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Directorate D: Government Finance Statistics (GFS) and quality

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FINAL FINDINGS

Pre-accession EDP dialogue visit to Croatia

26 - 27 June 2013

Executive Summary

Eurostat carried out an EDP dialogue visit to Croatia on 26-27 June 2013. The previous Eurostat EDP dialogue visit to Croatia had taken place on 10-11 May 2012, followed by a technical visit on 14-15 March 2013¹.

The objective of the June 2013 EDP dialogue visit was to review the data sources used for the compilation of the EDP Notification tables and to further clarify some issues raised in the context of the April 2013 EDP Notification. The visit resulted in an extensive set of recommendations and measures to be taken by Croatia in the following period, before transmitting its first official EDP Notification by 1 October 2013.

It was agreed that the Croatian statistical authorities would send shortly after the visit a revised and signed version of the Memorandum of Understanding between the Croatian Bureau of Statistics (CBS), the Croatian National Bank (CNB) and the Ministry of Finance (MoF). In addition, the Croatian authorities will begin work on preparing an EDP Inventory, establish a revision policy for EDP purposes by the end of the year and provide Eurostat with a copy of the so-called "Clean Start" report on the state of play in the Croatian public sector as soon as possible.

Statistical discrepancies, sector coverage and consolidation issues were also extensively discussed. Several possible reasons were identified for the high levels of statistical discrepancies reported in the April 2013 EDP Notification. It was concluded that the Croatian statistical authorities should step up their efforts to align the different data sources used in the compilation process and address the differences in the sector coverage in both Central and Local Government.

The sector classification of the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), the Croatian Bank for Reconstruction and Development (HBOR) and tourist offices was also discussed. No changes in the sector classification of these entities are foreseen in the October 2013 EDP Notification. As regards HBOR, the Croatian authorities committed to explain the split of government recapitalisation flows into subsidies and acquisition of shares.

Eurostat provided methodological advice on the treatment of several specific cases presented by the CNB, notably related to government guarantees and cross-currency swaps. Eurostat also provided guidance on issues related to the statistical treatment of EU flows, dividends, public-private partnerships (PPPs), privatisations, capital injections, debt write-offs, pension reforms and acquisitions of military equipment.

¹ Another technical visit had taken place on 25-26 April 2012. The technical visits aimed at providing further assistance to the Croatian statistical authorities with the preparation of the EDP Notification tables as well as clarifying specific methodological questions raised by the Croatian authorities.

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 Croatia on 26-27 June 2013.

Eurostat was represented by Mr François Lequiller (Director of Government Finance Statistics), Mr John Verrinder (Head of Unit D3 "Excessive Deficit Procedure II"), Mr Denis Besnard, Mr Viktor Popov and Ms Milana Brkic (Desk Officer for Croatia). DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

The Croatian statistical authorities were represented by the CBS, the MoF and the CNB. In addition, representatives from the Agency for Public-Private Partnerships, the Tax Administration, the State Budget Treasury, the Financial Agency (FINA), the Ministry of Defence and the Croatian Pension Insurance Institute participated for some of the agenda points.

The aim of this visit was to review the data sources used for the compilation of the EDP notification tables and to further clarify some issues raised in the context of the April 2013 EDP Notification. Statistical discrepancies, sector coverage and consolidation issues were extensively discussed. Specific government transactions related to EU flows, government guarantees, public-private partnerships (PPPs), military expenditure and pension reforms were also examined.

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

Eurostat appreciated the documentation provided before the visit and the good cooperation on EDP-related issues from the Croatian statistical authorities.

1. INTRODUCTION

The newly appointed Director General of the CBS, Mr Marko Krištof, the Assistant Minister at the MoF, Mr Maroje Lang, and the Director of the Statistics Department of the CNB, Mr Igor Jemric, attended the meeting at the introduction and for the first point on the agenda as regards statistical capacity issues.

The Director of the Eurostat's Government Finance Statistics Directorate, Mr Francois Lequiller, informed the Croatian authorities about the obligation of the EU Member States to report EDP data in accordance with Council Regulation (EC) No 479/2009, as amended by Council Regulation (EC) No 679/2010. In particular, Eurostat recalled that the provisions of this Regulation would be applicable to Croatia as of 1 July 2013, the date of the country's accession to the EU. In this context, Eurostat noted that complete EDP notification tables (including the related questionnaire and other annexed tables) of the highest possible quality would be expected from Croatia by 1 October 2013.

Eurostat further explained that the Croatian EDP data, which are to be submitted by 1 October 2013, would be examined as for any other Member State. The October 2013 EDP Notification tables will be published alongside other Member States' EDP data on 21 October 2013.

In this context, Mr Lequiller noted that a number of issues, among which the high level of statistical discrepancies reported in the April 2013 EDP Notification and the insufficient data provided in the Questionnaire tables, needed to be addressed as soon as possible.

Eurostat also enquired about the "Clean Start" project report, which had been commissioned by the Government from consulting firms and a public scientific research institution to analyse the state of play in the Croatian public sector.

Eurostat highlighted that the Croatian government should provide the CBS with access to all relevant information necessary to perform its tasks, as provided for in Council Regulation 479/2009, as amended. On the other hand, Eurostat should be able to check the quality of the EDP data provided. Therefore, the transmission of the report should be viewed as an urgent issue in the context of the publication of EDP statistics for Croatia in October 2013 (see below for the follow-up to this).

2. REVIEW OF STATISTICAL CAPACITY ISSUES

2.1. Institutional responsibilities for the reporting of EDP and government finance statistics

Introduction

As an action point from the previous EDP dialogue visit in May 2012, the MoF committed to transfer the responsibilities for EDP data compilation and reporting to the CBS. Thus, a pilot April 2013 EDP Notification was for the first time compiled and transmitted by the CBS, however in close cooperation with the MoF and the CNB. In this context, the Croatian statistical authorities (the CBS, the CNB and the MoF) had set up a different division of

responsibilities between themselves, in compliance with the Code of Best Practice in the compilation and reporting of EDP data.

Thus, the responsibility for compiling and transmitting historical EDP data now lies with the CBS. The CNB is still responsible for the compilation and transmission of the financial accounts, whereas the MoF remains the main data source for government finance statistics (GFS). The MoF is also responsible for the compilation of planned/projection data in EDP. The new division of the responsibilities in the compilation and reporting of EDP data and GFS was reflected in a new Memorandum of Understanding (MoU), which still had to be signed by all parties.

