, the Croatian statistical authorities provided a table with

resolution operations (recorded as a capital transfer D.9pay) and amounts of recoveries (D.7rec) for 2010-2020.

Concerning the resolution activities, Eurostat took note that the main rescue operations concerned the recapitalisation of the *Hrvatska postanska banka* (2010 and 2015), the recapitalisation of *Croatia banka* (2012) and the resolution of *Jadranska banka* (2016). All operations were recorded in national accounts with a negative impact on B.9. In case of interventions relating to the deposit insurance scheme, the Croatian statistical authorities recorded in all cases the government expenditure (D.9pay) on an accrual basis. Potential recoveries from bankruptcy procedures of liquidated banks are always recorded on a cash basis at the time of cash proceeds. Eurostat understood that no claims relating to potential recoveries were recorded in national accounts. From the table provided prior to the EDP visit, Eurostat took note that, in 2018, most of the revenues from recoveries related to *Credo banka* and *Banka splitsko-dalmatinska* and that, in 2019, the largest part referred to *Credo banka* and *Centar banka*. It was however not clear whether any claims were recorded in national accounts relating to the interventions carried out in the past. The Croatian statistical authorities will clarify in a note the recording, in HAOD's accounts, of the bank rescue operations relating to the three banks mentioned earlier and if any claims from expected recoveries relating to past bank rescue operations or deposit insurance interventions, including provisions on the claims, were recorded in public accounts. The note should also analyse whether the claims should be accordingly considered in national accounts.

In this respect, Eurostat mentioned the option of recording the bank rescue operations according to the 'expected loss approach'. In such case, the Croatian statistical authorities would record, at the time of the bank rescue, the government expenditure (D.9pay) not for the full amount of the intervention but adjusted by the amount of recoveries expected to be received in the future. The Croatian statistical authorities will reflect on the 'expected loss approach' recording and will inform Eurostat accordingly. Finally, Eurostat requested the Croatian statistical authorities to provide the nonfinancial and financial accounts for HAOD for the past 10 years, specifying the main bank rescue operations.

Findings and conclusions

(19) The Croatian statistical authorities will update the information on the recording and content of the deferred assets/ deferred liabilities items in public accounting (recorded within AF.8) sent to Eurostat in the past. In addition, in the April 2022 EDP notification, they will make a statistical adjustment for those deferred assets/ deferred liabilities that are already included in other categories of receivables/ payables (e.g. EU flows) or in other instruments (e.g. discounts, premiums, etc.), in order to avoid double counting these items.

*Deadline: April 2022 EDP notification*¹⁰

(29) Concerning the recording of HAOD transactions, Eurostat took note that, in 2018, most of the revenues from recoveries related to *Credo banka* and *Banka splitsko-dalmatinska* and that, in 2019, the largest part referred to *Credo banka* and *Centar banka*. The Croatian statistical authorities will clarify the recording, in HAOD's accounts, of the bank rescue

¹⁰ In the April 2022 EDP notification, the Croatian statistical authorities confirmed that the stocks of discounts and premiums were excluded from the stock of deferred assets/deferred liabilities.

operations relating to the three banks, in particular when and in which accounts the bank rescue operations were booked.

Deadline: end of February 2022

(30) The Croatian statistical authorities will also clarify on which basis claims from expected recoveries are recorded in HAOD's accounts and, in particular, whether any provisions to the claims are booked.

Deadline: end of February 2022¹¹

(31) In this respect, the Croatian statistical authorities will reflect on the possible 'expected loss approach' recording of bank rescue operations, i.e. recording, at the time of bank rescue, the expenditures (D.9pay) adjusted by the amount of expected recoveries.

Deadline: April 2022 EDP notification

(32) The Croatian statistical authorities will provide to Eurostat non-financial and financial accounts for HAOD for the past 10 years, specifying the main bank rescue operations.

Deadline: end of February 2022

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of 50% rule in national accounts

4.1.1. Application of the market/non-market test

Introduction

The CBS is the authority responsible for the sector classification of units in Croatia and for the maintaining the Statistical Business Register. The delimitation of the general government sector is usually discussed in the inter-institutional Working group for Sector classification.

Discussion and methodological analysis

Statistical Business Register

Eurostat recalled the issue discussed in the previous EDP dialogue visit in 2019 where it was recommended to the Croatian statistical authorities to use other information sources, such as court registries, the privatisation agency or the agency for sale and restructuring, in order to

¹¹ In the April 2022 EDP notification, the following information was provided by the Croatian statistical authorities: "When there is an activation of the Deposit guarantee fund, HAOD records expenditure on accrual basis (together with liability) for the total amount of guaranteed event. Stock of receivables from bankruptcy estate are recorded in the Balance sheet in the same amount as recorded liabilities. HAOD records revenue (on cash basis) only when receivables are encashed what is also recorded in the same way in NA. There are no other types of recovery. HAOD does not sell receivables from bankruptcy estate and doesn't record any provisions to these receivables. Receivable is written off just in the cases if the bankruptcy procedure is finished (when there is no bankruptcy estate left) or the bank is deleted from the court registry."

obtain information about the public control of entities (subsectors of control, direct control, etc.). The information would serve for a regular update of the Statistical Business Register. In the meeting, the Croatian statistical authorities confirmed that the most relevant information was obtained from the court registries and from the Central Depository and Clearing Company. The main problem identified was the non-availability of information on the public companies that were inactive or in a bankruptcy procedure for very long period (e.g. 20 years). Despite their inactivity and thus the fact that no information was available, these companies are still considered public by national authorities, assuming that they would be privatised in the future. The Croatian statistical authorities confirmed that, currently, these entities were classified inside general government, unless the information about the change of the ownership in the process of privatisation was obtained.

Furthermore, Eurostat asked about the use of the Register of Ultimate Beneficial Ownership created in 2019. Eurostat understood that the Register was maintained by the Anti-Money Laundering Office and integrated in the MOF. At the time of the meeting, the access was still not granted to the CBS. The Croatian statistical authorities will investigate the content of the information actually available in the Register and the possibility of using this information for the purpose of identification of publicly controlled entities.

Market/non-market test

With regard to the application of the market/non-market test, Eurostat followed up on the practice of excluding the investment maintenance costs from the formula. The issue was already discussed in previous EDP dialogue visits and the practice had been considered as not appropriate by Eurostat. From a methodological point of view, Eurostat argued that, if these costs were incurred to improve the production value of the asset or to prolong the life of the asset, and therefore capitalised in the value of the asset, the counterpart entry should be reflected in revenues. If so, for the purpose of the market/non-market test, the investment maintenance should be excluded from both sides – from the sales as well as from the production costs. Currently, the investment maintenance costs were excluded only from the production costs side.

The Croatian statistical authorities provided as an argument the analysis carried out in six public nonfinancial corporations with the most significant amounts reported for this item (267 – Investment maintenance, as indicated in the Chart of Accounts). Out of six companies, four entities were relevant for the analysis due to the investment maintenance services provided externally, and not on their own account (as in the case of the other two). Out of the four, three companies did not capitalise the costs in the value of the asset so the investment maintenance was included in AOP item 135 – Material cost. One company capitalised the costs incurred for the investment maintenance in the value of the assets. According to the Croatian statistical authorities, none of the analysed units recorded a corresponding revenue in the profit and loss statement.

Eurostat explained that, if the investment maintenance costs were not included in the item 135 – Material costs, as it was the case for one company, because they are included in the value of the asset, the costs are usually reflected in the amortisation recorded in later years and, consequently, in the productions costs. On the contrary, if the investment costs are included in the Material costs, as in the case of the three companies, the correction applied by the Croatian statistical authorities is not appropriate because they should be included in the

production costs. Based on these arguments, the market/non-market test might be distorted and, particularly, for the entities that carry out a significant maintenance in periodic cycles. Eurostat therefore requested the Croatian statistical authorities to correct the 50% formula. Accordingly, the investment maintenance will be included in the sum of production costs, contrarily to the current practise. Alternatively, if the amount of the investment maintenance is excluded from 'Material cost' (AOP 135), a corresponding addition to the amount to the amortisation must be imputed, using a suitable smoothing over the past years.

During the meeting, the Croatian statistical authorities informed Eurostat that, based on the information immediately available, the correction of the market/non-market test, as requested by Eurostat, should not have a significant impact due to minor amounts resulting from the change. It was therefore agreed to postpone the implementation of the action point to the October 2022 EDP notification.

Following the Eurostat's enquiry, the Croatian statistical authorities confirmed that both scholarships and severance payments were reclassified from the intermediate consumption (P.2) to compensations (D.1), as requested by Eurostat in previous EDP dialogue visit.

Qualitative criteria

Finally, the issue of applying qualitative criteria in the sector classification of units was discussed. The Croatian statistical authorities aimed to collect information on qualitative criteria in order to verify the sector classification of units, whose only or major client is government, through the introduction of a new survey. In the first phase, a population of entities controlled by general government was identified, by collecting information on government ownerships, acquisition/sales of equities, on tendering procedures, etc. In the second stage, approximately 2000 of these identified entities were supposed to be further surveyed in order to collect information on qualitative criteria so to update the list of public corporations in the Statistical Business Register and to collect other relevant information for EDP/ GFS compilation (e.g. capital injections).

In the meeting, the Croatian statistical authorities informed that, due to specific circumstances (COVID-19 pandemic and other constrains), the second phase had to be postponed. Eurostat therefore decided to retain the action point 27¹² of the 2019 EDP dialogue visit regarding the questionnaire designed to collect information on the ownership structure and on the qualitative criteria (main clients, etc.).

Findings and conclusions

(41) The Croatian statistical authorities will investigate the content of the information actually available in the Register of Ultimate Beneficial Ownership and, mainly, the possibility of using this information for the purposes of the identification of publicly controlled entities.

¹² Action point 27: In relation to the qualitative criteria, Eurostat took note that a first questionnaire to gather the ownership structure has been circulated (phase 1) and that a second questionnaire, run by the CNB, designed to collect information on qualitative criteria (main clients, etc.) will be sent to Eurostat for comments prior circulating to the units concerned (phase 2). This survey may be the occasion for collecting specific information relevant for GFS/ EDP compilation, such as capital injections.

Deadline for a note: end of May 2022

(42) In relation to the formula of the market/non-market test, Eurostat considered the current practice of excluding the investment maintenance from the production costs as incorrect. Accordingly, the Croatian statistical authorities will amend the formula of the market/non-market test by keeping included the investment maintenance to the sum of production costs. Alternatively, if the amount of investment maintenance is excluded from 'Material cost' (AOP 135) a corresponding addition to the amount to the amortisation must be recorded (using a suitable smoothing over past years). The Croatian statistical authorities will provide the corrected formula to Eurostat. Considering the limited impact of the related revision, Eurostat agreed with delaying the implementation of the correct market/non-market test for the October 2022 EDP notification.

Deadline for providing the formula and an accompanying note on the impact of the revision: end of August 2022¹³

Deadline for the implementation of the amended formula of the market/non-market test: October 2022 EDP notification

(43) Eurostat will retain the action point 27 of the 2019 EDP dialogue visit regarding the questionnaire designed to collect information on the ownership structure and on the qualitative criteria (main clients, etc.). Eurostat took note that the phase 1, which identified a population of entities controlled by government, was already implemented in 2020. The phase 2, not realised yet, is aimed at circulating a second questionnaire, which will gather information about the qualitative criteria.

Deadline for a progress report: end of June 2022¹⁴

4.1.2. Government controlled entities classified outside general government (public corporations)

Introduction

Prior to the visit, the Croatian statistical authorities sent the Questionnaire on government controlled entities classified outside general government, covering data for the year 2020. The list included 663 units, of which five units classified in the financial corporations sector (S.12). No government controlled entity was classified in S.15 and S.2. Out of 663 units, 32 units reported liabilities more than 0.01% of GDP, i.e. in total HRK 38 810 million (10.26% of GDP).

Discussion and methodological analysis

¹³ In February 2022, the Croatian statistical authorities informed that the 50% formula was adapted, as requested by Eurostat. The change resulted in one new unit that will be reclassified inside general government in the October 2022 EDP notification.

¹⁴ In February 2022, the Croatian statistical authorities informed that the second phase of the qualitative survey would be launched by the CBS or by the MOF. It was also mentioned that, meanwhile, for some units, the qualitative criteria were assessed on an individual basis, resulting in their reclassification inside general government.

At the beginning, Eurostat reviewed the list of the government controlled entities reported in the Questionnaire provided prior to the visit and pointed, in particular, at those that reported results of the market/non-market test below 50%. Some of those units did not pass the market/non-market test due to a zero reported in one of the indicators: either zero sales or zero production costs. Eurostat explained that such entities were to be immediately considered as non-market, unless there were other justified reasons for not doing so. If the unit reports zero sales, it is likely that the production is covered by government transfers, which implies the non-market character of activities. The Croatian statistical authorities committed to reclassify 13 units not complying with the market/non-market test to general government in the April 2022 EDP notification.

