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FINAL FINDINGS

EDP standard dialogue visit to Bulgaria

22-23 January 2014

Eurostat standard dialogue visit to Bulgaria

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Executive summary

Eurostat undertook a standard EDP dialogue visit to Bulgaria on 22-23 January 2014. The purpose of the visit was to review the existing institutional responsibilities for compiling GFS and EDP statistics, discuss the quality and exhaustiveness of primary data sources, clarify some issues relating to the EDP notification tables, discuss the implementation of ESA 2010 and examine the statistical treatment of specific operations undertaken by the government.

First, the institutional arrangements currently in place were reviewed, together with the new format of the EDP Inventory on sources and methods for the compilation of GFS. The Bulgarian statistical authorities informed Eurostat of their plans to revise national accounts with the introduction of ESA 2010 in September 2014.

The discussion carried on with a follow-up on the implementation of the action points from the upstream dialogue visit which took place on 29 November – 2 December 2011. Eurostat also congratulated the Bulgarian NSI for completing all action points from the latest EDP dialogue visit to Bulgaria (27-29 February 2012).

The October 2013 EDP Notification tables were examined in detail, together with the Questionnaire relating to the EDP notification tables. It was agreed that further progress should be made on the implementation of Eurostat's decision on the recording of some operations related to trade credits.

Two major public corporations – the Bulgarian Railways Holding (BDZ) and the Bulgarian Energy Holding (BEH), were extensively discussed. Representatives from BEH and the Ministry of Economy and Energy (MoEE) took part in the meeting for this purpose. The Bulgarian authorities gave an overview of the energy sector in Bulgaria and described the major energy projects where BEH or government might be involved.

Concerning the implementation of accrual recording, the discussion focused on the new system for collecting taxes and social contributions into a single account and its implications for EDP statistics. It was agreed that the Bulgarian statistical authorities would provide Eurostat with a proposal on how to address the statistical issues raised by the new system and in particular how to deal with any unidentified receipts in the single account.

The statistical recording of specific government transactions was also discussed, notably the treatment of a claw-back clause in the privatisation deal of the Bulgarian Telecommunications Company (BTK). Particular attention was given to the recording of EU flows both in the EDP tables and in the Questionnaire. The recording of guarantee calls in the Questionnaire tables was also briefly covered, mainly referring to government guarantees granted to BDZ.

Finally, Eurostat described in detail the main changes related to the implementation of ESA 2010.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) 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 Bulgaria on 22-23 January 2014.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Unit D-3 "Excessive Deficit Procedure (EDP) 2". The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Bulgaria was represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB). Officials from the Bulgarian Energy Holding (BEH) and the Bulgarian Ministry of Economy and Energy (MoEE) took part in the discussion for agenda point 7.1.

The purpose of the EDP dialogue visit was to review the implementation of ESA95 methodology and to ensure that the provisions of the Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data. Eurostat also followed up on the implementation of the action points from the upstream dialogue visit (UDV), which took place on 29 November – 2 December 2011.

In particular, the visit aimed to assess the existing statistical capacity, review the division of responsibilities concerning the compilation of EDP statistics and government accounts, discuss the quality and exhaustiveness of primary data sources, clarify some issues relating to EDP tables raised in the context of previous notifications, discuss the implementation of ESA 2010 and examine the statistical treatment of specific operations undertaken by the government.

Special attention was given to the new single account, designed to collect proceeds from both taxes and social contributions. Also, a considerable part of the discussion was devoted to public corporations, in particular BEH and its subsidiaries. Finally, the participants also reviewed in detail various issues relating to the forthcoming implementation of ESA 2010.

With regard to procedural arrangements, the Main conclusions and action points would be sent to Bulgaria for review. Then the Provisional findings would be sent to Bulgaria for review. After this, Final Findings will be sent to Bulgaria and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documentation provided prior to the EDP dialogue visit and the good cooperation on EDP-related issues from the Bulgarian statistical authorities.

1. REVIEW OF STATISTICAL CAPACITY ISSUES

1.1. Institutional arrangements and data sources

Eurostat briefly reviewed the institutional arrangements in place. The Bulgarian statistical authorities explained that there had been no changes in the institutional arrangements regarding the compilation and reporting of EDP data, except for the signature of a new Memorandum of Understanding (MoU) between the NSI and the Bulgarian National Audit Office (NAO). The NSI explained that in addition to the regular meetings between the NSI, the BNB and the MoF, a separate working group had been set up to include representatives from the NAO. Minutes are regularly produced to reflect the outcome of the methodological discussions held at the working groups.

Eurostat welcomed the signature of a new MoU between the NSI and the NAO. It also took note of the update of the existing MoU between the NSI, the BNB and the MoF.

Eurostat enquired about the responsibility of the NSI as regards the compilation of Maastricht debt. The NSI explained that it assumes full responsibility for the debt figures reported to Eurostat. It provides data on debt of public corporations classified inside general government to the MoF, which then compiles and consolidates the general government gross debt figures. The MoF then sends the debt data back to the NSI, which analyses the aggregated data. The MoF itself publishes debt data as required by the State Debt Act, not taking into account public corporations classified inside general government. Hence, the measurement of Maastricht debt (including debt of units reclassified inside general government) is under the responsibility of the NSI.

Eurostat stressed the importance of the NSI having the necessary tools to check how the debt figures provided by the MoF were compiled. In this context, the NSI explained that it would soon have full access to the relevant information systems of the MoF. In particular, on 14 January 2014 the NSI and the MoF signed an agreement for granting access to the NSI to the MoF information systems¹.

Eurostat welcomed the signature of the agreement and encouraged the Bulgarian statistical authorities to ensure its technical implementation as soon as possible. Eurostat also stressed the importance of allowing access to both quarterly and annual data at the MoF.