Discussion

Eurostat recalled that the revised MoU should clearly specify the division of the reporting requirements as well as the coordination of the work among the three institutions. The Croatian authorities explained that the preparation of the updated MoU was in its final phase and was expected to be signed by all parties shortly. It was agreed that a copy of the signed MoU would be sent to Eurostat together with all relevant annexes.

Eurostat stressed again the importance of receiving a copy of the "Clean Start" report. Eurostat noted that the findings from the report might have an impact on both deficit and debt figures. In that respect, it would be useful to have a breakdown of the entities analysed in the report into public corporations (classified outside the general government sector) and general government bodies (classified inside the general government sector). A further breakdown of the liabilities examined in the report into payables (not part of Maastricht debt) and debt instruments (part of Maastricht debt) would allow an analysis of any possible impact on reported debt figures.

The Croatian authorities explained that the aim of the "Clean Start" report was to examine the current state of play in public corporations and government bodies in Croatia. As the government did not publish the results of the report, the MoF did not have the legal basis to send the document to Eurostat. The Croatian authorities also explained that the findings from the report had been duly reflected in the statistical reports and in the EDP notifications.

Eurostat confirmed that it would send a formal request to obtain a copy of the report immediately after the visit. The Croatian statistical authorities agreed to provide Eurostat with a copy of the document as soon as possible. Eurostat committed to treat this document as confidential, for statistical purposes.

Findings and conclusions

Action point 1: The CBS will send to Eurostat a signed copy of the Memorandum of Understanding between the CBS, the Ministry of Finance and the Croatian National Bank. The annexes will also be sent as soon as they are finalised².

Action point 2: The CBS will provide to Eurostat a copy of the "Clean Start" report, on a confidential basis, by the end of July 2013. Eurostat will send a formal request immediately³.

² Action point completed.

³ Action point completed.

2.2. Preparation of an EDP inventory

Introduction

At the end of 2012, the Croatian authorities provided Eurostat with a draft of an EDP Inventory. However, the document was filled in only partially and did not contain sufficient information on the methods, procedures and sources used for the compilation of the actual deficit and debt figures.

Discussion

Eurostat recalled the legal requirement for Member States to publish their EDP inventories nationally (Council Regulation 479/2009, as amended). In this context, Eurostat invited the Croatian authorities to fill in the EDP Inventory and to provide it to Eurostat by the end of November, so as to meet the deadline for publishing revised EDP inventories by the end of 2013. To accelerate the process, it was agreed to draft the EDP Inventory in the Croatian language. An English version should be made available later on, to be published on Eurostat's website.

Eurostat also made reference to the other Member States' practice of submitting individual chapters to Eurostat according to a pre-determined timetable. This approach would allow for a quick feedback from Eurostat on each chapter.

Findings and conclusions

Action point 3: The CBS will work towards delivering to Eurostat a final draft of the Croatian EDP Inventory, in Croatian language, by end-November 2013. Eurostat encourages the CBS to provide individual draft chapters over time, as they are drafted.

3. REVIEW OF KEY DATA SOURCES FOR GOVERNMENT FINANCE STATISTICS

Introduction

The handover of the responsibilities for compiling EDP tables from the MoF to the CBS might have involved some changes in the data sources used. In addition, a few action points from the previous pre-accession EDP dialogue visit in May 2012 related to the consistency between the different data sources used. Therefore, Eurostat asked the Croatian statistical authorities to review the data sources used for the compilation of the EDP tables.

Discussion

The Croatian statistical authorities gave an overview of the data sources used for the compilation of the pilot April 2013 EDP Notification, which was for the first time under the

full responsibility of the CBS. The same data sources had been used for this Notification as for previous EDP notifications.

Data from the MoF are used for the compilation of the working balances in EDP tables 2. The Croatian authorities confirmed that the working balance of EDP table 2A corresponds to the budget execution, as published in the Croatian Official Journal. The MoF also provides data for Securities other than shares (F.3), Loans (F.4) and Other accounts receivable/payable (F.7) in EDP table 3.

The CNB compiles EDP Tables 3 and 4, mostly using data provided by the MoF. For the compilation of Maastricht debt figures in the EDP tables 1 and 3, the CNB uses its External Debt Statistics database and its own data on domestic debt, where information is available on a security-by-security basis. For the debt instrument Loans (AF.4), data are used from the new Monetary and Banking statistics System. The CNB also calculates and compiles data on interest, using its own sources. The CBS uses data on interest accrued as transmitted from the CNB.

As regards local taxes, the Croatian authorities explained that FINA data are of better coverage than data available at the Tax Administration. There is no rule that all the local taxes should be collected through the Tax Administration. Therefore, the financial reports database kept at FINA is to be used as the data source, rather than the data available at the Tax administration.

The MoF briefly described the budgetary system in Croatia, which consists of budgetary users and extra-budgetary funds at the level of Central Government and Local Government. Budgetary users include hospitals, universities, etc. Extra-budgetary funds are reported in the row "Net borrowing/net lending of other government bodies" in EDP tables 2A and 2C.

The representatives from FINA explained that they collect two different sets of data - financial reports and revenue cash data for statistical purposes. As regards the revenue cash data for statistical purposes, FINA collects cash data on budgetary revenue only. Data on own revenues, which are not part of the budgetary system, are not collected by FINA. Therefore, FINA does not have a full set of cash data.

Budget units and budgetary users, as well as most extra-budgetary users, apply a single Chart of Accounts. A special Chart of Accounts exists for non-profit institutions.

Different reporting deadlines apply to different types of reporting units (different levels of budget users and extra-budgetary funds, financial and non-financial corporations, non-profit institutions, etc.). It was made clear that the reporting deadlines for some entities are not in line with the EDP time-schedule. Non-financial corporations, for example, submit annual revenue cash data for statistical purposes to FINA by the end of March each year for the previous year, in line with the Accountancy Law. However, these data normally reach the CBS by 20 May, well after the April notification. In addition, some municipalities report with a significant delay, well beyond the legal deadline.