SPV za Sanaciju d.o.o.

One of the entities not complying with the market/non-market test was the *SPV za Sanaciju d.o.o.*, currently classified in S.12. In the meeting, the Croatian statistical authorities explained that the SPV, 100% owned by the HAOD, was created with a specific purpose to settle claims of the financially distressed *Jadranska banka d.d.* In 2016, the HAOD provided HRK 573 million (recorded with a negative B.9 impact) in the process of the resolution of *Jadranska banka* and received, in turn, receivables for an amount of HRK 150 million and liabilities of HRK 134 million. Both the receivables and liabilities were transferred to the newly created *SPV za Sanaciju d.o.o.* established for this purpose. No guarantees were provided by government during the process. According to the information available in the meeting, the creditor of the SPV's liabilities (HRK 134 million) was the HAOD, as equity holder. The Croatian statistical authorities committed to verify this information, including the valuation of the assets transferred to SPV for an amount of HRK 150 million.

Based on the information provided in the meeting, Eurostat considered that the *SPV za Sanaciju* was a typical public defeasance structure, set up by a government unit (HAOD) with the aim to settle bad assets and liabilities of a bank in financial distress, and should therefore be classified inside general government. Eurostat also understood that it was the recommendation of the CNB to classify the SPV inside S.13, which was however not followed by the inter-institutional Working Group for Sector Classification. For any similar cases in the future, Eurostat recommended the Croatian statistical authorities to ask for an official Eurostat advice, which is the practise commonly used by Member States.

The Croatian statistical authorities were requested to analyse the sector classification of the entity and to provide nonfinancial and financial accounts for the entity since 2016, when it was established. The analysis should also cover the recording and valuation of the assets (HRK 150 million in 2019) and liabilities (HRK 134 million in 2019, by type and counterparts) transferred to the SPV from the *Jadranska banka*. The Croatian statistical authorities will also provide Eurostat with the minutes of the meeting of the Working Group for Sector Classification, where it was decided to classify this entity in S.12.

Zagrebacka Stanogradnja d.o.o.

The following discussion focused on the entity, for which the result of the market/non-market test changed from 94% in the year 2018 to 2.1% in 2019 and to a negative value -5.1% in 2020. As explained by the Croatian statistical authorities, the *Zagrebacka Stanogradnja d.o.o.* was established by the *Zagrebacki Holding* in 2013 as one of 12 subsidiaries operating in five

different areas (real estate, utility services, water supply, transport, etc.). In 2020, the entity employed one person. The *Zagrebacka Stanogradnja* was established with the aim to build the apartments in Zagreb and to rent or to sell them afterwards, according to a complex agreement concluded between the *Zagrebacki Holding* and the City of Zagreb in 2008. Significant revenues from the sale of apartments thus explained the very high results of the market/non-market test in previous years (94% in 2018, 101% in 2017, 140% in 2016), which afterwards turned to close to zero or to negative when the sales terminated.

Eurostat considered that the entity was established by a public head office *Zagrebacki Holding* with the main purpose of the construction and sale of apartments. Currently the *Zagrebacka Stanogradnja* exercised very low production and revenues. The Croatian statistical authorities will therefore analyse whether the unit should be reclassified inside general government (given that the results of the market/non-market test are below 50% or negative). Alternatively, the entity might be considered as an ancillary unit of the *Zagrebacki Holding* and thus it will remain classified in S.11. In such case, Eurostat asked to report the entity, for practical reasons, separately in the Questionnaire on public corporations as a local kind-of-activity unit. Eurostat also noted that the *Zagrebacki Holding* incurred losses in 2020 and asked the Croatian statistical authorities to report them accordingly in Part IV in the EDP Questionnaire table 10.2.

Professional chambers

In the Questionnaire on government controlled entities, the Croatian statistical authorities reported a list of 12 professional chambers classified in S.11 while the publicly available sources¹⁵ indicated 23 professional chambers existing in Croatia. According to the Croatian statistical authorities, the Statistical Business Register currently registered 21 professional chambers, of which 12 units were considered public and classified in S.11 and the remaining nine associations were classified in S.15 as private non-profit institutions serving households (NPIs). Some of the chambers are associations of individuals, e.g. of road freight transporters and, as such, they seem to be rather interest associations while in other chambers (e.g. Bar associations or some medical occupations) the membership is an obligatory condition to carry out the specific activity.

Eurostat recalled that, according to the current rules, a unit has to comply, first, with the definition of a non-profit institution, i.e., an entity which does not commonly generate profit or, if it does, the profit cannot be distributed to owners. Second, the existence of public control has to be assessed. ESA reads that NPIs controlled by general government are to be classified in S.13. If the NPI is classified in S.15, it cannot be considered public and it has to serve households. Eurostat had doubts about the classification of some Croatian chambers of crafts in S.11. These NPIs seemed rather to serve households in their capacity of consumers (including the small craft individuals classified in S.14) and not of producers.

Eurostat also referred to its earlier email addressed to the Croatian statistical authorities pointing to a set of criteria to be examined. Notably, if there was an existence of a unique professional chamber in each sector/field of activity or, alternatively, if there are more chambers competing in the same industry, whether a company/individual has an obligation to register with the unique or with several chambers, the conditions that need to be fulfilled

¹⁵ <https://psc.hr/en/professional-chambersassociations-croatia/>

before registering with a chamber, whether a particular chamber can bar the membership of a concrete company/individual, the obligation to pay memberships fees, etc. It was also mentioned in the meeting that the issue of sector classification of NPIs needs further general discussion in the statistical community.

The Croatian statistical authorities informed that, as a follow up of the earlier Eurostat's email, they have launched a collection of requested information from all 21 chambers. At the time of the meeting, the answers were sent to the Working Group on Sector Classification. The results of the analysis, reflecting the elements pointed out by Eurostat in the meeting, will be sent to Eurostat.

VIZIR d.o.o.

Eurostat followed up on the sector classification of the public unit VIZIR d.o.o., currently in S.11 with a NACE code 84 (Public administration and defence). The entity was established in 1988 and its main activity is the fire protection and fire service activities. VIZIR is partly owned by the Port of Ploče d.d. (49%) and by the Ploče Port Authority (51%). It is therefore a public unit providing fire protection services to private companies operating in the area. Eurostat considered as inappropriate that a public unit classified outside S.13 operated in the category NACE 84 that is exclusively assigned to government units. The Croatian statistical authorities will thus analyse the activity of the entity and will reflect on the following: (1) if the entity is considered a public non-market company, based on the market/non-market test, it should be reclassified inside government, or (2) the NACE code 84 of the entity should be changed, if considered appropriate or (3) the entity could be deemed as an ancillary unit to the private shareholder and, accordingly, a local KAU would be distinguished (possibly with NACE 84 in such a case, as the output can then be considered market by convention).

Units in liquidation

Similarly to previous EDP dialogue visits, Eurostat reviewed the list of public units in liquidation/bankruptcy (units having '*u stečaju*' as an addition to the title) classified outside general government and enquired about two of them. The *TZV GREDELJ d.o.o., u stečaju* reported results of the market/non-market test well above 50% and incurred a loss in 2020. The second one *Proizvodnja – regeneracija, d.o.o. u stečaju* reported very unusual results of the 50% test (1072% in 2019 and 602% in 2018). Eurostat also noticed zero employees working for this company.

Since no detailed information about the two units was immediately available, the Croatian statistical authorities committed to analyse these two entities and to report to Eurostat the results of the analysis.

Findings and conclusions

(44) The Croatian statistical authorities will reclassify, inside general government, 13 units identified in the meeting for the years when the result of the market/non-market test was below 50% or when one of the indicators – production costs or sales – was zero.

Eurostat stressed that units with zero production costs or zero sales are to be considered as failing the market/non-market test and, accordingly, to be reclassified inside general government.

Deadline: April 2022 EDP notification¹⁶

(45) The Croatian statistical authorities will analyse the sector classification of the public defeasance structure *SPV za Sanaciju d.o.o.*, currently classified in S.12. The note should provide non-financial and financial accounts for the entity since its creation in 2016 and an analysis of the assets (HRK 150 million in 2019) and liabilities (HRK 134 million in 2019, by type and counterparts). The Croatian statistical authorities will also provide Eurostat with the minutes of the meeting of the Working group for Sector classification where it was decided to classify this entity in S.12.

Deadline: end of February 2022¹⁷

(46) The Croatian statistical authorities will examine the sector classification of *Zagrebacka Stanogradnja d.o.o.* and will inform Eurostat if the unit will be reclassified inside general government (given that the results of the market/non-market test are below 50% or negative) or, alternatively, if it will remain classified in S.11 as an ancillary unit of the *Zagrebacki Holding* (but still reported, for practical reasons, separately in the Questionnaire on public corporations).

Deadline: end of August 2022¹⁸

(47) The Croatian statistical authorities will report losses of the *Zagrebacki Holding* in the Questionnaire table 10.2, Part IV.

Deadline: April 2022 EDP notification¹⁹

(48) The Croatian statistical authorities will provide to Eurostat an analysis of the sector classification of professional chambers, reflecting the elements pointed out by Eurostat in the meeting.

Deadline: end of August 2022

(49) Eurostat questioned the reporting of *VIZIR, d.o.o.*, an entity co-owned by the private unit *Port of Ploce* (49%) and by the public unit *Ploce Port Authority* (51%), which is currently reported in NACE 84 and nonetheless classified outside general government. The Croatian statistical authorities will reflect on whether the entity should be reclassified inside government, or whether the NACE of the entity should be changed, or whether the entity

¹⁶ On 9 June 2022, the Croatian statistical authorities informed that the market/non-market test was changed, as requested by Eurostat and, as a result, 30 units would be reclassified inside S.13.

¹⁷ The SPV was reclassified inside S.13 since it was created, in the April 2022 EDP notification.

¹⁸ On 9 June 2022, the Croatian statistical authorities informed that *Zagrebačka stanogradnja d.o.o.* ceased to exist on 1 October 2021 when it was merged into *Gradsko stambeno komunalno gospodarstvo d.o.o. - GSKG d.o.o.* (including the transfer of assets and liabilities). For the years of its existence, the *Zagrebačka Stanogradnja d.o.o.* was classified as an artificial subsidiary of the *Zagrebacki Holding*.

¹⁹ The action point was implemented in the April 2022 EDP notification. The losses for 2020 were added, while for 2019 and 2018 the entity did not report losses.

should be seen as an ancillary unit to the private shareholder and, accordingly, a local KAU would be distinguished (possibly with NACE 84 in such a case, as the output can then be considered market by convention).

Deadline: end of August 2022²⁰

(50) The Croatian statistical authorities will analyse and report to Eurostat the sector classification of two entities in bankruptcy *TZV GREDELJ d.o.o. u stečaju* and *Proizvodnja – regeneracija, d.o.o. u stečaju* that are currently classified outside general government. In relation to the latter, Eurostat noticed that the entity had zero employees and unusual results of the market/non-market test (e.g. 1072% in 2018, 602% in 2017) while the operating profit was reported as zero.

Deadline: end of May 2022²¹

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

The most important taxes are recorded on a time adjusted cash basis, notably VAT, certain excise duties, taxes on insurance premiums, personal income tax (all of them with a time lag one month) and corporate income tax (time lag of four month).

Concerning the VAT recording, it was previously agreed that, for certain months of the year, when large amounts were received on the first working day of the following month according to the legislation, the amount would be artificially imputed to the previous month.

Discussion and methodological analysis

The discussion started with the data sources used by the Croatian statistical authorities for the compilation of accrual taxes and social contributions. The PR-RAS report is the main financial report submitted by budgetary and extra-budgetary users of the State budget, local budgets and their budgetary and extra-budgetary users. On a quarterly basis, the report provides cash data on taxes and social contributions, reported on the 4th level of the Chart of Accounts, which is not fully sufficient for a detailed ESA classification. The Croatian statistical authorities therefore use the SAP report as a source for a detailed breakdown of tax revenues and social contributions, i.e., at the 9th level of the Chart of Accounts. For the monthly data on taxes and social contributions, the so-called P1/P2 reports are used as a complementary data source.

Taxes and social contributions exemptions

²⁰ The note was provided on 9 June 2022. The entity is to be treated as an ancillary unit to *Luka Ploče d.d.* and will be consolidated with its parent *Luka Ploče d.d.*, i.e., it will not be considered as an institutional unit and will be included in S.11.

²¹ According to the note provided on 9 June 2022, *TZV GREDELJ d.o.o. u stečaju* was privatised and remains classified in S.11. The entity *Proizvodnja – regeneracija, d.o.o. u stečaju* is to be classified inside S.13.