As regards data sources, Eurostat enquired about consolidation of debt between the general government sub-sectors as well as between budget units, extra-budgetary funds and public corporations reclassified inside general government. The MoF explained that their debt register allows for automatic consolidation of debt between central government and social security funds. Consolidation of local government debt is ensured at the MoF through the trial balances of the budget entities. In addition, a register of local government debt was created although data from this register is not fully consolidated. Nevertheless, local government debt is small in Bulgaria. As regards extra-budgetary funds, the Bulgarian authorities assured that these bodies do not have

¹ The NSI sent to Eurostat a copy of the agreement on 26 June 2014.

any debt at the moment. They also explained that as of 2014 there would no longer be extra-budgetary funds in Bulgaria.

The Bulgarian statistical authorities gave as an example the central government entity FLAG, which provides loans to municipalities. In this particular case, the NSI provides balance sheet information on FLAG to the MoF. The Bulgarian statistical authorities also explained that there are only a few cases of loans between general government sub-sectors in Bulgaria. In any case, loans between general government units and public corporations classified inside general government could be identified from the financial statements of the public corporations. The MoF register of government debt, which also includes information on government assets, is another tool to identify consolidating amounts of general government debt (this is the case, for example, of social security funds which buy government bonds).

The Bulgarian statistical authorities also assured that accrued interest is removed from both loans and bonds when compiling Maastricht debt. The existing data sources allow the identification of all interest payments. In principle, public corporations should inform the MoF whenever they issue a bond and all bond-related features (interest, maturity, face value, etc.) should be available in the Central Depository. Hence, the debt figures are at face value.

Eurostat asked the Bulgarian statistical authorities to prepare and provide a debt consolidation matrix, showing the consolidating amounts by sub-sector and by type of instrument.

Finally, the Bulgarian statistical authorities informed Eurostat of the new Public Finance Law, which entered into force as of 1 January 2014. The new Public Finance Law requires, from 2014 onwards, that the MoF publish quarterly Maastricht debt, together with the national definition of debt (debt of the budget units only). The MoF will publish Maastricht debt on its website within one month from the corresponding Eurostat publication. The NSI will only provide a link to this publication. However, the NSI already publishes EDP table 1, including Maastricht debt figures, on the same date when Eurostat publishes its debt and deficit Press Release. On the other hand, the NSI will publish in the future monthly and quarterly deficit data on a cash basis, as required by Directive 85/2011.

Eurostat took note of the new Public Finance Law and asked for a copy of the legal acts.

Action point 1: The Bulgarian authorities will complete and provide to Eurostat a debt consolidation matrix by 15 March 2014².

1.2. EDP inventory

Eurostat welcomed the work of the Bulgarian statistical authorities on the EDP Inventory. Eurostat made a few comments on how to further improve the content of the Inventory. It was agreed that the NSI would send shortly after the meeting the final version of the EDP Inventory, taking on board comments provided by Eurostat and including updated questionnaires on EU flows and hospitals.

Eurostat also explained that the Bulgarian statistical authorities would need to further update this final version for the new Public Finance Law and for ESA 2010.

² Action point completed.

Action point 2: The Bulgarian statistical authorities will update the EDP Inventory for further Eurostat comments, so that it can be published on the Eurostat's website in February 2014³.

Action point 3: Eurostat will clarify by the June FAWG meeting how and when the EDP inventories should be updated for ESA 2010⁴.

2. REVISION POLICY

There have been no changes to the revision policy applied for GFS. The Bulgarian authorities confirmed that in principle no further revisions are made to the years n-4 to n-2 in EDP notifications. Data for these years may be revised only in exceptional cases.

The Bulgarian NSI plans to implement the next major revision of its national accounts together with the introduction of ESA 2010 in September 2014. The NSI would address GNI Reservations at the same time as it revises historical data for the implementation of ESA 2010, with an impact on sector accounts.

3. REVIEW OF UPSTREAM DIALOGUE VISIT ACTION POINTS (29 NOVEMBER - 2 DECEMBER 2011)

Before the visit, the Bulgarian NSI provided Eurostat with a progress report on the implementation of the UDV action points. Eurostat followed up on the implementation of the UDV action points. It was agreed that no new action points would be set. However, Eurostat underlined the need to complete the outstanding UDV action points.

Eurostat stressed the importance of UDV action point 1 (the NSI having direct access in real time to the primary source data collected by the MoF). The NSI explained that the agreement for granting access had been formally signed and that the MoF had already presented its information system to the NSI. Four people from the NSI will be granted access in real time to the MoF database and a trial had been made to test access.

The NSI will be granted access to all monthly and quarterly audited primary data of the first level spending units, including balance sheets, cash reports and trial balances of budget units. Both individual and aggregated data will be accessible. The NSI also explained that the units, which report to the MoF, are required to submit declarations of conformity assuring the good quality of the data.

In addition, the NSI already familiarised the NAO with the process of compilation of EDP tables and the data sources used for this purpose. The NAO (as well as the MoF) sends to the NSI information on particular units, when changes to data need to be made due to audit findings. This had already happened in the October 2013 EDP Notification.

In order to complete UDV action points 2 and 3, it was agreed that the NSI would provide to Eurostat by end-June 2014 documentation on the effective use of these information systems. The MoF, on its part, will provide to the NSI documentation of the systems. Eurostat stressed that the

³ Action point completed.

⁴ Action point completed.

NSI should use its access to the information systems of the MoF so that it could assure itself of the quality of the data.

Eurostat strongly encouraged the project to introduce an integrated macroeconomic database at the NSI so that UDV action point 6 can be completed. The NSI explained that this project was set out as a priority in the National Statistical Programme for 2014. Eurostat committed to provide to the NSI examples of integrated IT systems for GFS that had been implemented in other Member States.