Cash data are supplemented by data from the financial reports later on. Financial and non-financial corporations, non-profit institutions serving households (NPISH) and budget users (including extra-budgetary funds) submit financial reports to FINA on an annual basis. Financial reports include Balance Sheets, Profit and Loss accounts, Cash flow statements, Reports on changes in equity, Notes, Statistical annexes and Audit reports. Consolidated

financial reports are only available by the end of June. FINA processes the data from the financial reports and produces a number of statistical reports based on a uniform chart of accounts. Then the data are transmitted to the MoF, which passes the data on its turn to the CBS. However, the financial reports of financial and non-financial corporations are delivered directly from FINA to the CBS and the CNB.

Eurostat underlined the need to align reporting deadlines with the EDP time-schedule. Therefore, Eurostat strongly encouraged the Croatian statistical authorities to find an arrangement to bring forward some of the reporting deadlines. The CNB supported bringing forward the reporting deadline, but on the other hand they would be in favour of reducing the reporting burden (the number of reporting items) for the municipalities.

The MoF explained that a the reform of the financial reporting system, including some revisions in the Chart of Accounts, was foreseen. The reform aims at improving the timeliness of the reports used for the compilation of EDP tables by the CNB and the CBS, as well as at facilitating the reporting process for the budget users. The review will not lead to any major changes in the Chart of Accounts itself. However, budget users will need to adapt to the changes and adequate training should be provided to the accountants. The practical implementation of the project is expected to start in January 2014, which was considered to be the optimal starting point, however depending on circumstances. The MoF agreed to provide Eurostat with an indicative timetable for the implementation of the different stages of the project, including a short description of the main changes foreseen.

As regards quarterly data, the reporting deadlines vary for the different types of units. Also, the frequency of reporting is different, depending on the type of unit. The Croatian authorities explained that non-financial corporations currently submit only annual reports. The lack of quarterly data for non-financial corporations was explained by budget constraints.

The Croatian authorities further explained that non-budgetary entities, such as the Croatian Radio Television (HRT) and the Croatian Railways Infrastructure (CRI), send financial reports by July. Therefore, the CBS makes estimates (based on previous years' figures) for these bodies in the April notification.

Estimates, based on previous years' outcomes, are also used in the April notification for the missing part of data for certain Local Government bodies. In addition, data on payables are also regularly revised in October. For the April notification, monthly reports on payables are used, whereas balance sheet data are available later on for the October notification.

Eurostat pointed out that it would monitor closely the revisions made to payables in the October notification. If it turns out that these revisions are significant, the Croatian authorities should reflect on improving their data sources for the April notification.

Eurostat also enquired about any quality checks performed to the data. FINA explained that they perform built-in (integrated) consistency and logical checks, but no further quality checks exist at their level. The data are basically cross-checked between the different types of templates. The MoF performs some checks within the extent possible when compiling statistics on the basis of financial reports and alerts the reporting units and FINA, if significant errors are found. The higher aggregate levels of consolidation of financial reports are performed at the MOF. The MoF ensures that the flows between the budgetary users and the extra-budgetary funds are properly consolidated.

The Croatian statistical authorities agreed that the MoF should implement better quality checks of the reports provided by FINA.

As regards sector classifications, the CBS keeps the list of institutional units updated and in line with the sector classification used by the CNB. However, the MoF provides data for the working balances in EDP tables 2A and 2C, based on the rules of the national Budget Act, which is to some extent different from the sector coverage on ESA 95 methodology. This issue had been partially addressed in the April 2013 EDP Notification, where full coverage had been provided for both sub-sectors for the years 2009-2011.

Eurostat also followed up on an action point from the previous EDP dialogue visit to Croatia in May 2012, where the Croatian statistical authorities had been requested to reconcile the data sources on financial assets used by the CNB with those used by the MoF (FINA database). The reconciliation had been made for Currency and deposits (AF.2) only – significant differences had been found between the different data sources, not only for the Central Government sub-sector, but also for the Local Government and Social Security Funds sub-sectors. There had been no explanation provided before the visit for these differences and no reconciliation had been made for the other categories of assets.

The CNB explained that they had no data sources for other categories of assets, such as Securities and other shares (AF.3) and Loans (AF.4), so the reconciliation could be only made for Currency and deposits (AF.2). As regards the differences observed for Currency and deposits (AF.2), both the CNB and Eurostat agreed that these were very likely due to sector coverage differences.

Eurostat pointed out that it is fundamental to reconcile cash flows and balances. The MoF's FINA database should normally capture the total amount of government bodies' cash balances. Moreover, the CNB confirmed that government holds no (or very few) foreign bank accounts.

It was agreed that the CNB and the MoF would take further steps to explain the differences found for Currency and deposits (AF.2).

As another action point from the previous EDP dialogue visit in May 2012, Eurostat had asked the Croatian statistical authorities to reconcile the data sources used by the CNB with those used by the MoF for the compilation of government debt. Although some differences had been found for specific debt instruments, these had been well explained before the visit. It was concluded that debt data from the CNB were more reliable at this stage for EDP debt purposes.

Findings and conclusions

Action point 4: The Croatian authorities will further investigate the reasons for the difference between data sources for Central Government assets in currency and deposits and will report back to Eurostat by end-August 2013⁴.

⁴ Action point completed.

Action point 5: The Croatian authorities will develop a strategy by end-2013 for addressing the following improvements in source data currently collected through FINA – (i) reporting requirements which adequately address burden, statistical and consolidation aims, (ii) deadlines which ensure data availability in good time for EDP notifications, (iii) quality checks on data content, and (iv) collection of timely data on non-financial public corporations. At the same time, the Croatian authorities will send a provisional time-table for the planned reform of the financial reporting system which also includes the revision of the Chart of Accounts.

4. REVISION POLICY

Introduction

As an action point from the previous EDP dialogue visit to Croatia in May 2012, the Croatian authorities committed to establish a revision policy for EDP data.

Discussion

The Croatian authorities informed Eurostat that they had set up a working group consisting of participants from the CBS, the CNB and the MoF, which would be responsible for establishing a consistent revision policy.

Eurostat took note that the establishment of a revision policy is a work in progress. It also provided the Croatian authorities with a copy of the revision policy of another Member State, which could serve as an example of a good revision policy.

Findings and conclusions

Action point 6: The Croatian authorities will develop and publish a revision policy for EDP and related data, by end-2013.