In the October 2021 EDP notification, the Croatian statistical authorities recorded a cancellation of tax revenue, by government decision, with a negative B.9 impact for an amount of HRK 44.4 million in 2020. It was clarified in the meeting that the companies that were supposed to pay in the first quarter of 2020 the balance of the corporate tax income accrued in 2019 were exempted from this obligation. In national accounts, it was recorded as government expenditure (D.9pay) in 2020 when the decision on the tax exemption was taken. Regarding the reporting in Annex 8 (COVID table), the Croatian statistical authorities were asked to correctly report the write-offs of taxes accrued in 2019 and cancelled in 2020 (HRK 44.4 million) in Part 1, Block B, item 18f Other capital transfers and in Part 2, Block E, item 29 Indirect liabilities for 2020.

In total, HRK 3.1 billion in direct taxes and social contributions were written off in 2020. The measure concerned the taxes and social contributions accrued in 2020 so the B.9 of 2020 was impacted by a lower collection of tax revenues (D.2 and D.5) and social contributions (D.6). Eurostat requested the Croatian statistical authorities to correctly report in Annex 8 (COVID table) the impact of the measure (HRK 3.1 billion) in Part 1, Block A as a negative entry in item 3 Tax revenues and 4 Social contributions as well as in Part 2, Block E item 29 Indirect liabilities. Furthermore, the Croatian statistical authorities will complement the Questionnaire on taxes and social contributions for 2021 by including the information about the taxes and social contributions exemptions in Part 5 devoted to COVID-19 tax measures and send it to Eurostat.

Tax deferrals

In 2020, the Croatian government adopted several measures that allowed taxpayers to defer the submission of tax declarations (together with the payment of the final settlement) from April to June 2021 or to defer the regular payments of some taxes (VAT, corporate income tax, social contributions) by three months. In addition, the taxpayers were allowed to reimburse the deferred amount in 24 monthly instalment payments. As explained by the Croatian MOF, most of the tax deferrals were conditional on the percentage fall in revenues incurred by companies (from 20% in the first package to 50% in the second package when they were partially or fully exempted from the payment of direct taxes and social contributions for certain period).

Concerning the recording of tax deferrals, the Croatian statistical authorities provided to Eurostat a formula that was used for the calculation of the part of tax revenues accrued in 2020 but for which the payment was deferred by three months (still within the year 2020 in all cases) or the repayment schedule was split to 24 monthly payments.

According to the formula, the accrual taxes for 2020 were calculated as the sum of the time adjusted cash taxes paid according to normal schedule and the adjustment for tax deferrals. The latter was an estimation of the total amount of taxes deferred and not yet paid in cash, after deducting amounts cancelled by government (tax exemptions), and reduced by amounts unlikely to be collected (coefficient 0.09 applied for non-collectible taxes). Eurostat requested the Croatian statistical authorities to provide to Eurostat a detailed description of the method for tax deferrals recording, as discussed above, including an example of the tax deferrals calculation for 2020. Based on this, they will explain (or correct) the formula currently used by the Croatian statistical authorities.

Tax refunds

In the EDP Questionnaire table 5, the only liabilities related to taxes are those relating to emission trading permits. In the Questionnaire on taxes and social contributions, no information is provided in the specific section on Tax refunds in Part 2. Eurostat nevertheless understood that, as concerns the VAT payments, the Tax Administration has the obligation to pay the VAT refund (or the balance) within 30 days from the date of submission of the VAT return. The issue was discussed already in the 2019 EDP visit when it was confirmed by the Croatian statistical authorities that, in principle, separate data on VAT payments and VAT refunds were available. Since then, however, the liabilities related to taxes have not been reported.

In the meeting, the Croatian statistical authorities provided some information about the data sources used for the recording of taxes. In general, there are three basic reports received by the CBS from the MOF and from the Tax Administration. First, the PR-RAS report provides quarterly data on taxes on a net basis as well as on a gross basis (the latter available from analytical accounts), i.e. separately PIT and CIT payments and PIT and CIT refunds. In case of tax settlements in kind, that are allowed by the Croatian legislation, the tax revenue and expenditure (the latter corresponding, for instance, to the gross fixed capital formation) are, in addition, booked in public accounts so that they appears in PR-RAS report. The interest received for the late repayment of tax obligations is not recorded in the report. Second, the P1/P2 reports sent to the CBS by the MOF provide monthly cash data on CIT and VAT in a detailed structure, although, however, on a net basis. As a complementary source, the CBS therefore uses a third report, provided from the Tax Administration that also delivers the gross amounts.

The CBS admitted that the gross amounts of tax revenues are indeed available from more than one source, which are however not consistent with each other. Thus, for instance, the CIT data coming from the PR-RAS report are not fully consistent with those obtained from the Tax Administration. As a potential reason for differences was indicated the interest received or other payments not included in the first report. Eurostat remarked that a small difference between data sources should be not considered as a reason for not using the administrative data source. It was recommended, therefore, to use the outflows (reported by the Tax Administration) to order to estimate the stocks and flows of liabilities relating to tax refunds for VAT, CIT and PIT or any other tax, if relevant, and to adjust these data by an appropriate time lag (one or four months, depending on the tax). Accordingly, the currently reported receivables relating to tax revenues should be reported as a residual, after deducting the liabilities, implying no impact on B.9 and no change in the accrual tax revenues in ESA T2. These stocks and flows (AF.8/F.8) should be accordingly reported in the Questionnaire table 5.

Finally, the Croatian statistical authorities were requested to provide Eurostat with the tax reports sent by the Tax Administration to CBS, showing gross/net amounts and tax refunds for CIT and VAT on a monthly basis for 2019-2020, and the two other reports sent by the MOF to the CBS, showing gross/net amounts and tax refunds in an additional breakdown for CIT and PIT for 2019-2020.

Para-fiscal charges

Eurostat followed up on the action point 56 from the 2018 EDP dialogue visit and the action point 35 from the 2019 EDP dialogue visit, according to which the Croatian statistical authorities would analyse the 40 largest para-fiscal charges currently recorded as sales. From the discussion, Eurostat understood that no progress has been achieved in this area. It was clarified that the Ministry of Economy maintained a register of charges, containing the data as of 2016. Eurostat decided to retain the action point and requested the Croatian statistical authorities to provide an updated list of the largest para-fiscal charges from the registry. The Croatian statistical authorities will analyse this list and will reclassify accordingly in national accounts those charges that meet the definition of tax revenues.

Social contributions

For the calculation of the time adjusted social contributions, the Croatian statistical authorities apply a one month' time lag, by adding to the cash social contributions collected in the year (t) the cash receipts of January (t+1), deducting the January (t) cash receipts and adding the amortisation of the lump sum from the transfer of pension obligations. The latter adjustment is reported in the EDP table 2D as the 'Adjustment of social contributions transferred from second pillar into first pillar - proportional yearly revenue'.

Prior to the visit, the Croatian statistical authorities provided quarterly accrual and cash data on social contributions. Since the intention of Eurostat was to assess the calculation of the time adjusted cash data and, in particular, the adjustment for January data, the Croatian statistical authorities were asked to provide an updated file with monthly data for 2017-2020.

Eurostat enquired whether similar measures allowing tax deferrals were implemented for social contributions payments. As explained in the meeting, social contributions obligations were deferred until June 2020 and the taxpayers were granted a possibility to delay the payment in 24 monthly instalments. The Croatian statistical authorities informed that, at the time of the meeting, a majority of the deferred social contributions were already repaid. Furthermore, it was specified that the total amount of deferrals for both taxes and social contributions was HRK 1.3 billion. The amount will be accordingly reported in the Annex 8 (COVID-19 table) in the April 2022 EDP notification.

Findings and conclusions

(20) Concerning taxes and social contributions, the Croatian statistical authorities will correct the reporting in Annex 8 (COVID table) of the write-offs of taxes accrued in 2019 and cancelled in 2020. The amount of HRK 45 million will be reported in Part 1, Block B, item 18f Other capital transfers and in Part 2, Block E, item 29 Indirect liabilities for 2020.

*Deadline: April 2022 EDP notification*²²

(21) The Croatian statistical authorities will report, in Annex 8 (COVID table), the tax revenues accrued in 2020 and written-off by government decision in 2020. Accordingly, the amount of HRK 3.1 billion will be reported in Part 1, Block A as a negative entry in item 3 Tax revenues and 4 Social contributions as well as in Part 2, Block E item 29 Indirect liabilities.

²² The requested reporting was implemented in the April 2022 EDP notification.

*Deadline: April 2022 EDP notification*²³

(22) The Croatian statistical authorities will resend the Questionnaire on taxes and social contributions for 2021, including the information about the tax and social contributions exemptions in Part 5 devoted to COVID-19 tax measures.

Deadline: end of April 2022

(23) In relation to tax deferrals, the Croatian statistical authorities will provide to Eurostat a detailed description of the method for tax deferrals recording, including an example of the tax deferrals calculation for 2020. They will explain (or correct) the formula reportedly currently in use by the Croatian statistical authorities.

*Deadline: 15 March 2022*²⁴

(24) The Croatian statistical authorities committed to provide Eurostat with the tax reports sent by the Tax Administration to CBS, showing gross/net amounts and tax refunds for CIT and VAT on a monthly basis for 2019-2020, and the two other reports sent by the MOF to CBS, showing gross/net amounts and tax refunds in an additional breakdown for CIT and PIT for 2019-2020.

*Deadline: end of February 2022*²⁵

(25) The Croatian statistical authorities will use these data from the Tax Administration on outflows to estimate the stocks and flows of liabilities relating to tax refunds for VAT, CIT and PIT or any other tax, if relevant, adjusted by the appropriate time lag (one or four months) and then compile the fiscal receivables as a residual. These stocks and flows (AF.8/F.8) will be accordingly reported in the Questionnaire table 5.

*Deadline: April 2022 EDP notification*²⁶

(26) The Croatian statistical authorities will provide to Eurostat an updated list of the largest para-fiscal charges from the registry maintained by the Ministry of Economy.

Deadline: end of May 2022

(27) Eurostat retains the action point 56 from the 2018 EDP dialogue visit and the action point 35 from the 2019 EDP dialogue visit, according to which the Croatian statistical authorities will analyse the 40 largest para-fiscal charges currently recorded as sales. The charges meeting the definition of tax revenues should be reclassified accordingly.

Deadline: end of May 2022

(28) The Croatian statistical authorities will resend the table with monthly social contributions showing the cash amounts and the calculation of quarterly and annual time

²³ The requested reporting was implemented in the April 2022 EDP notification.

²⁴ The description of the method and example were provided on 25 March 2022.

²⁵ The tax reports were provided to Eurostat on 28 February 2022.

²⁶ The calculation of the tax liabilities was provided on 13 July 2022.

adjusted social contributions for 2017-2020, also including the calculation of deferred social contributions for 2020.

Deadline: end of February 2022²⁷

4.2.2. Interest and consolidated interest

Introduction

Concerning debt securities, the main data source are the reports of government units issuing debt securities (the MOF for central government and units of local and regional self-government for S.1313). The information on interest expenditure is available for each debt instrument and for each subsector of general government.

Regarding the loans, as the main data source is used the money and banking statistics (MBS). Data on accrued interest on loans provided by HBOR to government units are obtained directly from the HBOR in a dedicated questionnaire.

Prior to the visit, the Croatian authorities provided a table on the recording of interest for the period 2017-2020.

Discussion and methodological analysis

The discussion started with the description of data sources from the EDP Inventory that are used for the recording of interest. The Croatian statistical authorities confirmed that the reports from the MOF and from other government units were used as the main data sources for interest on debt securities. It was further specified that the CNB calculated the accrual interest for each ISIN. Concerning the interest on loans, the CNB uses its own external loans database that collects the data directly from government units. The interest on internal loans is calculated based on the MBS that provides the stocks and flows of the interest paid, thus ensuring the stock-flow consistency.

Eurostat asked whether regular consistency checks between FINA reports and the MBS were carried out by the CNB, as regards the data on interest expenditure. The Croatian statistical authorities claimed that a consistency analysis was carried out in the past and it did not show considerable discrepancies. Nevertheless, they committed to provide to Eurostat such reconciliation, presenting the accrual and cash interest expenditure, as recorded in the MBS and in FINA reports, for the past four years.

In this context, Eurostat enquired about the accounting basis of the interest expenditure recorded in public accounts, mainly in FINA and SAP reports. The Croatian statistical authorities thought that the interest flows might be recorded on a cash basis in PR-RAS and the relating payables booked in the balance sheets. Eurostat asked for a detailed description of the interest recording in budgetary accounts, including a T-accounts example.

Afterwards, Eurostat reviewed the interest table provided prior to the visit. During the consistency checks of the table with the EDP tables reported in October 2021, Eurostat

²⁷ The monthly data on social contributions were sent on 28 February 2022.

observed that a coupon sold is incorrectly reported as part of the ‘*Issuances above(-) / below(+) nominal value*’ in EDP table 3 instead of the line ‘*Difference between interest (D.41) accrued(-) and paid(+)*’ where it should be included as negative interest paid. Both lines will be corrected in the April 2022 EDP notification.