Eurostat asked the NSI how it assures the quality of data on public corporations in the Business Statistics Information System. The NSI explained that the Business Statistics Information System is a fully integrated system, including financial statements, income statements and supplementary statistical references such as on payables and receivables. Units that have been reclassified inside general government are required to resubmit their data after any audit findings.

Eurostat enquired about the audit reports of some budget units for which an opinion had been issued with reservations. The Bulgarian authorities explained that reservations are not always linked to changes in the data. Any changes to the data due to audit findings are reflected in the balance sheets – the reporting unit is required to update the figures and resubmit a new balance sheet to the MoF. The MoF confirmed that the above-mentioned reservations were related to off-balance sheet items and did not impact EDP data.

Eurostat also encouraged the Bulgarian authorities to follow the EU-level work on development of a quality management system for GFS/EDP, and to establish process mapping, detailed process documentation as well as business continuous plan in order to complete UDV action point 9.

Eurostat enquired about staff training at the NSI and in particular training of newcomers. The NSI briefly described the existing internal and external training possibilities. It also described the approval procedures in place for attending an external training. All staff members that have been approved to attend an external training are required to produce a report after the training and present internally the issues discussed to the rest of the staff who did not take part in the training. This practice of knowledge sharing within the NSI was extended to include staff members from other institutions, such as the BNB, which shows the good level of inter-institutional cooperation. In this context, the BNB noted that a GFS course had recently been held in Sofia.

Eurostat invited the NSI to provide a note to Eurostat on training, including for newcomers, with an annex on recent training initiatives, so that UDV action point 10 can be completed.

Eurostat took note that the number of staff working on EDP/GFS issues had fallen by 1 recently, despite the UDV findings expressing concern about the recruitment and retention of NSI staff. Eurostat noted that the need for a further reinforcement and retention of staff resources would be even more pronounced in view of the implementation of ESA 2010 in the following months.

Finally, the NSI informed Eurostat about the recent changes in the organisational structure of the Macroeconomic Statistics Directorate. Three new departments (Environmental and Energy Statistics, Agriculture and Forestry Statistics and Foreign Trade Statistics departments) have been added to the Macroeconomic Statistics Directorate.

Action point 4: Eurostat will contact the NSI bilaterally by end-March 2014 to suggest examples of other Member States which had successfully implemented an integrated macroeconomic database⁵.

4. FOLLOW-UP OF THE LAST EDP STANDARD DIALOGUE VISIT TO BULGARIA (27-29 FEBRUARY 2012)

Eurostat congratulated the Bulgarian statistical authorities on completing all action points from the last EDP standard dialogue visit.

5. EXAMINATION OF THE OCTOBER 2013 EDP NOTIFICATION

Eurostat committed to investigate if the slow loading of the Bulgarian EDP files to EDAMIS throughout the October 2013 EDP notification period was due to Eurostat or Bulgarian IT facilities.

5.1. EDP tables

5.1.1. EDP Table 1

Eurostat noted that interest expenditure, as reported by the Bulgarian statistical authorities in EDP table 1 in the October 2013 EDP Notification, was not consolidated between general government sub-sectors. Eurostat stressed the importance of reporting interest expenditure in EDP table 1 (and in the ESA transmission tables) on a consolidated basis, even if there is no impact on the general government deficit. In particular, consolidated interest figures are important not only for the calculation of the primary deficit but also for the calculation of the implicit interest cost of debt.

The Bulgarian statistical authorities explained that the interest expenditure figures reported in EDP table 1 include accrued interest of budget entities, public corporations classified inside general government and FISIM adjustments. They also explained that the public accounts budget classification would allow them to identify interest flows between government sub-sectors. Information on interest flows between government units and public corporations classified inside general government is also readily available.

It was agreed that the Bulgarian statistical authorities would use the information available to report interest on a consolidated basis in the next EDP notification, by taking into account any accrual adjustments on interest related to intra-government debt.

Eurostat also enquired about the State Fund for Guaranteeing the Stability of the State Pension System (the so-called Silver Fund), which had been discussed in the previous EDP dialogue visit in February 2012. The Bulgarian statistical authorities explained that the Silver Fund is regulated by the State Fund for Guaranteeing the Stability of the State Pension System Act, adopted in 2008. It was clarified that the Silver Fund was not a separate institutional unit but rather a part of the State budgeting system, notably part of central government deposits. The funds are kept at the BNB, with no interest accrued on them. The Silver Fund was created in 2007, at the time

⁵ Action point completed.

when the government accumulated surpluses, with the purpose of guaranteeing the sustainability of the State pension system. It is now funded by central budget transfers originating mostly from privatisation proceeds and concession revenues. The resources collected in the Silver Funds amount to approximately BGN 2.3 billion as of end January 2014.

Action point 5: The Bulgarian authorities will consolidate interest payable by the April 2014 EDP notification⁶.

5.1.2. EDP Tables 2A-D

Eurostat enquired about the accrual adjustments made to cash balances of extra-budgetary funds in EDP table 2A. The Bulgarian authorities ensured that such adjustments are duly made under the appropriate lines. Also, the Bulgarian authorities recalled that extra-budgetary funds would no longer exist as of 1 January 2014, due to public budgeting and accounting reforms.

As regards EDP table 2C, the Bulgarian authorities confirmed that the big surplus reported for local government in 2012 was mainly due to advance payments for municipalities-beneficiaries of EU funds, granted in the end of 2012. These payments included national co-financing amounts paid by the central government. Budget restrictions in the municipalities further contributed to the surplus.