5. EXAMINATION OF THE EDP TABLES AND OF THE QUESTIONNAIRE RELATING TO EDP TABLES OF THE PILOT 2012 NOTIFICATION

5.1. EDP tables

5.1.1. EDP Table 1

Introduction

After the April 2013 EDP Notification, and a few weeks before the EDP dialogue visit to Croatia, Eurostat had requested another set of pilot EDP and questionnaire tables, to be compiled and transmitted by the CBS by the end of May 2013 (covering the years 2009-2012). Thus, the CBS had submitted these documents a few days before the EDP dialogue visit, which were to a great extent similar to the April 2013 EDP pilot Notification.

Eurostat welcomed the progress made in the October 2012 and April 2013 EDP pilot Notifications, notably on debt valuation, on the sector classification of some public

corporations and on the reporting of payables in EDP tables. A substantial amount of work has also been done on the statistical treatment of repeated guarantee calls.

However, Eurostat noted that further progress was yet to be achieved before full ESA compliance. Among other issues, accrual-based recording, statistical discrepancies, consolidation and sector coverage issues needed to be further addressed.

Eurostat stressed again the importance of the quality of the data provided and noted in this context that frequent and significant revisions had been observed to EDP data in the pilot April 2013 EDP Notification.

Finally, Eurostat recalled that Member States are under the obligation to publish EDP tables nationally, and this should take place from the October 2013 EDP Notification onwards. Eurostat advised the CBS to publish EDP data at the same time as the Eurostat's Press Release is published (21 October 2013).

Discussion

The discussion about EDP tables focussed on both the April and May 2013 pilot transmissions.

Table 1

Eurostat asked about the revised debt figures in the May 2013 EDP Notification. The CNB explained that these were due to the inclusion of advance payments made by purchasers of ships to the shipyards in the debt assumed from shipyards (after three consecutive calls on the guarantee provided by the government). The Croatian authorities confirmed that there were no trade credits involved in the shipyards' guarantees. They also confirmed that no further revisions were expected to the figures for the debt assumptions (and the corresponding capital transfers).

Eurostat also recalled that whenever there are interest flows from swaps, these should be taken into account and reflected in EDP table 1, as long as the exception for EDP purpose to ESA95 rules is in force. With the new ESA 2010 these flows will be proposed to be considered as financial transactions and there would be no need to report two different measures of interest in EDP table 1.

In this context, the CNB asked for a methodological advice on the calculation of accrued interest (including the effect from swaps) EDP D.41. The question referred to a numerical example of currency swaps on USD bonds, which had been sent to Eurostat before the visit. In the example, the CNB provided two alternative ways for calculating EDP D.41. Eurostat explained that it was in favour of the approach where accrued interest only had been taken into account (as opposed to the approach where both accrued and cash interest were used for the calculation). Eurostat promised to look through the example again and to comment on the method used for the calculation of EDP D.41.

The recording of currency swaps was also briefly discussed. The Croatian authorities informed Eurostat on the existence of some currency swap contracts on bonds issued in USD. One part of the USD denominated bonds had been swapped into EUR.

Eurostat explained that these bonds must be considered as EUR bonds during the whole period. In the meantime, any changes in the market value of the swaps should be recorded in the financial accounts. At the end of the year, the market exchange rate should be used to convert the EUR-valued debt into HRK.

Eurostat also enquired whether there were any EUR/HRK currency swaps. The MoF explained that there was practically no market for this type of currency swaps. The lack of this market explains why they use USD/EUR swaps.

The Croatian authorities confirmed that there were no other types of swaps used by government, except for currency swaps.

Findings and conclusions

Action point 7: Eurostat recommends that the Croatian authorities aim to publish their end-September 2013 EDP notification at the same time as the Eurostat Press Release, scheduled for 21 October 2013⁵.

Action point 8: Eurostat will comment on the method used by the Croatian National Bank to calculate EDP interest (including net interest flows arising from cross-currency swaps)⁶.

5.1.2. EDP Tables 2A-D

Introduction

The starting point in EDP Table 2A (2C) is the overall deficit/surplus of the budgetary central (local) government according to the national chart of accounts, which is equal to revenues minus expenses minus net acquisitions of non-financial assets.

As of April 2013, Croatia also reports separate figures for the Social Security Funds sub-sector, previously reported as part of the Central Government sub-sector.

Discussion

Table 2A

The MoF confirmed that the working balance for the Central Government is on a pure cash basis and it does not include any financial transactions or any accrued elements. The working balance of Central Government is published on the MoF's website.

The Croatian authorities explained that the adjustments for the sector coverage of Central Government are reported under the row "Net borrowing/net lending of other Central Government bodies", where extra-budgetary funds and public corporations classified inside the general government sector, such as HRT and CRI, are reported. While Central Government units included in the working balance use budgetary accounting, extra-budgetary

⁵ Action point completed.

⁶ Action point completed.

users, HRT and CRI use business accounting⁷. The CBS makes the necessary adjustments to the business accounting data using specifically designed bridge tables.

Eurostat asked the Croatian authorities to provide more information on the payables reported in EDP tables 2. Payables, as reported in the May 2013 Notification, were labelled by the Croatian authorities as payables for intermediate consumption. However, there are other types of payables, which should also be included under the row "Other accounts payable". Eurostat encouraged the Croatian authorities to investigate the balance sheet information and to identify all types of payables. Eurostat will expect the Croatian authorities to report all payables in EDP tables 2, as well as to provide the breakdown of payables in Questionnaire table 4 for the next notification.

As regards the capital transfers which resulted from the debt assumptions from the shipyards, Eurostat pointed out that there had been significant revisions made to these figures in the April 2013 EDP Notification. The Croatian authorities explained that no more revisions were expected, except for one case, where the government had signed in 2010 an agreement with the Uljanik shipyard to assume its debt. The agreement was legally implemented only in 2011. Yet the government made its third call payment in 2013.

It was agreed that the debt assumption and the corresponding capital transfer would be recorded in 2011, the year when the agreement had been legally implemented. In addition, this debt assumption should be also reported under the line "Debt Assumptions recorded in the same period in public and in ESA 95 accounts" in Questionnaire table 9.1.

The CNB informed Eurostat that there had been a land transaction associated with the debt assumption from Uljanik. In exchange for paying the guarantee calls, the government received land from Uljanik. It was agreed that the CBS would investigate when was the land acquired and at what value. The CBS will also reflect on the recording of this acquisition of land in the non-financial accounts. This transaction could be recorded as a capital transfer revenue for the value of the land and as a government acquisition of land through Acquisition less disposals of non-financial non-produced assets (K.2). Thus, the impact on deficit would be neutral.