Furthermore, a stock-flow inconsistency was identified in the stocks and flows of premiums in 2018 and 2019. The amortisation of premium HRK 46 million in 2019 was not reflected in the stock of premiums in 2019, which was thus incorrectly reported the same as in 2018 (HRK 90 million).

Concerning the amortisation of premium reported in 2019 (HRK 46 million) and in 2020 (HRK 110 million), Eurostat asked the Croatian statistical authorities to verify the figures. The amounts reported in the amortisation of premiums were considered as small, unless there would be a justified reason, such as that the government bonds were issued with a maturity of more than 15 years.

Eurostat also pointed out at the inconsistency of the information between the interest table and a respective part on the interest recording described in the EDP Inventory. While the latter reads that “... *the Treasury bills are generally issued with discount (however in 2019 there were some issuances with premium), while bonds are mainly issued with coupon...*”, in the interest table, a zero was reported in the line 11 Premium at issuance. The Croatian statistical authorities committed to check and to correct the information accordingly.

Furthermore, Eurostat focused on the revaluation/other changes in volume in the stock of coupons (line 2 of the table) that showed negative values for all years 2017-2020 and cumulated to (minus) HRK 566 million in total. Eurostat was not convinced by the soundness of the figures, which could incorrectly imply that the Croatian kuna revalued by almost 20% in last years (in relation to the stock of coupons of HRK 3.4 billion in 2019). The Croatian statistical authorities confirmed that a part of the debt was hedged, and the table showed data before hedge. If a bond is issued in EUR, the stocks and interest expenditure are first calculated in EUR. Afterwards, the stocks are recalculated to HRK by using the ‘end of period’ exchange rate and the transactions are recalculated to HRK by the average exchange rate. The revaluation is thus a difference between the change of stocks and the transactions. Eurostat thought that the stock of coupons should be an observed figure rather than a cumulated stock. Since it was not possible to identify, from the data available in the meeting, whether the error might have resulted from the calculation of stocks or from the revaluation, the Croatian statistical authorities were asked to provide a series of stocks of coupons from the MBS to Eurostat.

In relation to the coupon paid, Eurostat enquired about a decrease of HRK 1.4 billion in the stock of coupons in 2019, compared to 2018. A similar significant decrease of HRK 1.3 billion was observed in 2020, compared to 2019, while the debt, on the contrary, increased from HRK 293 billion to HRK 330 billion in the same period. In 2020, the government redeemed HRK 29.7 billion. The Croatian statistical authorities thought that the development in the stock of coupons paid was related to the refinancing of debt in 2018 and 2020, when the government bonds with higher coupons were issued, but committed to analyse the issue and to report back to Eurostat.

Eurostat also noticed an unusually significant value of HRK 193 million reported in the line 16 Revaluation/ OCV in discounts and premiums in 2020. The item should reflect fluctuations in the exchange rate on the stock of discounts/premiums but, in normal circumstances, the amounts reported should not be large. This was however not the case and the Croatian statistical authorities admitted that a further investigation on the amount was needed.

Finally, Eurostat questioned the amounts of FISIM reported for all years 2017-2020. Out of the total value of interest paid on loans (HRK 1.4 billion in 2020), HRK 1.3 billion was related to FISIM according to the table on interest. The Croatian statistical authorities were not in a position to clarify those amounts but admitted that the amounts might be overestimated. Eurostat observed a similar problem with the FISIM calculation in other Member States and thought that it might be related to a low interbank rate used for the calculation. Eurostat also recalled that FISIM is applicable only if the lender is a bank or assimilated.

Findings and conclusions

(51) Eurostat took note that the interest expenditure on government bonds, treasury bills and external loans is calculated by the CNB from metadata (for each ISIN) on debt securities issuances delivered directly by the Ministry of Finance and from CNB's external loans database, into which data are also directly reported by the overall government sector. Interest on internal loans is calculated based on the MBS, ensuring stock-flow consistency. The Croatian statistical authorities will provide to Eurostat a reconciliation (for both the cash and accrual interest payable) between the interest as recorded in the MBS and in other source data currently used and the interest as reported in FINA reports, for the past four years.

Deadline: end of June 2022

(52) Concerning the interest expenditure on government bonds and treasury bills, the Croatian statistical authorities will provide to Eurostat a description of the interest recording in budgetary accounts, including a T-accounts example. The note should in particular clarify whether the interest expenditure is recorded on an accrual or cash basis in FINA and SAP reports.

Deadline: April 2022 EDP notification

(53) The Croatian statistical authorities will clarify why the FISIM recorded on the loans liabilities (HRK 1.3 billion) appears being so large compared to the interest accrued on these loans (HRK 1.4 billion). Significant amounts of imports are reported. Eurostat recalled that FISIM is applicable only if the lender is a bank or assimilated.

Deadline: October 2022 EDP notification

(54) The Croatian statistical authorities will clarify the main economic reasons for the decrease in the coupon paid (by HRK 1.4 billion in 2018) and again for a similar amount in 2020. In addition, the Croatian statistical authorities will reflect on a number of issues pointed out by Eurostat when analysing the table on interest and will provide an updated table for 2017-2021 in the April 2022 EDP notification.

4.2.3. EU flows

Introduction

EU flows are channelled through the National Fund (NF), which is part of the MOF. The main data source is therefore the NF that provides data to the CBS and CNB on a quarterly basis. The revenue in national accounts was recorded at the time of the transfer from the State Treasury to a final beneficiary, rather than at the time of the EU financed expenditure. This was however considered as a reasonable proxy in the past, since the time lag observed between the time of expenditure and the time of transfer was small.

Discussion and methodological analysis

In the note provided prior to the visit, the Croatian statistical authorities informed about the changes in the recording of EU flows in public accounts that were applicable since the beginning of 2021. The change affected in particular the government entities that were not a part of the Single Treasury Account (STA) and therefore they disposed their own accounts to receive advance payments from the Treasury.

In the previous budgetary system, applicable until the end of 2020, these units recorded revenue from EU funds at the time when the expenditure was incurred at the level of a final beneficiary, which was considered consistent with ESA 2010 rules to neutralise the B.9 impact of the expenditure incurred. If the dedicated funds were passed from the ministries to lower levels (e.g. to schools), the transfers between levels were booked in other accounts receivable/payable. The described system however required a higher complexity of information that needed to be available to accountants in order to correctly record the revenue at proper time so that it could be matched with the expenditure incurred. The fact triggering the change in the mechanism of EU flows recording was, according to the Croatian statistical authorities, a mismatch between the expenditure and revenue relating to EU flows recorded in public accounts. In particular, the complexity of the system described resulted in the situation when expenditure incurred/other accounts receivable grew much faster than the revenues recorded to neutralise the flows.

Starting from 2021, for units not part of the STA, revenues are recorded on a cash basis at the time when transfers are received from the NF, and thus not anymore at the time when the expenditure is incurred by a final beneficiary. This also implies that no advance payments are recorded in financial accounts (deposits F.2 with a counterpart in other accounts payable F.8L). The expenditure remains recorded on an accrual basis, in accordance with the PR-RAS methodology, but they are recorded independently of the revenue, so the time lag, previously considered as negligible, might be significant in the new system. In case that the EU funds are transferred between more levels of government, these revenues are recorded at the so-called ‘transfer accounts’ that are earmarked for this purpose and thus easily consolidated. For instance, the unit transferring EU funds records the revenue from EU and the expenditure on the transfer account at the time of the transfer, while the receiving unit records a

²⁸ Some information was provided in the April 2022 EDP notification.

corresponding revenue on the transfer account and the expenditure towards EU only when incurred.

The Croatian statistical authorities stressed that the change did not concern the budgetary users participating to the STA. These units cannot receive advance payments and therefore they continued to record revenue at the time when they incurred expenditure. Accordingly, no adjustment is needed since the time lag, if any, between the revenue recorded in the public accounts and the expenditure incurred by a final beneficiary was considered small.

It was further specified that, according to the analysis of the MOF, approximately 65% of EU flows are transferred via the STA and the remaining part is distributed to other beneficiaries, using their own accounts. The latter mainly concerns the extra-budgetary units with the exception of the Employment and the Pension Funds.

In order to identify the expenditure incurred on behalf of the EU and the correct time of the recording in public accounts for the remaining 35% of EU flows, the Croatian statistical authorities proposed to introduce a supplementary report, consistent with the existing PR-RAS, that would collect this information at a unit level. Eurostat thought that it might be more appropriate to use the existing system and to adapt accordingly the PR-RAS report, for instance by adding, for certain expenditure items, a split identifying whether the expenditure was financed by EU grants or from a national source. The collected information would be thus available at the level of a final beneficiary. The Croatian statistical authorities will reflect on the Eurostat's proposal.

Findings and conclusions

(40) Eurostat took note of the change in the recording of EU funds in public accounts, according to which, from 2021 onwards, the EU revenue is recorded when EU funds are received (cash basis) and not anymore at the time of actual spending (accrual basis). In the case of units outside the Single Treasury Account (receiving advance payments), the change implies in principle a new time lag (although usually short) between the recording of accrual expenditure funded by EU and its neutralisation by recording a revenue from the EU, compared to the previous situation. Eurostat took note that the change is motivated by the difficulties to correctly track the sequence of transfers between units arising from the previous rule, and the associated consolidation. The Croatian statistical authorities explained that, in practice, the new rule would not affect the recording of units inside the Single Treasury Account, which de facto already book a revenue at the moment when expenditure is incurred. Eurostat took note of the rationale behind the new public accounting rule, but argued that distinguishing the EU financed expenditure in the PR-RAS would be particularly useful. The Croatian statistical authorities committed to adapt accordingly the PR-RAS report by adding for certain expenditure items such a split (by EU source and national source) at the level of a final beneficiary.

Deadline for a progress report: end of February 2022

4.2.4. Military expenditure

Introduction

The main data for the recording of military expenditure are provided to the Croatian statistical authorities by the Ministry of Defence and by the MOF. These mainly relate to the cash transactions, advances paid for military equipment, stock of liabilities relating to military equipment, the total value of deliveries, etc. According to the Croatian statistical authorities, the pre-payments for deliveries of military equipment are made within the same year as a rule.

Discussion and methodological analysis

At the beginning, Eurostat referred to the publicly available information, according to which Croatia received donations of military equipment in the past and expected to receive additional ones in good conditions or spare parts, respectively, in coming years. In particular, the expected deliveries would include M2 Bradley vehicles for spare parts donated by USA, to be delivered in coming years. According to the Croatian statistical authorities, past donations were recorded in national accounts as the gross fixed capital formation with a counterpart transaction in a capital transfer received, thus with a neutral impact on B.9. In in the EDP Questionnaire table 7, the donations were reported among the deliveries and settlements in kind. Additional information about future donations of military equipment was however not available in the meeting and, therefore, they would be provided to Eurostat, after consulting the Ministry of Defence.

Eurostat also referred to the publicly available information about a planned acquisition of military planes through a financial lease, but the Croatian statistical authorities did not confirm this information in the meeting.

Furthermore, Eurostat enquired about the acquisition of coastal patrol ships to be built in following three years. The Croatian statistical authorities clarified that, out of four in total, one vessel was already delivered in 2018. The remaining three vessel ships should be delivered in 2021-2023²⁹.

The Croatian statistical authorities followed up on the Eurostat's question, recently sent by email to all Member States, that intended to collect information about the RescEU mechanism. The Member States participating in this initiative could obtain EU financing for pooling airplanes and helicopters in the framework of the 2020 RescEU firefighting fleet, readily deployable to other countries in times of urgency. It was agreed that the Croatian statistical authorities would investigate whether any assets (in particular airplanes and helicopters) were acquired by Croatia, including their potential financing from EU sources.

Eurostat noticed that, shortly before the EDP dialogue visit, Croatia announced signing a contract for EUR 1 billion for the acquisition of 12 fighter aircrafts Rafale from France. The Rafales will be up to 14 years old when they arrive in Croatia. The deliveries, covering also spare parts and training, are expected to start in late 2023 and finish in 2025. The Croatian statistical authorities could not confirm this information but promised to provide a detailed note in the April 2022 EDP notification. The DG ECFIN also noted that, according to their

²⁹ In the April 2022 EDP notification, it was reported that a prototype coastal patrol boat was delivered to the Croatian government in 2018 and the delivery of three remaining ships was planned in 2022 and 2023.

information, a first advance payment of HRK 2 billion was paid in 2021 and will repeat each year until 2024.

Findings and conclusions

(55) In relation to military expenditures, the Croatian statistical authorities will report to Eurostat the recording of donations of used military equipment in the past (notably for use as spare parts), including the M2 Bradley in M2A2 ODS variant quoted in the press, and information on any expected donations in the coming period.

*Deadline: April 2022 EDP notification*³⁰

(56) The Croatian statistical authorities will also inform Eurostat whether a contract for the acquisition of Rafale fighter jets has already been signed and whether any pre-payments were provided by Croatia in 2021.