Eurostat also enquired about the recording of local government taxes in EDP table 2C, noting that these had been reported on a cash basis. The Bulgarian authorities confirmed that there is no lag between the event that generated the local government tax receivable and the tax payment.

5.1.3. EDP Tables 3A-E

No particular issues were raised on EDP tables 3.

5.1.4. EDP Table 4

The NSI uses data from the suppliers' trial balances to compile the figures reported in EDP table 4. Only stocks of trade credits and advances (AF.71) are reported in EDP table 4, excluding thus any other accounts payable (AF.79). The reported figures include trade credits and advances of public corporations classified inside general government and advance payments made to budget units. The amounts reported in EDP table 4 are fully consistent with the amounts reported in the financial accounts.

Eurostat enquired about the implementation of Eurostat's decision on the recording of some operations related to trade credits of 31 July 2012. The Bulgarian statistical authorities explained that long term trade credits (e.g. fixed assets acquired through financial leasing) are already included in Maastricht debt, whereas short term trade credits of budget units are part of payables and do not therefore appear in EDP table 4. In fact, there is no separate line for short-term trade credits in the trial balances. Only long-term trade credits can be clearly identified.

The Bulgarian authorities further explained that under the national cash reporting methodology the acquisition of fixed assets through financial leasing is recorded as an imputed cash

⁶ The consolidation of interest was made for the year 2013 in the April 2014 EDP Notification. Interest payable for previous years will be consolidated in the October 2014 EDP Notification.

transaction in the budget, in anticipation of the cash the government will have to pay later on. Financial leasing operations are recorded in compliance with the Manual on Government Deficit and Debt, with an impact on Maastricht debt. Nevertheless, the acquisition of fixed assets through financial leasing is subject to strict controls in the Bulgarian public sector and is thus only rarely observed in practice.

Eurostat also enquired about the treatment of trade credits subject to factoring without recourse. The BNB replied that for the moment there is no detailed information on factoring but the BNB is currently working on a project to develop factoring statistics, covering both banks and factoring companies. The BNB expressed its readiness to share this information with the NSI.

Eurostat welcomed the initiative of the BNB to develop factoring statistics and pointed out that a breakdown of these statistics into government units would be very much appreciated.

Eurostat invited the Bulgarian statistical authorities to describe in writing the relation between the stocks of trade credits and advances reported in EDP table 4 and the flows of trade credits reported under payables in Questionnaire table 4, assuming that stocks are completely in line with transactions. Eurostat would expect the reconciliation to be made at least for the last four years.

The Bulgarian statistical authorities should also ensure that Maastricht debt does not include any short term trade credits, even if there have been discussions at the EU level over including all trade credits in Maastricht debt in the future.

Finally, Eurostat also invited the Bulgarian statistical authorities to fill in for the next notification the line on amounts outstanding in the government debt from the financing of public corporations in EDP table 4.

Action point 6: Building on the work of the BNB on the development of factoring statistics, the NSI will introduce (as relevant) the reclassification to loans of factoring of government credits without recourse, with a progress report by end-2014.

Action point 7: The Bulgarian authorities will provide by end-May 2014 a note on the accounting of short term trade credits by budgetary units, the possible current inclusion of certain trade credits in Maastricht debt, and a broad reconciliation of data reported for trade credit/advances stocks in EDP notification table 4 with the changes in Other accounts payable reported in EDP Questionnaire table 4⁷.

Action point 8: The NSI will include data on government debt relating to lending to public corporations in EDP notification table 4 by the April 2014 EDP Notification⁸.

5.2. Statistical discrepancies in EDP tables

Bulgaria reports very low statistical discrepancies in EDP tables 3. In fact, the NSI compiles both annual financial and annual non-financial accounts for GFS.

⁷ The Bulgarian NSI sent a short note on trade credits. This action point should be further discussed.

⁸ Action point completed.

Eurostat took note of the very low statistical discrepancies reported in EDP table 3. Eurostat also noted that some amounts of Other accounts receivable/payable in the EDP Questionnaire table 4 had not been explained and asked whether the NSI has the practice of including some statistical discrepancies under this instrument.

The Bulgarian statistical authorities assured that no statistical discrepancies are reported under Other accounts receivable/payable.

5.3. Questionnaire relating to the EDP tables

Eurostat reviewed the questionnaire tables from the October 2013 EDP Notification.

The NSI committed to report separately accrued interest on government claims against public corporations in Questionnaire table 8.

The MoF confirmed that no guarantees on assets are included in the total stock of outstanding government guarantees in Questionnaire table 9.1. It was clarified that the guarantees granted by government for student loans were in fact guarantees granted to the borrowers (i.e. the students) and not to the lenders (i.e. the banks).

Action point 9: The NSI will split new lending reported for public corporations in EDP questionnaire table 8 into new lending and accrued interest, by the April 2014 EDP Notification⁹.

6. IMPORTANT ISSUES FROM 2013 RELEVANT FOR THE APRIL 2014 NOTIFICATION

Before the visit, the Bulgarian authorities reported two major issues that might have an impact on government debt and deficit figures in 2013.

The first issue related to the existence of a claw-back clause in the contract for the sale of a major stake in the Bulgarian Telecommunications Company (BTK). The claw-back clause in the case of BTK stipulated that if the new owner resells its stake in the company, before a certain date and for a defined profit, the government would be entitled to a share of this profit.

The Bulgarian statistical authorities treat amounts from claw-back clauses (or similar clauses) as financial transactions (income from privatization). According to the Bulgarian statistical authorities, the claw-back clause would determine the moment of the real transfer of all risks and awards and thus the time of recording of the transaction in national accounts.