Finally, Eurostat enquired about the recording of sales and purchases of shares in the State Accounts. Eurostat recalled that these transactions are purely financial and should not appear in the working balance of EDP table 2A. The MoF explained that the sales and purchases of equity are recorded in the cash-based SAP system, which includes both financial and non-financial transactions. However, in the process of the compilation of the EDP tables, financial transactions are not included in the working balance⁸.

Table 2C

The main issue under consideration was the recording of hospitals' flows in EDP table 2C. Public hospitals in Croatia are classified inside the General Government sector (Central

⁷ Some extra-budgetary users apply budgetary accounting, while others apply other types of accounting (non-profit, business, etc.). However, all extra-budgetary users also submit financial reports based on the budgetary Chart of Accounts.

⁸ In exceptional cases, some transactions, initially recorded as non-financial, could appear later, after analysis, to be financial transactions. In such cases, the financial transactions are removed from the working balance through an entry under the line "Financial transactions included in the working balance". Such a case was observed in the October 2013 EDP Notification.

Government and Local Government sub-sectors), based on control. They are considered as budgetary users and are financed for a large part through the Croatian Health Insurance Institute. In particular, hospitals classified in Central Government are financed by the Croatian Health Insurance Institute. Hospitals classified in Local Government receive funds both from the Local Government and from the Croatian Health Insurance Institute. The Croatian Health Insurance Institute is now part of the newly created Social Security Funds sub-sector.

In EDP tables Central Government hospitals are reported in the working balance, while Local Government hospitals are reported under the line ‘Net borrowing/net lending of other Local Government bodies’. Eurostat enquired about the big surpluses reported for hospitals in table 2C and in Questionnaire table 3. Eurostat explained that public hospitals in other Member States rarely run at significant surpluses. Thus, large surpluses for hospital could indicate possible double-counting of revenues.

The CBS explained that they use unconsolidated data for the NBL in EDP table 2C, whereas consolidated data are used in the working balance. However, the CBS was not fully aware of what flows had been consolidated in the working balance. The MoF explained that hospitals controlled by Local Government had not been included in the consolidated level 23, used for the working balance in EDP table 2C.

Eurostat noted that it is crucial to fully understand the content of the financial information available for hospitals. As hospitals receive their revenues from a number of different sources, it will be necessary to confirm which of these revenues are included in the hospitals’ financial information. If all revenues have already been included, then there would be no need to impute anything in addition. If, due to accounting conventions, a particular revenue flow has been omitted in the financial statements, then an imputation would need to be made to arrive at net lending/net borrowing. Therefore, Eurostat invited the Croatian authorities to send an explanation of how they impute flows related to hospitals controlled by the Local Government.

Eurostat advised the CBS to identify if there was double-counting of the revenues of the hospitals classified in the Local Government. For this purpose, the CBS should analyse the list of Local Government consolidated units, which will be provided by the Ministry of Finance, and should cross-check these units with the list of unconsolidated units.

Moreover, Eurostat encouraged the Croatian authorities to also analyse the substantial surpluses reported for other Local Government bodies in Questionnaire table 3 (i.e. other than hospitals). It may be that the issue of recording revenues (identified for hospitals) could also apply to these bodies.

To further investigate the significant surpluses reported for hospitals in EDP questionnaire table 3, Eurostat asked for copies of the accounts of the 10 hospitals showing the largest surplus.

Eurostat agreed to send an e-mail to the CBS after the visit with comments on the issue of recording hospitals’ flows in EDP table 2C. The MoF committed to provide information on the revenues and expenditure not included in the working balance. As regards Local Government hospitals, it was made clear that they were not included in the working balance.

Table 2D

For the first time, Croatia submitted EDP tables with a separate Social Security Funds sub-sector. The CBS explained how they extracted data to create a separate Social Security Funds sub-sector. A short description of the data sources used to compile the Social Security Funds sub-sector had also been sent before the visit.

Eurostat noted that the net borrowing/ net lending of the Social Security Funds sub-sector, as reported in the May 2013 EDP notification, exactly corresponded to the amounts reported under Other accounts payable in EDP table 2D, labelled as social transfers to households. There were no figures provided for the other items in the EDP table 2D, except for the line ‘‘Difference between interest paid and accrued’’ for some of the years and the zeros reported in the working balance.

Eurostat invited the Croatian authorities to better explain the payables reported in EDP table 2D and to revise the table for the next notification.

Findings and conclusions

Action point 9: The CBS will develop a breakdown of other accounts payable, to be reported in EDP questionnaire table 4 from the end-September 2013 notification.

Action point 10: The Ministry of Finance will arrange for the CBS to receive a file of budgetary units by parent local government unit (i.e. those reported in each consolidated account), and the CBS will analyse by end-September 2013 which units must be added or removed to compile the Local Government sector data.⁹

Action point 11: Eurostat will provide advice to the Croatian authorities by mid-July 2013 on the recording of hospital flows in GFS. The CBS will provide Eurostat by end-August 2013 with a note explaining the current recording of hospital-related flows, its reflections on the Eurostat advice, and copies of the 2012 accounts of any hospitals reporting a significant surplus¹⁰.

Action point 12: The CBS will confirm to Eurostat by mid-July 2013 the nature of payables of social security funds, and will ensure that the same figures are reported in both EDP Tables 2D and 3E¹¹.

5.1.3. EDP Tables 3A-E

Tables 3A-D

Eurostat enquired about the revisions made to Currency and deposits (F.2) and Other financial assets (F.7) in the EDP tables transmitted in May 2013. The CNB explained that the data reported for Currency and deposits (F.2) in the May 2013 tables were from the new Monetary and Banking Statistics database. The revisions made to Other financial assets (F.7) related to insurance premiums and other government claims.

⁹ Action point completed.

¹⁰ Action point completed.

¹¹ Action point completed.

Eurostat asked whether guarantee calls are recorded as financial claims under Loans (F.4) in EDP Table 3. The MoF explained that guarantee calls are recorded as financial claims in the public accounts only. However, for the purpose of the EDP tables, the amount of loans in EDP table 3 is reduced by the corresponding amount of financial claims resulting from the guarantee calls. Therefore, the data on Loans (F.4), which are transmitted from the MoF to the CNB for the compilation of the financial accounts, do not include financial claims resulting from guarantee calls.