*Deadline: April 2022 EDP notification*³¹

(57) In relation to the RescEU mechanism, providing a firefighting fleet, readily deployable to other countries in emergency cases, the Croatian statistical authorities will investigate whether any assets (in particular airplanes and helicopters) were acquired by Croatia and about the potential funding of the acquisition by the EU.

*Deadline: April 2022 EDP notification*³²

4.2.5. Gross fixed capital formation (GFCF)

Introduction

The recording of the GFCF was extensively discussed in EDP dialogue visits in 2018 and 2019. The main issue was the use of the statistical survey INV-p as the main data source for the compilation of the GFCF data in the past. This practice was considered by Eurostat, however, not acceptable mainly due to quality issues and due to a significant delay of T+3 years to obtain final data.

Consequently, in the October 2019 EDP notification, the data source for the compilation of the GFCF for 2015-2020 was changed and the administrative data source - PR-RAS report - started to be used instead as a main data source, as requested by Eurostat.

Discussion and methodological analysis

³⁰ In the April 2022 EDP notification, the Croatian statistical authorities reported that the BVP Bradley vehicles, for an amount of USD 5,836,789, would arrive to Croatia in 2023-2025. Other donations of military equipment amounted in 2021 to HRK 82.5 million.

³¹ In the April 2022 EDP notification it was confirmed that, in Q4, 2021 the Ministry of Defence paid an advance of HRK 2.4 billion. The transaction was recorded as a financial transaction (F2-/F81A+). No impact on deficit and debt have been recorded, due to the fact that the delivery has not happened yet. Also, the procurement model has no elements of any kind of leasing contract.

³² In the April 2022 EDP notification, the Croatian statistical authorities reported that, according to current plans, two planes are foreseen to be delivered in 2028. The delivery will be 100% financed by the EU.

In the meeting, the Croatian statistical authorities confirmed that the GFCF data for the period 2015-2020 were recorded according to the data obtained from the PR-RAS report. The change did not imply significant revisions. The previous time series, i.e., the period 2002-2014 have not yet been revised due to considerable discrepancies, potentially having a B.9 impact. The Croatian statistical authorities further clarified that there were two types of discrepancies. The first one resulted from the reconciliation of the data reported currently in EDP/ESA table 2 and the data calculated according to the new source PR-RAS report. The second type of the discrepancy, which was discovered during the recalculation, originated from the difference between the currently reported GFCF data in EDP/ESA and the statistical survey INV-p. The latter in fact implied that the currently reported data were not fully consistent with the INV-p, as previously declared, and the Croatian statistical authorities were not fully able to clarify the statistical adjustments applied to the data before submitting them to Eurostat. Both discrepancies however cumulated to significant values, notably HRK 12.3 billion for 2002-2014, implying potentially significant revisions to both the GFCF data and B.9.

The Croatian statistical authorities could not immediately clarify the plausibility of the GFCF data for the period in question. Nevertheless, Eurostat expressed concern about the situation and, before taking a decision, requested the Croatian statistical authorities to analyse the situation in a detail and to provide series of additional data, on the basis of which a decision will eventually be taken about the revision in GFCF to be recorded in ESA table 2 for those years. In this context, the Croatian statistical authorities will provide the EDP questionnaire table 4 tentatively compiled (on a best effort basis) for 2002-2021 showing F.8 relating to GFCF, the stock positions (AF.8L) of liabilities from the acquisition of nonfinancial assets for 2002-2021, as observed in public accounts balance sheets, and the updated table on the reconciliation of GFCF for 2002-2021 (provided prior to the visit).

Furthermore, the Croatian statistical authorities were asked to explain the unusual development in the consumption of fixed capital (CFC) of social security funds reported in ESA table 2 for the period 2012-2018. From the value of HRK 101 million in 2012 the CFC sharply increased to HRK 234 million in 2014 and, unusually, it continuously decreased in following years, to drop down to HRK 109 million in 2018. Eurostat thought that the CFC development in 2013-2018 might be plausible under the condition that there would be an additional cumulated investment of about HRK 1.4 billion reported in the GFCF for S.1314 in this period, which was however not the case. The Croatian statistical authorities will therefore analyse the stocks of nonfinancial assets, the gross capital formation and the calculation of the CFC in the social security funds subsector for the period 2013-2015.

Findings and conclusions

(58) Concerning the gross fixed capital formation (GFCF), Eurostat took note of a very large discrepancy between FINA data and P.51g data reported in ESA T2 that cumulated to HRK 12.3 billion over the period 2002-2014 (after taking into account the appropriate national accounts corrections). Eurostat in addition noticed that P.51g in ESA T2 is also not consistent with the INVp data previously sent by the Croatian statistical authorities (even after taking into account the national accounts corrections), contrarily to what Eurostat believed, and for very large amounts. The Croatian statistical authorities seemed not in a position to identify the GFCF data that were most plausible for this period. Eurostat

expressed concern about the situation and thought that some work should be done to eventually decide on the government expenditure to be recorded in ESA table 2 for those years. In relation to this, Eurostat asked the Croatian statistical authorities to provide the following data:

- a) EDP questionnaire table 4 tentatively compiled (on a best effort basis) for 2002-2021 showing in particular F.8 relating to GFCF,
- b) Stock positions (AF.8L) of liabilities from the acquisition of nonfinancial assets for 2002-2021 as observed in public accounts balance sheets,
- c) Updated table on the reconciliation of GFCF for 2002-2021.

*Deadline: April 2022 EDP notification*³³

(59) The Croatian statistical authorities will examine and, if relevant, will correct an unusual increase in GFCF of social security funds reported for 2013-2015. The increase in the consumption of fixed capital in the subsequent period will be corrected accordingly.

Deadline: April 2022 EDP notification

4.3. Recording of specific government transactions

4.3.1. Recording of government measures undertaken in the context of COVID-19

Introduction

Prior to the visit, the Croatian statistical authorities provided a detailed note on COVID-19 measures that were recently implemented by the Croatian government. They covered the following areas: (i) taxes and social contributions measures, (ii) expenditure measures, (iii) guarantees and (iv) others.

Discussion and methodological analysis

Eurostat reviewed the note on government measures undertaken in the context of the COVID-19 pandemic in the last two years. The measures focusing on the area of taxes and social contributions were already discussed under the earlier agenda point.

The discussion thus started with the second part – expenditure measures. In the most impacted areas of business, the Croatian government decided to co-finance the cost of salaries and to fully finance the social and health insurance contributions in the first months of 2020. It was also decided to shorten working hours in some areas. Those enterprises or individuals, whose business was impacted by the government decision, were entitled in the period December 2020-August 2021 to a compensation of fixed costs, notably rental costs, overhead and utility costs, costs of bookkeeping services, etc., depending on the decline in their income.

³³ Some partial information was provided in the April 2022 EDP notification.

From August 2021, certain areas with a reduced economic activity, such as renting and leasing, tourism, event industry, translators and interpreters, creative industries, etc., were entitled to a financial support for the preservation or retention of jobs, with the right to the full amount of the support if more than 70% of employees have EU digital COVID-receipts.

The Croatian statistical authorities confirmed that the measures described above, applicable in 2020, were accordingly reported in the Supplementary table for reporting measures taken in the context of the COVID-19 pandemic. In order to analyse the measures in detail, the Croatian statistical authorities will send a breakdown of the expenditure items reported in aggregated items of the COVID table.

In addition, Eurostat noticed that some other COVID-19 measures undertaken by government, observed from other information sources, were not mentioned in the note provided prior to the visit. Those mainly included the possibility granted to the tourism sector to delay the payments of several tourism specific para-fiscal charges and property income payments and, at the local government level, the possibility granted by the City of Zagreb to defer the payments to the City due by pensioners. The Croatian statistical authorities committed to investigate the measures and report to Eurostat about their recording in national accounts.

The last part of the Croatian note, devoted to guarantees, mentioned three guarantee schemes recently introduced by three different Ministries and administered by the HAMAG-BICRO, which is the Croatian Agency for SMEs, Innovations and Investments, classified in S.13. These guarantee schemes aimed at the SMEs operating in three different areas: (i) culture and creative industries, (ii) maritime, transport and transport infrastructure sectors and (iii) tourism and sport sectors. Under the schemes, the HAMAG-BICRO provided a guarantee for loans for a duration from 5 to 6 years (including a grace period), against a guarantee fee. The interest rate paid on loans was provided at a lower rate, compared to commercial loans without a government guarantee.

The Croatian statistical authorities further explained that each Ministry (The Ministry of the Sea, Transport and Infrastructure, the Ministry of Tourism and Sport or the Ministry of Culture) decided on the issuance of guarantees and these guarantees were not automatically provided. Each Ministry had also the obligation to calculate an expected default rate, reflecting the expected losses from loans not likely to be repaid in the future. The HAMAG-BICRO had the data on stocks of issued guarantees but, in its accounts, neither liabilities nor provisions were recorded. Similarly, no provisions were recorded at issuance in the accounts of the Ministries, with the exception of a cash guarantee call when cash expenditure was recorded. From 2021, the latter is recorded without a counterpart transaction in claims (which was the practise until the end of 2020).

The Croatian statistical authorities admitted that all three schemes had some elements of standardised guarantees but thought that the guarantees were not extended automatically, and that additional data were needed to evaluate the recording of the schemes. They also thought that the guarantees were not granted for fairly small amounts, as defined by ESA rules. Eurostat asked for the stocks of guarantees provided by each scheme for 2020 and 2021 and for an average expected losses calculated by a competent Ministry.

Furthermore, Eurostat enquired about the recording of other schemes that were recently introduced in the context of the COVID-19 crisis, following a positive DG Competition decision, but these schemes were not mentioned in the Croatian note. First, the scheme SA.56877 (2020/N) administered by the HBOR was aimed at the insurance of liquidity loans granted to exporters. The scheme itself was not an export aid but enabled banks to finance the liquidity needs of exporters. The government guarantee covered up to 50% of the exporters' losses. According to the scheme, it was foreseen that the losses would be shared between the HBOR and commercial banks. An additional measure under the scheme were direct grants.

Second, following the DG COMP decision SA.57175 (2020/N), Croatia introduced two measures providing to beneficiaries, notably to SMEs, either guarantees or loans at a subsidised interest rate to finance the new working capital. The scheme was administered by the HAMAG-BICRO directly or indirectly through commercial banks.

Within the third scheme SA.56957 (2020/N), beneficiaries could benefit from three different measures: interest-free loans, subsidised loans and direct grants for subsidised interest payments. The subsidised loans were provided by HBOR, as the administrator of the scheme, but also by commercial banks. The important modification, that was implemented by an amendment in May 2021, allowed the conversion of the measure (granted in a form of repayable advances, guarantees, loans or other repayable instruments) into grants, provided the conversion takes place by 30 June 2023 at the latest. Under the same amendment, beneficiaries benefiting from a subsidized loan could be granted a possibility to waive their interest rate payment.

From the documentation accompanying the DG COMP decisions, Eurostat took note that all measures described above were also accessible to the companies that were in difficulties as of the end of 2019.

The Croatian statistical authorities were not in a position to provide more information about the schemes but committed to report to Eurostat the stocks and flows of guarantees and the subsidised loans provided under these schemes, as well as their recording in national accounts. In relation to interest free loans schemes and subsidised loans schemes (SA.56957), the Croatian statistical authorities will provide the amounts of loans that were converted, according to the amendment of the scheme in May 2021, into grants or that benefited from a waiver of interest payments.

Findings and conclusions

(60) The Croatian statistical authorities will provide Eurostat with a breakdown of the expenditure items reported in the COVID table (Annex 8) for 2020 split by individual measures.

*Deadline: April 2022 EDP notification*³⁴

(61) Eurostat noticed that some other COVID measures undertaken by government were not mentioned in the note provided prior to the visit. Accordingly, Eurostat asked the Croatian statistical authorities to investigate: (1) the possibility granted to the tourism sector

³⁴ The detailed list of government measures was sent on 13 May 2022.

to delay the payments of several tourism specific para-fiscal charges and property income payments; (2) at the local government level, the city of Zagreb allowing deferrals on payments to the city due by pensioners. The Croatian statistical authorities will send a note on the recording of these two measures in national accounts.

*Deadline: April 2022 EDP notification*³⁵

(62) Eurostat took note that three different ministries (the Ministry of Culture and Media, the Ministry of Maritime Affairs, Transport and Infrastructure and the Ministry of Tourism and Sports) operated, in 2020 and 2021, guarantee schemes for specific businesses. These schemes seemed to have elements of standardised guarantees, i.e. issued in large numbers for small amounts but not automatically. The Croatian statistical authorities will provide to Eurostat a statistical analysis of the schemes, including amounts granted in 2020 and 2021, and inform on their recording in national accounts.

*Deadline: end of February 2022*³⁶

(65) The Croatian statistical authorities will report to Eurostat the stocks and flows of guarantees and subsidised loans provided under schemes approved by DG COMP decisions SA.57175 (2020/N), SA.56957 (2020/N) and SA.56877 (2020/N) and their recording in national accounts. In relation to interest free loans schemes and subsidised loans schemes (SA.56957), the Croatian statistical authorities will provide the amounts of loans that were converted, according to the amendment of the scheme in May 2021, into grants or that benefited from a waiver of interest payments.

