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EUROSTAT

Directorate C: National and European Accounts

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Ms Iana Paliova  
Director  
Treasury Directorate  
Ministry of Finance  
102, Rakovski Str.  
**BG - 1040 Sofia**

**Subject: 2006 Fiscal Notification**  
**Ref: Your letter of 7 February 2006.**

Dear Ms Paliova,

Thank you for your letter of 7 February 2006 to Eduardo Barredo concerning the statistical classification of the National Investment Company.

Given the lack of specific details in your letter regarding the status and financing of the National Investment Company (NIC), it is difficult for Eurostat to form a definitive view as to its statistical classification. Please find below our preliminary advice.

***Description of the case***

We understand that this entity (NIC) was created in 2004 and was provided with BGN 340 mio in the legal form of an acquisition of equity. Its purpose is the development of infrastructure projects, and not specifically to be profitable. In fact, the initial capital provided has been all spent in 2005-2006, and NIC is expected to be liquidated in the near future.

***Current statistical recording in Bulgaria national accounts***

We understand that you classified NIC outside general government and that you recorded the capital injection in 2004 of BGN 340 mio as a capital transfer and not as a transaction in equity (which would have been inappropriate because NIC was not expected to be profitable), with an impact on ESA government expenditure and deficit (net lending / net borrowing) in 2004.

However, the problem is whether this structure is not in fact a government unit, with the implication that the government expenditure and deficit would be recorded at time of investment (mainly in 2005), rather than in 2004.

***Analysis of the case***

We understand from your letter that the IMF has requested that NIC be considered in the fiscal target (i.e. within the fiscal perimeter) for the purpose of the IMF agreement. If this classification follows the principles of GFSM 2001, it is most likely that the appropriate national accounts classification should also be in the general government sector, given the similarity of the GFSM 2001 and SNA93 systems (deemed to be identical for sectorization purposes), and the proximity between the ESA 1995 and SNA 1993 in

relation to sectorization. The general government debt and deficit will then include the debt and deficit/surplus of NIC.

You should still apply the national accounts principles to check the classification. We would like to underline the broad principles which should be used to classify units, and which you should apply to this case:

- *Is the National Investment Company a separate institutional unit?* ESA95 paragraphs 2.12 and 2.13 set out the tests that you should apply, notably if the body has decision-making autonomy in respect of principal function and keeps a complete set of accounts. If the body is not considered a separate institutional unit, then it should be classified in the general governments sector combined with the unit that controls it.
- *Is the National Investment Company an ancillary unit?* See SNA 4.40-4.44.
- *Is the National Investment Company a market unit?* The ESA95 Manual on Government Debt and Deficit (section I.5) provides guidance on the market/non-market rule. If the National Investment Company does not meet more than 50% of its production costs from sales at economically significant prices, then it should be classified in the general government sector. This might be the case for example if the Bulgarian State provides large amounts of transfers to cover an operating deficit of NIC.

It should be stressed that the legal characteristics of NIC is not the determining criterion for its sectorization.

#### **Advice**

Considering all of the above it would seem to us that this entity is more acting as a dedicated government fund, rather than as a genuine public corporation, and might be seen an ancillary unit, to be classified in general government. Accordingly, we recommend you to record the expenditure of the National Investment Company as impacting mainly the 2005 deficit, and to revise the 2004 deficit accordingly.

More in general, on the issue of the revision of figures, it is important that the statistical series are fully consistent over time. Once a decision on the appropriate sector classification of a unit is taken, it should be classified to this sector throughout the period of operations, unless some substantial material change in its circumstances leads you to believe that it should be reclassified at that point. We would underline that all Government Finance Statistics (deficit, debt and other aggregates) should be brought into full consistency with this classification.

I would like to underline the importance of providing Eurostat with timely and full details of transactions, in case our understanding of them proved insufficient.

I am copying this letter to Mr Todorov at the National Statistical Institute of Bulgaria.

Yours sincerely,



Låurs Nørlund  
Director