Eurostat also enquired about the amount of HRK 3.2 billion reported under payables in EDP table 3B for the year 2012. Both the MoF and the CNB agreed that this amount probably resulted from a mistake in the source data. The Croatian statistical authorities will send to Eurostat additional information about the exact nature of the mistake.

Eurostat noted that the same amounts had been reported under the item “Difference between interest paid and accrued” in EDP tables 2A(C) and 3B(D). Such a recording would actually imply that there had been no interest accrued reported under the item “Net borrowing/net lending of other central (local) government bodies”. However, the Croatian authorities informed Eurostat that the item “Net borrowing/net lending of other central (local) government bodies” in EDP tables 2A(C) does include interest accrued for these bodies. Eurostat asked the Croatian statistical authorities to reconcile the figures reported for interest accrued by the end of August 2013.

Table 3E

Finally, Eurostat noted that the large amount reported under “Net incurrence of other liabilities” in EDP table 3E for the year 2012 (HRK 1.1 billion) was highly implausible. The Croatian authorities should also check the signs of the figures reported under this item, which should be consistent with the amounts reported under Other accounts payable in EDP table 2D. It was agreed that further efforts should be made for the compilation of both EDP tables 2D and 3E.

Findings and conclusions

Action point 13: The Croatian National Bank, in cooperation with the CBS, will check the accrued interest figures in EDP Tables 3 to determine to what extent that should vary from those in EDP Table 2, and report back to Eurostat by end-August 2013¹².

Action point 14: The Croatian authorities will investigate the reasons for the Kuna 3.2 billion entry in EDP Table 3B for payables in 2012, informing Eurostat by mid-July 2013, and will make appropriate corrections to this figure as necessary¹³.

5.1.4. EDP Table 4

Introduction

Croatia provided data on stocks of trade credits and advances (liabilities) for the first time in the April 2013 Notification.

Discussion

¹² Action point completed.

¹³ Action point completed.

Eurostat asked the Croatian authorities to confirm if trade credits had been reported on a consolidated basis and whether full coverage had been ensured. The CNB explained that they would need more data from the MoF, which would enable them to distinguish between the different types of trade credits.

Eurostat recalled that if some trade credits had been reclassified to loans, they should no longer appear in EDP table 4. Eurostat also noted that it should be possible to identify trade credits in the Chart of Accounts.

Findings and conclusions

Action point 15: The Croatian authorities will inform Eurostat when more complete data on government trade credit factoring without recourse are available.

Action point 16: The Croatian authorities will investigate the possible consolidation issues relating to trade credits, and inform Eurostat by end-2013.

5.2. Statistical discrepancies in EDP tables

Introduction

Croatia reports a high level of statistical discrepancies in EDP tables 3. Before the visit, Eurostat had received from the Croatian authorities a note describing the statistical discrepancies in EDP tables and the planned actions to minimize these discrepancies.

Discussion

Eurostat explained that it attaches great importance to the issue of statistical discrepancies. A high level of statistical discrepancy may indicate problems with the reliability of data. A considerable discrepancy in absolute terms or a persistently positive or negative discrepancy may draw into question whether the deficit is appropriately measured. A positive discrepancy could be viewed as a sign that the deficit had been underestimated. On the contrary, a negative discrepancy could indicate that the deficit had been overestimated or that the debt had been underestimated.

Eurostat pointed out that a discrepancy bigger than 0.2% of GDP was considered to be exceptional. Therefore, the reduction of the statistical discrepancy reported in the Croatian EDP tables should be considered as a high priority for the October 2013 EDP Notification.

The high level of discrepancies reported by Croatia seems to be largely explained by the issues related to the Local Government sector coverage, hospitals, Social Security Funds and/or the considerable amount of payables reported in the EDP table 3B. It should be also noted that the statistical discrepancy includes the amounts paid to compensate pensioners.

The Croatian authorities committed to continue to investigate the issue of discrepancies. Eurostat pointed out that it would expect the statistical discrepancies to be significantly reduced in the October 2013 transmission, once full Central Government and Local Government coverage is used and the other above mentioned issues are resolved.

Findings and conclusions

Action point 17: Following the impact of other improvements in the EDP tables, the Croatian authorities will continue to investigate the remaining statistical discrepancies – notably the consistently negative "other statistical discrepancies", and will inform Eurostat of these results by end-February 2014.

5.3. Other EDP related tables

5.3.1. Questionnaire relating to EDP tables

Introduction

The CBS had sent the full set of Questionnaire tables, together with the pilot EDP notification tables submitted in May 2013. However, nearly half of the tables had not been filled in.

Discussion

Eurostat invited the Croatian authorities to introduce some minor corrections in questionnaire tables 1 (revisions of general government deficit and debt), 2 (breakdown of financial transactions included in the working balance) and 3 (adjustments for sector delimitation) for the next notification. It was agreed that the Croatian authorities would fill in tables 4 (breakdown of other accounts receivable/payable), 5 (adjustments for taxes and social contributions) and 8 (stocks and flows of central government claims) for the October 2013 EDP Notification. In particular, Eurostat stressed the importance of having a breakdown of payables and receivables in Questionnaire table 4.

It was also agreed that the Croatian statistical authorities would undertake at least a pilot compilation of Questionnaire table 6 (EU flows). More details should be provided in tables 7 (military expenditure), 9 (government guarantees) and 10 (capital injections).

Finally, Questionnaire table 11 (public-private partnerships) should cover only PPP projects in the sense of the MGDD on Long-term contracts between government units and non-government partners, which are analysed differently from concession contracts.

Findings and conclusions

Action point 18: The Croatian authorities will complete EDP questionnaire tables 4, 5 and 8 by end-September 2013.

5.3.2. Tables on the financial turmoil

Introduction

As explained by the Croatian authorities, no public interventions to support financial institutions during the financial crisis had taken place in Croatia.

Findings and conclusions

The tables on the financial turmoil are presently not applicable for Croatia.

5.3.3. Table on intergovernmental lending

Introduction

In the previous EDP dialogue visit to Croatia in May 2012, the Croatian authorities had informed Eurostat that Croatia had not taken part in any intergovernmental lending.