The Bulgarian authorities explained that in the case of BTK, the government filed a claim and finally reached a mutual agreement with the selling party on the amount to be paid to government. The Court Decision on this matter was finalised in 2013 and the amount to be paid was actually recorded as privatisation proceeds for the State. The selling party did not pay any penalties.

Eurostat took note of the claw-back clause issue for the privatisation of BTK and briefly discussed the statistical recording of similar cases. Eurostat pointed out that the existence of such a clause could mean that the conditions for a true sale were not fulfilled. The amount of the claw-back should be thus recorded as privatisation proceeds (sale of shares) in 2013. However, the

⁹ Action point completed.

Bulgarian statistical authorities would need to create a stock of shares (AF.5) in the balance sheet for statistical purposes in order to balance the financial accounts.

The second issue reported by the Bulgarian authorities before the visit related to a delay in EU reimbursements of government expenditure incurred in 2013. More precisely, the amounts of the certified and declared for reimbursement expenses on EU projects significantly exceeded the ones effectively reimbursed by the Commission in 2013. This issue is discussed under point 7.3.1 *Recording of EU flows*.

7. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTION POINTS

7.1. Delimitation of the general government sector: classification of institutional units according to ESA95

The NSI maintains a statistical register of all entities, including general government units based on NACE codes. This register is not accessible from outside and allows the NSI to extract general government units and public corporations at any time. The NSI receives the list of budgetary units from the MoF and assigns a Unified Identification Code to each entity. The NSI explained that it would extend access to the register to the MoF and the BNB.

For the compilation of the questionnaire on government controlled units classified outside general government, data are extracted from the Information System Business Statistics, which contains the annual reports of all enterprises and is updated on a quarterly basis.

Eurostat welcomed the progress made on the register of government-controlled and general government units as well as plans to share it with the MoF and the BNB. It was agreed that the NSI would send to Eurostat its documentation on the register, so as to close UDV action point 8.

Eurostat also enquired how newly created state owned enterprises are handled for statistical purposes. The NSI explained that whenever a new public corporation is set up they would generally consider it as classified outside general government. Later on, when enough data are available which would allow them to perform the 50% test, the NSI runs the test and decides on the sector classification of the body.

7.1.1. Questionnaire on government controlled units classified outside general government

The NSI sent the updated Questionnaire on government controlled units classified outside general government on 13 December 2013, prior to the visit.

Eurostat reviewed the Questionnaire on government controlled units classified outside general government and made some suggestions on how to further improve its content. It was agreed that the NSI would take on board Eurostat's comments and resend the questionnaire.

7.1.2. Review of the results of the 50% test for all public corporations

Eurostat reviewed the results of the 50% test, provided before the visit by the NSI, and pointed out to some cases which would need to be further investigated. In particular, Bulgargaz and the National Electricity Company, both loss-making companies, show very high results from the 50% test. On the other hand, Microfinancing Institution Jobs has been well below the 50% threshold for 3 years in a row.

Eurostat also noted that consumption of fixed capital is usually greater than depreciation, and recommended that units which hold substantial assets, and have a ratio above but close to 50%, should be further investigated.

Action point 10: The NSI will check the results of the 50% test for Bulgargaz, Microfinancing Institution Jobs and the National Electricity Company (NEK), and inform Eurostat by end-February 2014¹⁰.

Action point 11: The NSI will further check the results of the 50% test for VEC Kozloduy. In particular, the NSI will check whether a further breakdown of the increase in Other expenses is available in the notes to the financial reports and inform Eurostat by end-March 2014¹¹.

7.1.3. Specific public corporations: the Bulgarian Railways Holding and the Bulgarian Energy Holding

The discussion on public corporations focussed mainly on two public holdings – the Bulgarian Railways Holding (BDZ) and the Bulgarian Energy Holding (BEH).

Bulgarian Railways Holding

In 2011 BDZ underwent a major restructuring whereby BDZ Holding transferred its assets to its subsidiaries – BDZ Passengers and BDZ Cargo. The holding only kept some non-operational assets as well as its financial function of raising debt, which is however serviced in substance by its subsidiaries.

BDZ Passengers was reclassified inside general government in the October 2012 EDP Notification (from 2011 onwards), based on the results of the 50% test. Performing the test on the level of the whole holding group, including the two subsidiaries, BDZ Holding remained classified outside general government. It was agreed that this classification would remain until the group is dissolved or becomes non-market. BDZ Cargo also remained outside general government. The government planned to privatise BDZ Cargo, however the privatisation procedure was suspended due to lack of investor interest.

In the April 2013 EDP Notification Eurostat asked the NSI to record a debt assumption for the assumption by government of a government-guaranteed debt of BDZ Holding to the World Bank (due to three consecutive guarantee calls). In addition, a debt assumption was booked in 2012 for the debt of the holding to KfW, as this debt had in practice been reassigned to BDZ Passengers.

Before the visit, the Bulgarian NSI had sent the 2009-2012 financial statements for each of the three individual entities. The NSI clarified that they do not receive consolidated financial statements from the companies.

The Bulgarian statistical authorities confirmed that there had been no new developments following the restructuring of BDZ. They also confirmed that the debt of BDZ Passengers is being regularly serviced.

¹⁰ Action point completed.

¹¹ Action point completed.

Bulgarian Energy Holding

BEH is a fully government-owned holding company, which was created in 2008. Its main activities include the acquisition, management, assessment and sale of participations in companies, which are active in the Bulgarian energy sector. The holding comprises a number of subsidiaries, most of them important players in the Bulgarian energy market. The holding and its subsidiaries were assessed to be market units, their sales covering more than 50% of their production costs.