Deadline: April 2022 EDP notification

4.3.2. Euro coins

Introduction

In view of the forthcoming accession of Croatia to the Eurozone, the recording of the issuance of euro coins was discussed, following the Eurostat's decision on the recording of euro coins³⁷ published on Eurostat's website in 2019.

Discussion and methodological analysis

The issue of the issuance of euro coins in Croatia was partially discussed a few months before the visit, taking into account preliminary information available at that time. In the meeting, the Croatian statistical authorities informed about a final decision, according to which the CNB would be the legal issuer of euro coins in Croatia. Accordingly, all activities relating to the issuance of the euro coins (such as the quantity planning, contracting production with a mint, supplying commercial banks, withdrawing unsuitable coins from circulation, disposal

³⁵ The note was provided on 13 May 2022. Eurostat enquired further about the impact of the measures.

³⁶ In the April 2022 EDP notification, all three guarantee schemes were classified as standardised guarantees and the government expenditure for the amount of expected losses (D.9pay/F.66) was recorded according to the default rate calculated by each Ministry.

³⁷ <https://ec.europa.eu/eurostat/documents/1015035/2041337/ESTAT-decision-Recording-of-euro-coins.docx/30ebd86d-e0fa-7dc3-ec06-3cc2eaea1830>

of withdrawn coins, etc.), and financial obligations related to the production and launching the coins into circulation would be the obligation of the CNB. No government financing was foreseen.

In their analysis, the Croatian statistical authorities concluded that both conditions defined in the Eurostat's decision were applicable, i.e. (i) the sole competence to issue euro coin is assigned to the National Central Bank and (ii) the National Central Bank is the liable issuer in the sense of directly carrying the risks and reaping the rewards associated, and the government has no financing effect from the issuance. Accordingly, the debt (AF.21L) resulting from the issuance of euro coins will be recorded in the financial corporations sector (S.12) together with the production cost for the issuance of the euro coins as the intermediate consumption (P.2). Eurostat agreed with the proposed recording in national accounts.

Findings and conclusions

Eurostat took note of the explanations

4.3.3. Guarantees

Introduction

The guarantees are mainly provided by the MOF, HBOR, HAMAG-BICRO (both in S.13) and recently, as a consequence of the COVID-19 crisis, also by other Ministries. The main data sources are the MOF reports, MBS and direct data from HBOR and HAMAG-BICRO.

The recording of guarantees calls in the Croatian public accounts was recently changed. Since 2021, the cash guarantee call is recorded as government expenditure and not anymore as a claim towards the original debtor, which was the practise applied until 2020.

Discussion and methodological analysis

As a first point, Eurostat asked about the recording of the export credit insurance operated by the HBOR. According to the Croatian statistical authorities, export guarantees were issued for small amounts, although in large numbers, and they were neither granted automatically nor to homogenous group of beneficiaries, as it was typical for standardised guarantee schemes. Therefore, the scheme was recorded as a one-off guarantee scheme in national accounts. Eurostat did not fully agree with such treatment and asked the Croatian statistical authorities to provide further details before a follow up discussion about this issue.

As concerns the reporting in the Questionnaire table 9.1, the Croatian statistical authorities confirmed that stocks of the HBOR's guarantees were included in the table. This was however not the case for guarantee calls. In the HBOR's accounts, the export credit guarantees were recorded off balance sheet and no provisions were booked on the stocks of these off-balance guarantees. The cash guarantee calls were not recorded as expenditure in the profit and loss statement but, instead, as a claim towards the original debtor in the HBOR's balance sheet. The Croatian statistical authorities admitted that, for the HBOR, they currently did not dispose of any data on the guarantee calls nor on the repayments by original debtor. Eurostat was concerned about the fact that, while the stocks of guarantees issued by HBOR were correctly reported in EDP/GFS, the recording of guarantee calls followed

instead the HBOR's public accounting. The latter implied that the guarantee calls were booked as financial transactions, thus avoiding a negative impact on the B.9 in EDP/GFS. The Croatian statistical authorities will therefore correct the recording of the export credit scheme in national accounts and will provide the amounts of provisions and write-offs in HBOR's accounts.

In this context, Eurostat enquired about the data sources used for completing the stocks of guarantees and related flows in the Questionnaire table 9.1. As explained in the meeting, there are two main data sources used by the CNB for the reporting of stocks and flows of guarantees.

On a quarterly basis, the MOF provides to the CNB a table on the stocks of guarantees issued, guarantees activated (the amount of a guarantee equal to the drawing of a loan), guarantee calls, debt repayments by an original debtor, stocks of active guarantees and cash repayments to the State Budget for the previous guarantees called (recoveries). The data on guarantee calls are available to the CNB, in addition, on a monthly basis. These reports however cover only the guarantees issued by the MOF. The guarantees granted by the local government, HBOR, HAMAG-BICRO are not included.

Due to an insufficient data coverage of the previous reports, the CNB used complementary data sources, namely (i) the MBS for the stocks of domestic guarantees granted by the MOF, HAMAG-BICRO, HBOR and by local government units (monthly basis), (ii) the CNB's internal database for the stocks of external guarantees reported directly to the CNB by S.13 units and (iii) data from HAMAG-BICRO on guarantee calls and repayments by original debtors (annual basis). The Croatian statistical authorities committed to send to Eurostat the figures on the total stock of guarantees, as reported in the table provided by the MOF, and to compare these figures to the Questionnaire table 9.1 data.

Afterwards, Eurostat reviewed the table provided prior to the visit, presenting a detailed list of guarantees granted to public and private entities. The table covered all guarantees provided by the MOF, HBOR (including the export credit insurance) and HAMAG-BICRO. Eurostat pointed at some stock-flow inconsistencies visible in the table. In particular, the change in stocks of assumed debt did not consistently reflect the amount of debt assumptions (flows) and guarantee calls. For instance, in the particular case of the shipyard '*3. MAJ Brodogradiliste d.d.*', the table showed a change in the stock of HRK 42 million (stock of the assumed debt HRK 218 million in 2019 compared to HRK 260 million in 2020), but the only transaction reported in the table was the debt assumption for an amount of HRK 219 million in 2020. The Croatian statistical authorities explained that, in some cases, the stock of the assumed debt changed due to the repayment by the original debtor, but these transactions were not included in the table, thus creating the discrepancies identified by Eurostat.

Eurostat further enquired about the recording of the repayment of government debt by an original debtor since the corresponding capital transfer revenue could not be identified in the Questionnaire tables 9.1 and 9.3. The Croatian statistical authorities admitted that the practise of the recording of revenue (D.9rec) was recently discontinued. Eurostat did not agree with such treatment and asked to revise the recording in the April 2022 EDP notification. In addition, the Croatian statistical authorities will provide to Eurostat stocks and flows of assumed debt, repayments by government and by original debtors, as well as D.9pay and D.9rec recorded in relation to the assumed debt for 2017-2020.

Concerning the source of information, data on repayments by original debtor were available from the MOF if the debt is repaid to government. This is however not the case if the debtor repays directly to the bank. In such situation, the CNB obtains data from a survey circulated to domestic banks.

When reconciling the table presenting a list of guarantees and debt assumptions with the EDP Questionnaire table 9.2 (dedicated to debt assumptions), some discrepancies were observed. As it was explained in the meeting, these were related to the debt of the railway company HZ Cargo towards the HBOR, which was assumed by the government. The HBOR, classified in S.13, thus became a creditor of the government. In such case, the Croatian statistical authorities decided not to report the debt assumption in the table on guarantees due to consolidation, while it was reported in the Questionnaire table 9.2.

Finally, Eurostat observed a difference between the stock of guarantees reported in the table sent prior to the visit (HRK 5446 million in 2020) and the stock of guarantees in the Questionnaire table 9.1 reported for an amount of HRK 6535 million in the October 2021 EDP notification. The Croatian statistical authorities explained that the first table did not include the guarantees granted within SURE, which is the European instrument for a temporary Support to mitigate Unemployment Risks in an Emergency. Eurostat took note of the clarification.

Findings and conclusions

(63) In relation to the export credit insurance operated by HBOR, the Croatian statistical authorities will examine the recording of the scheme and, in particular, the recording of provisions and write-offs in the own accounts of HBOR.

*Deadline: end of February 2022*³⁸

(64) Eurostat took note that the MOF provides to the CNB, on a quarterly basis, a table on guarantees granted by MOF, comprising guarantees issued and activated, guarantee calls, debt repayments by an original debtor and cash repayments to the State Budget for guarantees called (recoveries). The table is however not used in the compilation and for the reporting of the total stock of guarantees in the EDP Questionnaire table 9.1 and, instead, MBS data and the CNB's internal database are used. The Croatian statistical authorities committed to send to Eurostat the figures on the total stock of guarantees as reported in the table provided by the MOF and compare this to the table 9.1 data.

Deadline: end of June 2022

(66) Regarding debt assumptions, Eurostat noticed that no capital transfer revenue is recorded in cases when the debt assumed is repaid by an original debtor. The Croatian statistical authorities admitted that such practise was recently discontinued and committed to provide to Eurostat stocks and flows of assumed debt, repayments by government and by original debtors, as well as D.9pay and D.9rec recorded in relation to the assumed debt for 2017-2020.

*Deadline: April 2022 EDP notification*³⁹

³⁸ Some information about 10 export credit schemes operated by the HBOR was provided in the April 2022 EDP notification. In the April 2022 EDP notification, the export credit insurance was recorded as a one-off guarantee scheme.

4.3.4. Debt assumptions, debt cancellations and debt write-offs, government claims

Introduction

The main information sources for debt assumptions is the Croatian MOF and the MBS of the CNB. At a local government level, no detailed information about debt assumptions is available. The guarantee cash calls are recorded in the Chart of Accounts under a specific code 51633 ‘*Dani zajmovi tuzemnim trgovačkim društvima izvan javnog sektora po protestiranim jamstvima*’ and under several similar codes, depending on the beneficiary type/sector.

Discussion and methodological analysis

The discussion started with the availability of information for local government units. The Croatian statistical authorities reported no changes in the situation since the previous EDP dialogue visit in 2019. Thus, the information about debt assumptions was not directly available but individual cases of cash guarantee calls obtained from the PR-RAS report might be followed up in order to see if any debt assumption might be involved. The cases of debt assumptions where no cash transaction was involved (so-called contractual), if any, were thus not captured at the local government level. From the discussion, Eurostat understood that some data were collected by the MOF on a quarterly basis but they were not used in the national accounts compilation. The Croatian statistical authorities will therefore provide a template of the MOF report mentioned in the meeting and will clarify the content and coverage of the report. They will also provide to Eurostat data on guarantees issued and repayments of guaranteed loans collected at the local government level.

Similarly to the case of guarantees, the Croatian statistical authorities confirmed that the inconsistencies between the table on debt assumptions provided prior to the visit and the EDP Questionnaire table 9.2, identified by Eurostat, resulted from the debt assumptions that were consolidated. In particular, the debts of the companies *HZ Cargo* and *Duro Dakovic* towards the HBOR were assumed by government and not consolidated in the Questionnaire table 9.2. Eurostat took note of the explanations.

Concerning the debt cancellations, the Croatian statistical authorities reported that the write-offs of loans provided by the HBOR to nonfinancial corporations and household were recorded as capital transfers payable in national accounts. The amounts were however negligible.

Findings and conclusions

(67) The Croatian statistical authorities will provide a note on data on guarantees issued and repayments of guaranteed loans collected at the local government level, including the template that local government units report to MOF.

³⁹ In the April 2022 EDP notification, repayments of government debt assumed by an original debtor for 2018-2021 were reclassified to a capital transfer revenue (D.9rec).

*Deadline: end of May 2022*⁴⁰

4.3.5. Capital injections in public corporations

Introduction

The main data source for capital injections provided by budgetary central government to public corporations is a quarterly report of the Croatian MOF. Based on these data, the CNB and CBS perform the capital injection test.

For other central government bodies, local government and social security funds, the data are available on an aggregated level from financial reports, available on a quarterly basis. The capital injection test is usually not performed but, in agreement with Eurostat, all acquisitions of equity at the local government level are treated as capital transfers, unless proved otherwise.

Discussion and methodological analysis

The Croatian statistical authorities brought to Eurostat's attention an operation that occurred in 2021 with the view to discuss its recording in national accounts. In Q2 2021, the Croatian MOF acquired nonfinancial assets⁴¹ for an amount of HRK 103 million from the bankrupted shipyard *Uljanik brodogradiliste d.d.* The government was one from a rank of creditors that were entitled to recoveries from the bankruptcy procedure of the shipyard. The legal claim of government, registered by the Court, originated from previous guarantee calls paid by government in 2018 and 2019. It was however not clear whether a similar claim was recorded in national accounts or whether the recovery was in any way related to the claim recorded in 2018⁴². In Q3 2021, the MOF injected these nonfinancial assets in a newly created shipyard *Uljanik Brodogradnja 1856 d.o.o.* that was classified in S.11.