Discussion

The Croatian authorities confirmed that Croatia is not involved in any intergovernmental lending.

Findings and conclusions

The table on intergovernmental lending is presently not applicable for Croatia.

6. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

6.1. Compliance of the Croatian General Government debt with Maastricht debt definitions

Introduction

Eurostat noted the following improvements made in the October 2012 and April 2013 EDP Notifications as regards debt valuation:

- Debt is now reported at nominal (face) value, in line with the Manual on Government Deficit and Debt (MGDD) rules.
- Accrued interest has been excluded from the stocks of debt.
- Debt assumed from shipyards and Croatia Airlines have been included in the stock of debt.
- Debt has been increased with the debt of HRT and CRI, both reclassified inside the general government sector.
- The CNB also includes in the debt level factoring without recourse made from domestic banks with government suppliers of good and services, in line with the Eurostat's decision on the recording of some operations related to trade credits of 31st of July 2012.

Discussion

The Croatian authorities explained that they had identified further (minor) bodies whose debt should be included in general government debt. These amounts will be reflected in the October 2013 EDP Notification.

Eurostat asked some questions on the valuation of short-term bonds. The Croatian authorities explained that some bonds are issued with a small discount or premium. Both discounts and premiums are reported as expenditure and revenue, respectively, in the budget, and therefore appear in the working balance. Eurostat recalled that both discounts and premiums should be treated as interest and spread (accrued) over time. For this purpose, some adjustments may be necessary in the EDP tables.

Eurostat asked whether both Central Government and Local Governments issue coupon-paying bonds below the nominal value. The CNB explained that only Local Government issues such instruments.

Eurostat raised again the issue of consolidation of general government debt. The CNB explained that the Social Security Funds sub-sector does not hold any (or very few) Central Government bonds. The CNB pointed out that there might be some consolidation effects for Loans (AF.4) because they do not have the non-consolidated data.

Eurostat asked the same question to the MoF, in particular whether they have data on intra-governmental loans. The MoF explained that they were aware of some small amounts of intra-governmental loans, notably loans granted to the extra-budgetary fund Croatian Waters. The MoF further explained that the revised Chart of Accounts (revised in 2011) introduced rather detailed breakdown of counterparts, which would allow to properly consolidate loans. However, it could happen that the reporting units use by mistake the inappropriate account. The CNB explained that the level of breakdown was still not detailed enough to fully satisfy their needs.

Eurostat asked what types of trade credits are currently included in Maastricht debt figures. The CNB explained that one part from the trade credits subject to factoring without recourse (for an amount of about HRK 300 million) had already been included in Maastricht debt. However, trade credits subject to factoring without recourse, where the factoring is performed by a factoring company, are not yet included in the debt figures. As regards trade credits that have been subject to restructuring, the CNB would need more data from the MoF, which would allow them to clearly identify the different types of trade credits. Therefore, there may be more trade credits which should be included in Maastricht debt.

The CNB further explained that all factoring companies will be legally obliged to register. This procedure would allow the creation of a new data source – an official database on registered factoring companies.

Finally, Eurostat asked some questions on foreign debt, e.g. bonds purchased by non-resident investors and loans granted from the World Bank. In particular, Eurostat enquired whether the Croatian authorities were aware of any interest grace period related to these foreign debt instruments. The CNB was not aware of such arrangements.

Findings and conclusions

Action point 19: The Croatian authorities will include the debt of units under reclassification into the next GFS and EDP transmission¹⁴.

6.2. Delimitation of General Government sector: classification of institutional units according to ESA95

Introduction

As requested by Eurostat in the previous EDP dialogue visit in May 2012, the CBS had reclassified HRT and CRI inside the general government sector. At this meeting, Eurostat

¹⁴ Action point completed.

reviewed the sector classification of the tourist offices and the State Agency for Deposit Insurance and Bank Rehabilitation (DAB).

Discussion

The CNB recalled an old issue relating to the time of recording of a pension debt of government from 1993-1998, resulting from improper calculation of pensions. On 28 March 2008 Eurostat had advised the Croatian authorities to record, as government expenditure, the cash payments undertaken by the government throughout the years 1998-2013, with a corresponding counter balance recording in statistical discrepancies in EDP table 3B. The Eurostat decision had been implemented in the April 2009 EDP Notification. The payments made to pensioners should stop by the end of 2013.

The Croatian statistical authorities explained that at that time Eurostat's advice had been based on the uncertainty of the future payments. However, as pointed out by the Croatian authorities, the amounts were in fact known relatively soon after the scheme had been established, and therefore the relevant expenditure should be back-dated to that point.

At that time, the Croatian authorities had thought that the government would pay directly to the pensioners. However, a privately managed Pension Fund took over the payment obligations. This fund is currently classified in the financial corporations sector, outside the general government sector.

Eurostat explained that, even if classified outside the general government sector, this Fund is actually acting on behalf of the government. The private body managing the Fund does not seem to take any risks, but instead it acts as an agent of the government to compensate the pensioners. Therefore, this fund, in Eurostat's view, should be assimilated to government and should be either reclassified inside general government or rerouting should be applied.

Finally, Eurostat confirmed its previous advice on the pensioners' debt issue.

There was also a discussion on the statistical classification of the Soldiers fund, established to compensate certain groups of the population. Eurostat agreed with the CBS's intention to reclassify this body inside the general government sector.

Eurostat also enquired about the sector classification of the Croatian Oil Stocks Agency HANDA. The CBS confirmed its sector classification inside the general government sector.

Findings and conclusions

Action point 20: The Pension fund and Soldiers fund will be reclassified from the investment funds subsector S.123 to the central government subsector S.13 by the CBS¹⁵.

6.2.1. State of play - registers of general government units and public units

Introduction

¹⁵ Action point completed.

The register of general government units and public units had been extensively discussed in the previous EDP dialogue visit in May 2012.

At this meeting, Eurostat informed the Croatian authorities about the "Questionnaire on government controlled entities not classified in the general government".

Discussion

Eurostat informed the Croatian authorities about the obligation of Member States to complete and transmit the "Questionnaire on government controlled entities not classified in the general government sector". This questionnaire covers all public corporations, including Non-profit institutions serving households, classified outside the general government sector and controlled directly or indirectly by government.