Representatives from BEH and from the Ministry of Economy and Energy (MoEE) gave an overview of the financial situation of the energy sector in Bulgaria as a whole. They clarified that both public and private companies operate in the Bulgarian energy sector. Following a period of stagnation, exports of electricity increased in 2013. The subsidiaries of BEH are now well capitalised and they all pay dividends to BEH, which in turn pays dividends to the government.

The Bulgarian authorities further described the recent structural changes that had taken place in BEH. In particular, EOS EAD, previously a subsidiary of the National Electricity Company (NEK), which is part of the holding itself, has become now a subsidiary of BEH. In addition, two new companies have been added to the structure of the holding.

Eurostat asked about the operations of BEH and its debt management policy. In particular, Eurostat enquired about the intra-group lending and the distribution of the fixed assets within the company. The Bulgarian authorities explained that each subsidiary is responsible for its own fixed assets. As regards the debt management policy, they explained that the corporate policy is to consolidate the debt at the level of the mother company, whereas the resources of the subsidiaries are used to service the debt.

The Bulgarian authorities described the way the holding operates and gave an overview of its current and planned financial situation. The Bulgarian authorities clarified that no subsidies had been paid by government to BEH. BEH has always been operating as a market entity, with most of its revenues coming from dividends.

As regards the financing of the company, the Bulgarian authorities explained that in addition to the government shareholding and bank loans, a bond had been issued to finance the holding. This bond is currently traded on the Irish Stock Exchange.

Eurostat also enquired about government's control on BEH. The Bulgarian authorities explained that the government as a shareholder can influence strategic investment decisions of the company, especially in international projects. However, government does not intervene in the operational management of the company. If a subsidiary were sold, the sale would be carried out in compliance with the Privatisation Law and through the Privatisation Agency. The proceeds from the sale would thus go to BEH and not to government.

Nevertheless, such a sale is purely hypothetical, as BEH is on the list of government-owned entities which cannot be privatised. The Bulgarian authorities also explained that BEH's permission is required if one of the subsidiaries wants to acquire another body. Similarly, the Minister of Economy's permission is required for acquisitions made by BEH.

BEH, as any other public corporation, follows strict rules for sales, public procurement and diversification of deposits. Subsidiaries are free to trade between each other without any

government intervention. The prices of such intra-group trades are determined by an independent energy regulator (the State Energy and Water Regulatory Commission).

Eurostat also enquired about any major projects where BEH or government may be involved, notably the possible reactivation of the construction of a new nuclear power station (Belene project), the possible extension of the existing nuclear power facilities (Kozloduy AEC) and the construction of the Bulgarian on-shore and off-shore sections of a gas pipeline running from Russia to Italy (South Stream project). The Bulgarian authorities described the projects undertaken through BEH and confirmed that the government would not provide any guarantees for financing these projects.

Eurostat encouraged the NSI to follow the South Stream project to assess if there may be some statistical consequences. It was also agreed that the NSI would keep monitoring the individual subsidiaries within the BEH with respect to the 50% market/non-market test.

Eurostat also took note that the non-generation activities of AEC Kozloduy are managed by the Radioactive Waste Company which is responsible not only for processing nuclear waste but also for accumulating funds for decommissioning. The NSI will look at the sector classification of this entity.

Finally, Eurostat followed up on the repayment of the Steam Power Station Sofia (SPSS) liabilities towards BEH. The Bulgarian statistical authorities confirmed that they had analysed the 2012 audited financial statements of SPSS and assured that they would also analyse the 2013 audited financial statements, as soon as they become available.

Action point 12: The NSI will confirm if Steam Power Station Sofia continues to repay its debts in good time to BEH, by end-June 2014.

7.1.4. Local Government public corporations

The NSI presented the results of the 50% test for two local government transport public corporations.

Eurostat encouraged the Bulgarian statistical authorities to keep monitoring the classification of the local government public corporations' fixed assets, referring to the case of Metropolitan, where some of the assets of the company were reported on the balance sheet of the Sofia Municipality. The Bulgarian statistical authorities explained that there were no other such cases as for Metropolitan.

The NSI also explained that there are no holding companies at the local government level in Bulgaria.

7.2. Implementation of the accrual principle

7.2.1. Tax revenue and social contributions

The NSI had sent the updated Questionnaire on taxes and social contributions on 20 December 2013, before the visit. Eurostat reviewed the Questionnaire and made some suggestions on how to further improve its content. It was agreed that the NSI would take on board Eurostat's comments and resend the questionnaire.

Eurostat also enquired about the amendments to the tax legislation foreseen in Budget 2013. These amendments relate to value added taxes and corporate income taxes but do not seem to have any impact on the timing of the tax receipts. The Bulgarian statistical authorities confirmed that these amendments would not affect the pattern of cash receipts and the time-adjusted cash revenue to be recorded in national accounts.

However, the Bulgarian statistical authorities further explained that under the new system taxes and social contributions would be pooled into a single account. This may lead to some difficulties, in some cases, to separately identify proceeds from taxes and proceeds from social contributions.

Eurostat took note of the changes related to the collection of taxes and social contributions. It was agreed that the NSI would reflect on how these changes could affect the time-adjusted cash method used.

Eurostat also enquired about social contributions, which are currently recorded on a cash basis in Bulgaria. The Bulgarian statistical authorities explained that there is no time lag for the payments of social contributions made by central government entities. However, there is a time lag of one month for social contributions payments made by municipalities. Moreover, with the new system, where taxes and social contributions will be pooled into a single account, some companies may be paying social contributions with a delay of more than one month. Eurostat noted that, if this happens frequently and the delay is quite variable, the Bulgarian statistical authorities should reflect on reintroducing the time-adjusted cash method for social contributions. However, this would be only possible if the administrative system in Bulgaria allows the statistical authorities to match the cash payments to the previous periods. In addition, the Bulgarian statistical authorities should be able to separately identify taxes and social contributions which are pooled into the single account.