The Croatian statistical authorities recorded in national accounts the first transaction – recovery of assets from a bankruptcy procedure - as an acquisition of nonfinancial assets in P.51g with a counterpart entry in the capital transfer receivable (D.99rec). Eurostat suggested, following the information received in the meeting, that the capital injection in kind provided to the new company might be recorded as a capital injection in kind (D.99pay) and negative P.51g, thus having no impact on B.9 in 2021, unless there may be specific reasons to consider that the time of recording of the events would be different.

In relation to the case discussed above, Eurostat asked the Croatian statistical authorities whether more cases existed where the government has received or might receive recoveries in kind from bankruptcy procedures, following guarantee calls paid by government in the past. The Croatian statistical authorities committed to investigate this issue and report results to Eurostat.

⁴⁰ In March 2022, Eurostat was informed that the CNB sent to the MOF a defined set of variables on guarantees of local government as a request to introduce a permanent input data delivery by the MOF for the GFS/EDPS compilation.

⁴¹ In the meeting, the Croatian authorities informed about a ship acquired by government but, later on, it was clarified that the assets acquired by government in the bankruptcy procedure was machinery and equipment.

⁴² <https://ec.europa.eu/eurostat/documents/1015035/9983802/Final-findings-EDP-dialogue-visit-HR-16-18-Dec-2019.pdf/48020c70-141e-3dde-1b2d-99e20c491bc3>, p.35

Finally, Eurostat asked for a clarification about the description of data sources from the EDP Inventory: “*Individual unit level data on capital injections are available on request from the Ministry of Finance and are checked with the accounting data in DZS.*” In particular, Eurostat wondered whether the data sources for the performing of the capital injection test were not automatically available but, instead, only ‘on request’. The Croatian statistical authorities confirmed that this information is generally available to the CBS and CNB on a quarterly basis and admitted that such statement could be confusing. The CNB performs the capital injection test and, afterwards, sends the results for consultation to the national EDP working group. The Croatian statistical authorities will correct the description in the EDP Inventory so that it will reflect the process described in the meeting.

Findings and conclusions

(68) The Croatian statistical authorities will investigate the cases when government, as a guarantor, receives the nonfinancial assets (e.g. a ship) from the bankruptcy procedure as a repayment of the previous guarantee call.

*Deadline: end of May 2022*⁴³

(69) Eurostat took note of a case when a ship, for an amount of HRK 103 million, was acquired by government in Q2 2021 as a result of the *Uljanik Brodogradiliste*’s bankruptcy procedure and was afterwards provided as a capital injection in kind to another newly established company *Uljanik Brodogradnja 1856 d.o.o.* (S.11002) in Q3 2021. The first transaction is currently recorded in national accounts as a recovery of the ship in P.51g with a counterpart entry in the capital transfer receivable (D.99rec). Based on the information available in the meeting, Eurostat suggested that the capital injection in kind provided to the new company might be recorded as a capital injection in kind (D.99pay) and negative P.51g, thus having no impact on B.9 in 2021 (unless there may be specific reasons to consider that the time of recording of the events would be different).

*Deadline: April 2022 EDP notification*⁴⁴

4.3.6. Dividends, super dividends

Introduction

Prior to the visit, the Croatian statistical authorities sent a note on the performing of the super dividend test and on the calculation of the super dividends for individual companies for 2017-2020.

Discussion and methodological analysis

In the note provided prior to the visit, the Croatian statistical authorities explained that, as a proxy for the entrepreneurial income (B.4), they used the operating profit from the profit and loss statement, including the net interest charges and excluding all other financial revenues/expenditures as well as holding gains/losses. It is a net result of the current activity before distribution and before income tax. Eurostat took note of the information and asked

⁴³ The note was provided in the April 2022 EDP notification.

⁴⁴ The recording, as suggested by Eurostat, was implemented in the April 2022 EDP notification.

about the performance of the super dividend test at a local government level. According to the Croatian statistical authorities, the super dividend test was usually not performed due to insignificant amounts of local government dividends.

Eurostat also identified some inconsistencies between the dividends and super dividends reported in the Questionnaire table 10.2 and the data provided in the table before the EDP dialogue visit. The discrepancies will be corrected in the April 2022 EDP notification.

Findings and conclusions

(70) The Croatian statistical authorities will verify and correct, if relevant, the amounts of dividends sent in the table prior to the visit that were inconsistent with the dividends reported in the Questionnaire table 10.2.

*Deadline: April 2022 EDP notification*⁴⁵

4.3.7. Financial derivatives

Introduction

The Croatian statistical authorities mainly use cross-currency swaps. The main data source for the cross-currency swap agreements for central government is the Croatian MOF. Prior to the visit, the Croatian statistical authorities completed a table on financial derivatives for 2017-2020.

Discussion and methodological analysis

Eurostat thanked for completing the table on derivatives and thought that the table in general provided good quality data. Some data nevertheless required further clarification from the Croatian statistical authorities.

First, Eurostat pointed to the fact that the information from the 2019 EDP dialogue visit about the last redemption of swaps in 2020 might have been incorrect since, in the current table, some operations with swaps for 2020 still could be observed. The Croatian statistical authorities confirmed that the data reported in the current table were correct.

Furthermore, Eurostat thought that since the swaps used by Croatia were mostly on the asset side, these should be as such reported in block 2 of the table. Thus, the recording of the notional value of swaps, currently reported on a liability side, should be accordingly updated.

Regarding the collaterals in block 3, Eurostat observed zeros reported in the table but thought that some amounts should be reported, mainly due to the fact that most of the Croatian swaps were reported on an asset side. Therefore, the Croatian statistical authorities were asked to investigate whether they have: (i) an asymmetric contract and the collateral was to be paid (considered as the most probable option), or (ii) a symmetric contract and a non-cash collateral was received, or (iii) an asymmetric contract and a cash collateral was received. In the latter case, the table would be incorrectly completed.

⁴⁵ The amounts were corrected in the April 2022 EDP notification.

In block 5, Eurostat noticed that the difference between the face value of the debt after and before hedge was HRK 2437 million in 2020, which was mostly consistent with the market value of the swap of HRK 2424 million reported in block 1. This was however not the case for 2017 (difference of HRK 4346 million versus the market value of HRK 2192 million) and for 2018 (difference of HRK 5969 million versus the market value of HRK 3748 million). According to Eurostat, the two values did not need to be necessary consistent due to partially different concepts but should not show significant discrepancies. While the market value of the swaps contained the interest rate swap and the foreign exchange components, the difference between the value of the debt after and before hedge should only include the interest rate effect. The Croatian statistical authorities committed to verify the data.

In the same block, Eurostat enquired about the reporting of the impact of hedging on interest in items 25-27. From the discussion, it resulted that the data were incorrectly reported as accrual adjustments in interest flows instead of the accrued interest in USD converted at an average exchange rate in item 25 (interest on debt, before hedge) and of the accrued interest in EUR after swap in item 27 (interest on debt, after hedge). In such way, the table would show that the swap reduced the economic interest so that the interest would be lower after that swap, compared to the interest before the swap. In addition, the impact of hedge, i.e., cash receipts in item 26, should be recorded as a negative figure, which was not the case. Eurostat also asked to report the unwinding of swaps of HRK 1914 million in item 31 instead of HRK 10 428 million currently (incorrectly) reported.

It was agreed that the Croatian statistical authorities would reflect all comments raised during the discussion in the updated table on derivatives that would be sent to Eurostat by the end of May 2022.

Findings and conclusions

(71) In relation to financial derivatives, Eurostat noticed that no collateral is reported in the table. The Croatian statistical authorities will therefore verify and report to Eurostat if financial derivative operations involve asymmetric collateral arrangements.

Deadline: April 2022 EDP notification⁴⁶

(72) The Croatian statistical authorities will reflect on the other comments received from Eurostat in the meeting and send the updated table on financial derivatives covering the years 2017-2021.

Deadline: end of May 2022⁴⁷

4.3.8. PPPs, concessions and energy performance contracts (EPC)

Introduction

Under this agenda point, Eurostat discussed the recording of public private partnerships (PPPs), concession contracts and energy performance contracts. Prior to the visit, the

⁴⁶ In February 2022, the Croatian statistical authorities reported that none of the currency swap contracts for bonds issued had any provision on collateral, thus there was neither an asymmetric nor a symmetric type of collateral.

⁴⁷ The table was sent in April 2022.

Croatian statistical authorities provided a note on existing and planned PPPs, concessions and EPCs and a note on the recording of Bina Istra concession with the lease and lease-back model.

Discussion and methodological analysis

PPPs

In the EDP Questionnaire table 11, Croatia reported 17 projects, of which 13 PPPs, three EPCs and one concession contract. Out of 13 PPPs, 12 PPPs for an amount of HRK 613.6 million were recorded off-balance sheet and only one, for an amount of HRK 504 million, on-balance sheet. For all of them, the construction period started already in 2006 or 2007, respectively, so they do not fall under the current PPP Guide published by Eurostat.

Since 2019, the activities of the AIK Investment Agency in the field of PPP management were taken over by the Ministry of Economy, Entrepreneurships and Crafts. The analysis of the risks distribution for PPP projects was previously carried out by the AIK and further circulated to the statistical authorities. After the AIK was incorporated into the Ministry, the Croatian statistical authorities planned to formalise the cooperation so that the Ministry would routinely circulate to the members of the national EDP Working Group the necessary information: (i) an evaluation note for the statistical treatment (off/on balance sheet), (ii) the data required for GFS/EDP compilation and (iii) the underlying PPP contracts.

In the meeting, the Croatian statistical authorities informed that, although some initiatives were already taken, no formal cooperation with the Ministry of Economy had been established yet. Eurostat was concerned about the absence of a systematic collection of information about PPPs and requested the Croatian statistical authorities to take necessary steps in this regard so that the data would be collected at least twice a year. As a first step, Eurostat proposed to start with the most sizeable PPPs. It was also mentioned in the meeting that, currently, no new PPPs were foreseen.

Concessions

In Croatia, there are two main concession contracts for significant amounts - Bina Istra motorway and the Zagreb Airport – in both cases the assets are classified on-balance sheet of government. First, Eurostat focused on the on-balance sheet concession relating to the Bina Istra motorway that was already discussed in previous visits. Nevertheless, Eurostat thought that the recording should be reviewed due to some anomalies such as the missing F.2/AF.2 or large F.8/AF8 currently recorded by the Croatian statistical authorities.

In the Bina Istra concession, government guarantees to the private operator the coverage of the operating costs plus a set return on investment. Some contingent liabilities exist in case of an early cancellation of the concession contract. This arrangement is similar to a sale-lease-back operation whereby the government takes an asset under a financial lease, and then leases it back to the operator under an operating lease.

Eurostat recalled that, in 2015, when it was discussed for the first time, two recording options were proposed. In the first, according to the lease and lease-back model, an imputed debt would be calculated. In the second, the concessionaire would be reclassified inside S.13 and the actual debt would be recorded in national accounts. The Croatian statistical authorities

preferred the latter option, with a modification that the assets (and not the concessionaire itself) were reclassified on the balance sheet of government. This recording, however, triggered certain recording challenges in later years. In the meeting, the Croatian statistical authorities informed about the intention to move from the current recording to the lease and lease-back model but, before, they would prefer to clarify certain points with Eurostat.

Currently, the Bina Istra concession was classified inside S.13. The loans provided by HBOR to the concessionaire were consolidated. The concession contract started in 2002 and in 2003 there was a first significant issuance of bonds (F.3L) for an amount of HRK 1.4 billion to finance the investment. Eurostat remarked that, to this effect, an increase in cash and deposits (F.2) would have been expected as a counterpart entry to F.3L. This was however not the case, because no F.2/AF.2 appeared over the whole duration of the contract. Instead, a decrease in loans liabilities (F.4L) was recorded to balance the transaction. A similar situation appeared in 2007 when the second large issuance of bonds occurred. Such incorrect recording was caused by the reclassification of only the assets relating to the concession and not of the concessionaire to S.13, implying that financial instruments such as AF.2/F.2 were missing. In addition, Eurostat wondered why the larger amounts of the gross fixed capital formation could be only observed in 2009.

A potential recording of the Bina Istra concession according to the lease and lease-back model would imply, similarly to the financial lease, the imputation of the debt that would be equal to the cumulative investment expenditure in P.51g. The debt would be redeemed through the fees (P.1) collected by government from the operation lease. The P.1 (fixed at inception) would be thus recorded to balance the interest expenditure D.41 from the financial lease so that the impact on B.9 would be neutral over the whole duration of the contract, even though P.1 would be lower at inception (in particular during the construction period) but gradually exceeding the costs (D.41) over time. The duration of the concession would constitute the maturity of the financial lease. Overall, the lease and lease-back model would imply the recording of the following ESA categories: gross fixed capital formation (P.51g), interest expenditure (D.41), market output (P.1) and government debt (F.3L and/or F.4L).

