

Directorate C: National and European Accounts

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Ms Mariana Kotzeva
President
National Statistical Office
2, P. Volov Str.
BG – 1038 Sofia

Subject: Methodological treatment for settlement of the liabilities of the budget spending units

Ref.: Your letter dated 7 February 2011

Dear Ms Kotzeva,

Following our above-mentioned correspondence, I am in a position to give you the opinion of Eurostat on the appropriate statistical recording of the case you have presented.

The case

The issue concerns a new scheme for settlement of certain liabilities of the budget spending units that accrued before end-2009. The scheme involves a purchase by the Bulgarian Development Bank (BDB) of suppliers' receivables at a 7% discount on the nominal amount of the claims.

For this purpose the BDB initially used its own resources. However, the government has placed an interest-bearing deposit at BDB for the purpose of the scheme, and may do so up to a maximum of 400 mio BGN.

Chronology of events:

2009

Liabilities of the budget spending units to suppliers – 366 745.30 BGN (this and all following amounts are in thousands of BGN). The full amount of the government liabilities subject to the scheme is already recorded as government expenditure in 2009.

2010

- Submitted claims as of September 2010 (deadline for submitting claims) — 289 229.20;
- Nominal value of claims to be settled under the scheme as of 17.12.2010 (deadline for settlement) — 276 574.10;

- The amount payable for these claims — in your letter dated 7 February 2011 the corresponding amount after discount is 258 401.70;
- The government places an interest-bearing deposit at the bank.

2011

- 20.7.2011 — The government repays the loan to the bank: 276 574.10;
- 21.7.2011 — Interest-bearing deposit is closed (5% interest is paid to the government).

Documentation provided

On 7 February 2011 the Bulgarian statistical authorities provided the following documentation:

- a methodological analysis of the mechanism for settlement of the liabilities of the budget spending units;
- the legal basis for setting up the scheme — Decision No 197 of the Council of Ministers, 8 April 2010 (amended and supplemented by Decisions No 359, 31 May 2010, No 473, 8 May 2010, and No 867, 9 December 2010);
- a proposal for a statistical recording of the scheme made by the Bulgarian statistical authorities.

Methodological analysis by Eurostat

- We agree that an unconditional debt of the government to the creditor (the BDB) exists which is to be repaid at the maturity date (20.7.2011). According to paragraph 5.70 of ESA 1995 "a loan is an unconditional debt to the creditor which has to be repaid at maturity and which is interest-bearing";
- However, we do not agree with the conclusion that the parties have agreed on a zero interest rate on the implicit loan. The BDB earns an interest rate of 7% from the discount applied and we consider that this amount corresponds to an interest paid by the government to the bank. In other words, the bank charges an interest equal to the difference between the nominal and the actually paid amount of the acquired receivables ($276\,574.10 - 258\,401.70 = 18\,172.40$). For the purpose of recording this interest on accrual basis we can assume that the implicit loan was granted on the date of the Decision of the Council of Ministers for setting up the scheme;
- Besides that, this interest represents a reduction of government liabilities and suppliers' receivables and for this purpose we think that it would be appropriate to record this reduction through the "Revaluation account". More precisely, by paying 258 401.70, the liabilities of the government and the receivables of the suppliers are reduced by $258\,401.70 + 18\,172.40$ (ESA 95, paragraph 6.51);
- We consider that the amount of the loan granted from the bank to the government is equal to the amount actually paid to suppliers – 258 401.70;
- In 2011 the government repays the loan (258 401.70) and pays an interest of 18 172.40 to the bank which should be spread across 2 years based on the duration of the loan;
- Concerning the deposit placed by the government at the bank in 2010, it seems to have some features of a loan.
- We assume that the claims which were not submitted and those which were not approved for settlement continue to be a liability of the government towards the suppliers.

Applicable accounting rules

- European system of accounts 1995 (ESA 1995), paragraphs 5.69-85, 6.51, Eurostat Manual on government deficit and debt (MGDD), chapter II.4 Recording of interest.

Recording of transactions

Eurostat proposes the following sequence of recording:

2010

- 1) The bank settles liabilities of the government to the suppliers for a total of 258 401.70;
- 2) Settlements reduce stocks of other accounts payable/receivable (AF.7) for both government and suppliers by 258 401.70;
- 3) By doing this the bank has a claim on the government for the same amount or in other words the bank lends 258 401.70 to the government without any cash payments from the bank to the government;
- 4) Revaluation of claims by 18 172.40 recorded in the "Revaluation account";
- 5) Recording of accrued interest on the loan granted by the bank to the government;
- 6) Recording of accrued interest on the loan (the "deposit") granted by the government to the bank.

2011

- 9) Recording of accrued interest and interest paid on the loan (the "deposit") granted by the government to the bank;
- 10) Recording of accrued interest and interest paid on the loan granted by the bank to the government;
- 11) Reimbursement of the loan granted by the bank to the government;
- 12) Reimbursement of the loan (the "deposit") granted by the government to the bank.

Conclusion

After an examination of the information provided on the scheme, Eurostat has reached the following conclusions:

Based on the preliminary information provided, we agree that an unconditional debt of the government to the BDB exists. However, we believe that there are interest flows to be recorded on this loan. In fact, in 2011 the government should be recorded as repaying the loan (258 401.70) and in addition paying interest (18 172.40) to BDB. In compliance with the accrual principle the interest should be spread across the duration of the loan.

In 2010, when the bank settles the government liabilities, the amount of the 7% discount should appear in the "Revaluation account" since it represents a reduction of government liabilities and suppliers' receivables.

Concerning the deposit placed by the government at the bank in 2010, we believe that it seems to have some features of a loan. This would imply a change in the classification of financial instruments from a "deposit" to "loan".

Procedure

There is no explicit Community legislation which governs a procedure by which Eurostat gives its views on operations which have not yet been enforced or completed. Nevertheless, Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. This preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat website.

This preliminary view of Eurostat is based on the information provided by the Bulgarian authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view. To this end Eurostat could request to be informed of the final details of the operation (contract and accompanying papers where relevant) when they are available, or (should this be the case) information that the planned operation has been abandoned.

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the Council Regulation (EC) No 479/2009 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat publishes all official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat website. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 29 March 2011.

Yours sincerely,



Francois Lequiller
Director