It was agreed that the Bulgarian statistical authorities would provide Eurostat with a proposal of how taxes and social contributions could be split under the new system.

Action point 13: By 10 March 2014 the Bulgarian authorities will provide Eurostat with a report on (a) the amounts of unidentified receipts in the common tax/social contributions account and what method is used to allocate them, (b) a proposal for how to deal with the temporary timing impacts of the new social contribution arrangements on 2013 data, and (c) reflections on how and when to introduce a one-month time adjustment approach for social contributions¹².

7.2.2. *Interest*

The Bulgarian statistical authorities calculate data on cash and accrued interest expenditure automatically from the debt register, kept at the MoF, on an instrument-by-instrument basis. Before the visit, the NSI sent a table showing the recording of interest expenditure in EDP tables 2A and 3B for each individual instrument. Eurostat noted that the Bulgarian statistical authorities reported accrued interest expenditure to be equal to cash interest expenditure for loans, despite

¹² Action point completed. In February 2014 the Constitutional Court of Bulgaria ruled out the single account for collecting taxes and social contributions and since March 2014 the old approach - maintaining separate bank accounts for taxes and social contributions – has been reintroduced.

the fact that a shift between short term and long term loans is observed in EDP table 1. The MoF committed to further investigate this difference.

Eurostat also invited the Bulgarian statistical authorities to check if interest payable by public corporations classified inside general government had been properly recorded in the tables. The Bulgarian statistical authorities explained that public corporations classified inside general government raise debt mainly through loans.

Action point 14: By 14th February 2014, the Bulgarian authorities will check that there should be no accruals adjustments for interest paid on loans, and also if the interest payable by public corporations is accrued¹³.

7.3. Recording of specific government transaction points

7.3.1. Recording of EU flows

The Bulgarian statistical authorities clarified some aspects of the recording of EU flows in EDP tables 2A and 2C. They informed Eurostat about the delay in EU reimbursements of government expenditure incurred in 2013. In fact, the EU reimbursed certified expenditure for October 2013 only, the difference being financed by payments from the national budget. The remaining part of the EU reimbursements is expected in March 2014.

Eurostat took note of the explanations. It was agreed that this delay would lead to some deficit-impacting corrections in the accounts due to changes in the EU adjustment in the EDP tables.

Eurostat also asked about any cases of disallowance or fines imposed by the EU. The Bulgarian statistical authorities recalled that they had in the past cases of disallowance. They explained that at the time of the official decision for the disallowance, the government pays the money out of the national budget. Later on, the final beneficiary is asked to pay the money back to the government and this is treated as a deficit-decreasing negative expenditure at time of payment. Eurostat agreed with this treatment.

7.3.2. Public-Private Partnerships (PPP) and concessions

As regards concessions, the MoF confirmed that no government guarantees had been granted for the financing of concessions or to protect the profits of the concessionaire. The risk is fully borne by the concessionaire. On the other hand, a frequently observed feature of concession contracts in Bulgaria is the provision of a guarantee by the concessionaires to the government on the onset of the concession contract, as a guarantee that they will fulfil their obligations under the concession contract.

Despite the new law on PPPs, which has been in force since 1 January 2013, no new PPPs have been signed in Bulgaria. Eurostat recalled the statistical rules for recording PPPs in national accounts and stressed that any new PPP contract should be duly examined by the NSI.

7.3.3. Capital injections in public corporations, dividends and privatisations

The Bulgarian statistical authorities confirmed that recently there had been no bank recapitalisations in Bulgaria. They also explained that the funds provided from Bulgaria to Multilateral Development Banks had not been used for the provision of concessional loans below the market rates.

¹³ Action point completed.

As regards dividends, it was agreed that the NSI would examine the dividend data of Bulgarian Posts, in order to cross-check the exact amount of the super-dividend.

Finally, the Bulgarian statistical authorities confirmed that privatisation proceeds are not included in the working balance of EDP tables 2A and 2C.

Action point 15: The NSI will examine the dividend payment from Bulgarian Posts and correct the super-dividend data, if needed, by end-March 2014¹⁴.

7.3.4. State guarantees, debt assumptions, debt cancellations and debt write-offs

Before the visit, the Bulgarian NSI provided a list of outstanding government guarantees, guarantee calls and repayments by individual companies in 2011-2012. The only case where the government was making regular payments to a public corporation which benefits from a government guarantee was the case of BDZ.

The Bulgarian statistical authorities confirmed that there had been no new cases of debt cancellations and debt write-offs.

7.3.5. Other

Eurostat asked for a clarification as regards the recording of military equipment expenditure. It was clarified that the expenditure made by government for the acquisition of military equipment is fully recorded on a delivery basis.

Eurostat also enquired about the recording of revenues from emission permits. The NSI explained that the data on emission permits are calculated at the Ministry of Environment. The revenues from emission permits will be recorded as taxes, "Other taxes on production" (D.29), in the year of surrender of the permits.

The Bulgarian statistical authorities confirmed that there had been no cases of sale and lease-back operations and securitisation operations.

8. IMPLEMENTATION OF ESA 2010

Eurostat informed the Bulgarian statistical authorities of the upcoming training session for Member States on the practical implications of the new features of ESA 2010. The Bulgarian authorities confirmed their participation in the training course. They also explained that they had already started to work on the implementation of ESA 2010. Thematic working groups were set up for this purpose.

Eurostat described in detail the main changes related to the implementation of ESA 2010. The following points were covered: the new qualitative criteria for sector classification of units and in particular the notion of control, the definitions of a captive financial institution and a public holding, the statistical treatment of lump sum payments received from pension schemes, the difference between standardised and one-off guarantees, the notions of deferred tax assets and non-payable tax credits.