Alternatively, in the second approach, the Croatian statistical authorities would show the concessionaire as a part of general government, as if it was a separate institutional unit classified in general government, although this was a private or a foreign-controlled entity. In the Bina Istra case, however, the control was already established through the contract and through the control over the assets. In such a model, the full set of accounts of the concessionaire would be recorded in S.13, i.e., debt (AF.42L), but also F.2/AF.2 (currently not recorded) and the P.1 received from the tolls paid by the users. The Croatian statistical authorities will provide to Eurostat a comparison of these two potential models, indicating also the year 2001 with initial stocks.

EPCs

The Croatian Real Estate Agency (APN) is responsible for the implementation of the Program of Energy Efficiency of the buildings in the public sector, including the EPCs. Two types of EPCs contracts are used in Croatia. First, under the scheme existing up to 2016, government co-financed EPCs through the Environmental Protection and Energy Efficiency Fund (FZOEU), classified in S.13, and provided subsidies up to 40% of eligible construction costs (recorded in PR-RAS on the account 32398, thus impacting B.9). The total value of

these EPCs is HRK 845 million in invested capital and they are currently recorded off-balance sheet. Although the Guide on EPC⁴⁸ was introduced in 2018, Eurostat agreed that the Croatian statistical authorities would review these EPCs according to the new Guide and would record them accordingly in government accounts.

Second, in the new 2016-2020 scheme, a standardized EPC contract is used, promoting also the possibility of EU financed expenditure. It was mentioned in the meeting that, currently, all public entities (not only S.13 units) were obliged to use this contract but, until now, there was no EPC realised according to the standardised contract. The Croatian statistical authorities however admitted that no regular collection of information about EPCs currently existed. Eurostat was concerned about the fact that local authorities involved in EPCs might follow a cash recording. In the absence of relevant adjustments in national accounts, this might imply the non-recording of investment expenditure (P.51g) for the acquisition of equipment and the payment to a service provider, based on savings, recorded on a cash basis. The Croatian statistical authorities argued that the debt of local authorities did not increase and the public account 32398, used for recording the costs of energy savings in the ESCO model, did not show significant values (only HRK 49 million in 2020). Eurostat stressed that the Croatian observation, that the debt of local authorities did not increase, might not necessarily imply the non-existence of EPCs because local authorities usually do not record the EPC on their balance sheet and thus no debt occurs. An example of an EPC contract, spotted on internet, was the EPC contract for the renewal of public lightening for the City of Zagreb, involving the regional energy agency REGEA. To this effect, Eurostat emphasized that a systematic source of information about EPCs had to be necessarily established. Until this is achieved, the Croatian statistical authorities should introduce relevant legislative measures or launch a dedicated survey, in order to see the materiality of the issue. Moreover, the Croatian statistical authorities were requested to approach the regional energy agency REGEA, mentioned in the previous case, which seemed to be involved in more EPC projects. Finally, it was agreed that the Croatian statistical authorities would send for consultation to Eurostat the new standardised EPC contract.

Findings and conclusions

(33) Eurostat took note that the Ministry of Economy currently delivers the information about PPPs to the Croatian statistical authorities based on an informal agreement. Eurostat encouraged the statistical authorities to establish a systematic collection of information relevant for the GFS/EDP statistics.

Deadline: end of June 2022

(34) Eurostat took note that all the EPCs contracts concluded before 2016 are recorded off-balance sheet without exception. Although the Guide on EPC was introduced in 2018, Eurostat agreed that the Croatian statistical authorities would review the EPCs contracts according to the new Guide and would record them accordingly in government accounts.

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https://ec.europa.eu/eurostat/documents/1015035/8885635/guide_to_statistical_treatment_of_epcs_en.pdf/f74b474b-8778-41a9-9978-8f4fe8548ab1

Deadline: April 2022 EDP notification⁴⁹

(35) The Croatian statistical authorities will establish a systematic collection of information about EPC contracts in Croatia either by means of a legislative measure or by launching a survey.

Deadline for a progress report: end of May 2022

(36) As a start, the Croatian statistical authorities will approach the regional energy agency REGEA, which is involved in the EPC contract for the renewal of public lightening for the City of Zagreb.

Deadline: end of May 2022

(37) The Croatian statistical authorities will send, for consultation, to Eurostat the new standardised EPC contract.

Deadline: end of April 2022⁵⁰

(38) The Croatian statistical authorities will investigate the recording, in the public accounts of local government units, of the EPC contracts, in particular the recording of investments (if any) and energy savings in the balance sheet and in the profit and loss accounts, respectively.

Deadline: end of May 2022

(39) In relation to Bina Istra, the Croatian statistical authorities will provide to Eurostat a comparison of two potential models/ approaches. In the first approach (lease and lease-back model), an imputed debt (AF.42L) will be shown and redeemed over time by imputed P.1 (deemed to reflect revenue on an imputed operating lease). In this model, negative B.9 appears at the time of construction, while later on a positive B.9 results from the P.1 exceeding D.41 pay on the imputed financial lease.

In the second approach, the concessionaire is deemed as controlled by government (control through the contract and over the assets), and will be shown as part of general government and accordingly in EDP table 2A. In such a model, the full set of accounts of the concessionaire would be recorded in S.13, i.e., debt (AF.42L), but also AF.2 stocks and transactions and the P.1 received from tolls paid by the users.

Deadline: end of May 2022

4.3.9. Emission trading permits

Introduction

⁴⁹ The note was sent on 25 March 2022.

⁵⁰ The standardised EPC contract was sent on 13 May 2022. On 28 June 2022, Eurostat provided comments and asked for further clarifications about certain provisions of the contract.

The Croatian statistical authorities explained that, since 2013, they followed the ‘fiffo’ accounting method, as described in the 2016 MGDD, for the recording of other taxes on production (D.29), rather than the pure cash basis applied before.

Discussion and methodological analysis

The Croatian statistical authorities explained that the cash receipts from the sales of emission permits were recorded as a financial transaction in F.2 and other account payable (F.89L). The revenue D.29 is recorded at the time when the permits are surrendered with a decrease in F.89L, using the weighted average price. Eurostat did not fully agree with such recording mainly due to the time lag of nine months currently applied. In the current recording, the Croatian statistical authorities recorded revenue in year T for the emission permits issued in the first quarter of year T. Eurostat considered the time lag as too short and thought that all sales of emission permits should be time adjusted by at least 12 months. For the recalculation of quarterly data, Eurostat proposed to use the auction dates of emission permits or, using a simplistic approach, to spread proportionally the annual amount to four quarters.

The Croatian statistical authorities committed to provide an adapted recording of ETS, following the change in the time lag for the adjustment of the cash received from nine months to 12 months, i.e. from January to December of the year T. The Croatian statistical authorities intended to provide to Eurostat the revised calculation before the April 2022 EDP notification in order to see whether the change in the time lag implied a significant revision.

Findings and conclusions

(73) Eurostat considered that the current ‘fiffo’ method for the recording of ETS should be adapted in a way that the ETS period considered in the calculation is from January to December of the year T, so that at least a 12-months’ time lag is applied to cash. The Croatian statistical authorities will provide the revised calculation before the April 2022 EDP notification in order to see whether the revision implies a significant revision.

Deadline: 15 March 2022⁵¹

4.3.10. Decommissioning costs

Introduction

The Nuclear Power Plant Krško is owned 50:50 by the Croatian public corporation HEP and by the corresponding Slovenian company GEN. It is built on the Slovenian territory. The resources for the financing of the decommissioning of the NPP Krsko and the disposal of radioactive waste is provided by the public electricity company *Hrvatska elektroprivreda* (HEP) to the dedicated Fund for financing the decommissioning of the Krško Nuclear Power Plant (*Fond za financiranje razgradnje i zbrinjavanja radioaktivnog otpada i istrošenoga nuklearnog goriva Nuklearne elektrane Krško* – FFRNEK). The FFRNEK is classified inside general government. Eurostat followed up on the recording of contributions paid to the FFRNEK in national accounts.

⁵¹ The revised calculation of ETS recording was sent on 24 January 2022. In accordance with the Eurostat proposal, the time lag was change to 12 months.

Discussion and methodological analysis

The Croatian statistical authorities clarified that the regular payments received by the FFRNEK from the HEP were recorded in public accounts as revenue but, in national accounts, these contributions were reclassified into financial transactions in F.8L, not impacting B.9. These funds were mainly invested into deposits in commercial banks, government securities and shares, on which the FFRNEK received property income, in particular the interest and dividends. As further explained, the reinvested earnings were currently not recorded as revenue in national accounts but rather as a financial transaction in F.8L, similarly to the contributions received.

Eurostat acknowledged that the reinvested earnings should indeed be neutral on B.9 but, more appropriately, by recording of the imputed interest paid (D.41pay) on the contributions received by the FFRNEK, recorded in F.8L/AF.8L. In order to generate an imputed D.41pay to neutralise revenue (D.4x rec), three possible approaches were proposed: (i) using a discount rate in accordance with the net present value approach in the MGDD, (ii) recording D.41pay netted by the managing of assets costs and (iii) a simplified assumption that D.41pay is equal to the property income (D.4x rec).

Furthermore, Eurostat explained that, as a proxy of the net present value proposed by the MGDD, the Croatian statistical authorities might follow a simplified approach and to estimate the discount rate as the ‘managing of assets costs’ (the second option from above). These costs should usually be very small. If a reasonable estimate of the managing of assets costs was not available, the Croatian statistical authorities might follow the third option. Accordingly, the recording of D.41pay in amounts equal to the reinvested earnings would ensure the neutralisation of the property income, correctly recorded in national accounts as revenue (D.41rec, D.42, etc.).

As last point, the Croatian statistical authorities wondered about the economic justification for the recording of D.41 expenditure if the FFRNEK has not incurred any borrowing (F.4L), but it rather cumulated funds for the future decommissioning recorded as liabilities (F.8L). Eurostat thought that the liabilities relating to the cumulated funds did not have the nature of borrowing, as defined by ESA, although agreed that the F.8L/AF.8L might also be difficult to justify. From an economic point of view, liabilities of the FFRNEK will be increasing over time due to the net present value and the imputed interest D.41 should therefore reflect the time value of money for the expenditure to be incurred in distant future.

Findings and conclusions

(74) The Croatian statistical authorities will revise the recording of decommissioning, according to which reinvested earnings on decommissioning assets should be added to the F.8pay and to be neutralised by D.41p using the present value approach. As an alternative, D.41p might be considered equal to D.4r, with a possibility of the D.41p being netted with the managing of assets costs.

*Deadline: April 2022 EDP notification*⁵²

⁵² The proposal for the recording was sent to Eurostat on 16 February 2022. In July 2022, it was agreed with Eurostat that the Croatian statistical authorities would follow the third option.

4.3.11. Others: privatization, sale and leaseback operations, UMTS, securitisation

Introduction

The privatisations reported by the Croatian statistical authorities in recent years were in general very small. The Croatian statistical authorities report no sale and leaseback and securitisation operations.

Concerning the regulation of frequencies, it is the government agency HAKOM (*Hrvatska agencija za telekomunikacije*), which is responsible for the sale and management of licences. In national accounts, the sales of frequencies are recorded as financial transactions for the full amount of lump sums and allocated as rent (D.45r) over the duration of each licence.

Discussion and methodological analysis

Eurostat did not have any specific questions about these issues.

Findings and conclusions

Eurostat took note of the information.

5. Any other business

No issue was discussed under this point of the agenda.

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Final agenda

- 1. Statistical institutional issues**
 - 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**
 - 1.1.1. Memorandum of Understanding and cooperation among statistical authorities
 - 1.1.2. Personnel capacity issues in CBS
 - 1.2. Data sources and revision policy, EDP inventory**
 - 1.2.1. Availability and use of data sources, revision policy
 - 1.2.1.1. Automated compilation procedures and IT infrastructure
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 - 1.2.3. EDP Inventory
- 2. Follow-up of the previous EDP dialogue visit of 16-18 December 2019**
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- 4. Methodological issues and recording of specific government transactions**
 - 4.1. Delimitation of general government sector, application of 50% rule in national accounts**
 - 4.1.1. Application of the market/non-market test
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 - 4.2.5. Gross fixed capital formation (GFCF)
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- 4.3.4. Debt assumptions, debt cancellations and debt write-offs, government claims
- 4.3.5. Capital injections in public corporations
- 4.3.6. Dividends, super dividends
- 4.3.7. Financial derivatives
- 4.3.8. PPPs, concessions and energy performance contracts (EPC)
- 4.3.9. Emission trading permits
- 4.3.10. Decommissioning costs
- 4.3.11. Others: privatization, sale and leaseback operations, UMTS, securitisation

5. **Any other business**

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