The Bulgarian statistical authorities explained that only some small units would be reclassified with the implementation of ESA 2010. Eurostat informed the Bulgarian statistical authorities that it would ask for an update of the questionnaire on the possible impact on government deficit and debt due to the implementation of ESA 2010.

¹⁴ Action point completed.

As regards lump sum payments received from pension schemes, Eurostat explained that these would no longer have any impact on deficit, as they would be treated as financial advances. However, Eurostat stressed that the NSI should also check if the value of the lump sum is equivalent to the value of the pension obligations. The Bulgarian authorities explained that the change in the treatment of lump sum payments from pension schemes would only have a moderate impact on the Bulgarian deficit in the year 2011, when a transfer was made by the professional pension funds (2nd pillar) to the social security funds (1st pillar).

Eurostat explained the difference between standardised and one-off guarantees and elaborated on their statistical treatments. Standardised guarantees in Bulgaria exist in the form of government guarantees on student loans.

Eurostat also enquired about the possible existence of deferred tax assets in Bulgaria. The Bulgarian statistical authorities confirmed that deferred tax assets are reported in the balance sheets of financial and non-financial corporations in Bulgaria. They also confirmed that these deferred tax assets have a non-payable nature, i.e. they are limited to the size of the tax liability.

Finally, the NSI enquired about Eurostat's proposal for new EDP and Questionnaire tables. Eurostat committed to provide more information to the NSI on the new EDP and Questionnaire tables once there is more clarity on the issue.

9. OTHER ISSUES

9.1.1. Second pillar pension schemes

Eurostat informed the Bulgarian authorities of the possibility given to Member States by the recent amendment of the Stability and Growth Pact to request that their mandatory fully funded second pillar pension schemes be examined and taken into account for EDP purposes, under certain conditions.

The Bulgarian statistical authorities explained that the second pillar pension schemes would only start to pay out pension benefits after 10 years. For the moment, they only accumulate social contributions.

9.1.2. ESA95 Transmission Programme

This issue was not discussed due to lack of time.

9.1.3. Any other issues

Eurostat reviewed the progress made in implementing article 3 of Directive 85/2011, notably on public accounting systems containing the information needed to generate accrual data.

The Bulgarian NSI sent on 21 December 2013 a reconciliation table between monthly and quarterly cash-based fiscal data and ESA95 based data. They also provided a link on the NSI website, where fiscal cash data and the reconciliation table would be published.

The Bulgarian statistical authorities explained that monthly fiscal cash data are available at the MoF for all three sub-sectors. The NSI provides estimates for the overall balance, the total revenue and the total expenditure of public hospitals and other public companies, reclassified inside central and local government.

For quarterly data, in addition to the cash reports and the Consolidated Fiscal Program, data from the trial balances of the budget entities are available at the MoF for all three sub-sectors. For public hospitals and other public companies, reclassified inside general government, the NSI

collects data from statistical surveys and time adjusts the cash data on taxes. The data from the trial balances allows the transition from cash data to ESA 95 accrual based data.

Eurostat informed the Bulgarian statistical authorities that it would assess Bulgaria's compliance with the requirements of Directive 85/2011 and would contact bilaterally the NSI should any issues need to be further clarified.

List of participants in the EDP dialogue visit to Bulgaria on 22 – 23 January 2014

Name	Institution	Department
John Verrinder – Head of Unit	European Commission	DG Eurostat, Unit D-3
Denis Besnard	European Commission	DG Eurostat, Unit D-1
Viktor Popov	European Commission	DG Eurostat, Unit D-3
Juraj Hustava	European Commission	DG Eurostat, Unit D-4
Mart Maivali	European Commission	DG ECFIN
Dagmar Lojsch	European Central Bank	DG Statistics
Elka Atanasova – Director	NSI	Macroeconomic Statistics Directorate
Antoniya Pacheva – Head of Division	NSI	Macroeconomic Statistics Directorate Financial Statistics Division
Milada Dimcheva	NSI	Macroeconomic Statistics Directorate Financial Statistics Division
Peter Kamenov	NSI	Macroeconomic Statistics Directorate Financial Statistics Division
Milen Kolev - Head of Division	NSI	Macroeconomic Statistics Directorate Non-financial National Accounts Division
Elena Bakalova	NSI	Macroeconomic Statistics Directorate Non-financial National Accounts Division
Vanya Koleva	NSI	Macroeconomic Statistics Directorate Non-financial National Accounts Division
Svetla Kostova – Director	MoF	Treasury Directorate
Pavel Kyuchukov – Head of Division	MoF	Treasury Directorate Government Finance Statistics Division
Tzvetanka Chipeva - Head of Division	MoF	Treasury Directorate Budget Accounting and Payment Procedures Division
Nikola Pavlov	MoF	Treasury Directorate Budget Accounting and Payment Procedures Division
Vanya Vatcheva – Head of Division	MoF	Government Debt and Financial Markets Directorate Strategies, Analyses and Statistical Reporting Division

Dimitar Popov	MoF	Government Debt and Financial Markets Directorate Strategies, Analyses and Statistical Reporting Division
Emil Dimitrov – Director	BNB	Statistics Directorate
Mihail Andreev	BNB	Statistics Directorate Financial Accounts and General Economic Statistics Division
Lachezar Borisov – Head of Division	Ministry of Economy and Energy	Corporate Management and Restructuring Division
Lubomir Stefanov	Ministry of Economy and Energy	Corporate Management and Restructuring Division
Severin Vartigov	Bulgarian Energy Holding	MBA Deputy CEO
Nina Chuparova	Bulgarian Energy Holding	Finance and investor relations