Eurostat explained that the questionnaire would be part of the already existing set of Questionnaire tables relating to the EDP notification tables and that it would be used for checking the completeness of the coverage and the sector classification of government controlled units. It should be updated by Member States on an annual basis and provided to Eurostat by the end of each year.

Eurostat committed to send to the CBS the template of the "Questionnaire on government controlled entities not classified in the general government", together with detailed instructions on how to fill it in.

Findings and conclusions

Action point 21: Eurostat will provide to the CBS a copy of the Questionnaire on government controlled entities not classified in the general government, and its guidance notes. The CBS will complete this table by end-2013¹⁶.

6.2.2. Local Government public corporations

Introduction

In the previous EDP dialogue visit in May 2012, Eurostat had requested the 50% test to be performed on the "Zagrebački holding d.o.o." subsidiaries. In addition, the Croatian authorities had been invited to analyse any similar Local Government corporations in Croatia.

Discussion

The Croatian statistical authorities clarified that "Zagrebački holding d.o.o." was not a real holding. "Zagrebački holding d.o.o." is a 100% government-owned company, consisting of 17 branches, which had been previously merged into one company.

Therefore, it was agreed that "Zagrebački holding d.o.o." would remain classified outside the general government sector, based on the results of the 50% test.

The Croatian authorities committed to check for any other similar companies in Split, Osijek and Rijeka.

¹⁶ Eurostat sent a copy of the Questionnaire, together with the guidance notes.

Findings and conclusions

Eurostat encouraged the Croatian authorities to undertake a regular analysis of the sector classification of public corporations owned by the government.

6.2.3. Review of specific units - DAB, HBOR, Tourist offices

Introduction

The State Agency for Deposit Insurance and Bank Rehabilitation (DAB) is a 100% government-owned non-profit organization, engaged in bank rehabilitation and deposit insurance. The Agency is financed from insurance premiums paid by credit institutions and from other resources earned by the Agency through its daily activities. Based on the results of the 50% test, DAB is currently classified outside the general government sector as a financial auxiliary.

However, in the technical visit in April 2013, Eurostat had advised the Croatian authorities to reflect for the future on splitting DAB into two parts, based on its activities: the “Bank Rehabilitation” part (to be classified inside the general government sector) and the “Deposit Insurance” part (to be kept outside the general government sector).

Eurostat also enquired about the Croatian Bank of Reconstruction and Development (HBOR), Croatia’s public development bank. HBOR is a 100% government-owned bank, whose main goal is to promote development and support exports in Croatia. The bank provides loans at rates below the market rates and the government guarantees all of the bank's liabilities.

Discussion

DAB

Eurostat explained that, under certain conditions, Deposit Insurance Schemes are classified outside the general government sector. However, the "Bank recapitalisation" business of DAB can be viewed as a separate activity. The statistical treatment of this type of units is covered in the Manual on Government Deficit and Debt (see the rules on defeasance structures). In the general case, if DAB holds some "non-performing" assets on which government bears the risks, the "Bank recapitalisation" part of it should be reclassified inside the general government sector.

The Croatian authorities explained that splitting DAB into two parts, based on its activities, would be inappropriate due to the fact that DAB now holds very few non-performing assets from the past rehabilitation of banks, if any.

At the time of the financial crisis, the government had issued bonds to finance DAB, so it could pay out the claims on insured deposits. These bonds had been recorded as government debt at that time.

The Croatian authorities explained that some banks had gone bankrupt in the past and DAB had to take over their shares. However, these shares had been largely sold on later.

The Croatian authorities further explained that DAB is running a surplus with a very low debt and its assets are mainly composed of claims on premiums.

It was agreed that DAB would remain classified outside the general government sector, as a financial auxiliary. However, some transactions may be rerouted, when applicable.

HBOR

As regards HBOR, Eurostat asked whether the bank was in a possession of a banking licence. The Croatian authorities explained that HBOR does not have a banking licence, as it is governed by a special law. However, it follows IAS, it applies the same Chart of Accounts as any other bank and its financial statements are audited by the State auditors. HBOR is not obliged to hold compulsory reserves.

The Croatian authorities confirmed that the bank undertakes intermediation. Even if it does not take deposits, HBOR can raise money on the market by issuing bonds.

Eurostat asked whether the government could use HBOR to undertake operations that it would normally do itself, such as buying shares or funds, or granting low interest loans to specific entities, for example. The Croatian authorities explained that there had been a case where HBOR had acted as an agent of the government, back in 1996. This operation had been rerouted to the government accounts.

Eurostat noted that if HBOR lends below the market rate, and if it is financed at the same time through the issuance of bonds at the market rate, it should normally incur losses. The Croatian authorities explained that HBOR receives regular payments from the central government. One part of these flows is recorded in the State Treasury as subsidies, while the remaining part is recorded as acquisition of shares. It was agreed that the Croatian authorities should further investigate the criteria used by the Department for Public Debt (MoF) to split these flows into subsidies and acquisition of shares. If these flows represent constant recapitalisation of HBOR by government, then the acquisition of shares should also be treated as expenditure.

Tourist offices

Eurostat followed up on an outstanding action point from the previous visit in May 2012, related to the sector classification of tourist offices which operate on a rather similar model. The Croatian statistical authorities explained that tourist offices are at the moment considered as separate institutional units, currently classified in the non-financial corporations sector. By law, these are private entities exercising market activities, even if they receive taxes. Their revenues include sojourn taxes, membership fees, sales of products and subsidies from the government, and they do not have any debt. The government does not exercise any direct control. The Croatian National Tourist Board is the coordinating body of the tourist offices.

The CBS explained that the municipalities collect one part of the taxes received by the tourist offices. Eurostat advised the CBS to reroute to government the total amount of the tax – one part to be rerouted as revenue of the Local Government, whereas the remaining part to be treated as a subsidy (expenditure) paid by government. The CBS explained that they already reroute the taxes to the government. However, they did not record any subsidies paid by the government.

Eurostat pointed out that under ESA 95 tourist offices are not government-controlled, and thus they will remain classified outside the general government sector. However, under ESA 2010, government financing has to be taken into account. Therefore, under the new ESA 2010, there may be a case for the reclassification of tourist offices inside the general government.

Shipyards

Eurostat asked for an update on the state of play with shipyards and if there were any bodies which could potentially be reclassified to the general government sector. Before the visit, the Croatian authorities had sent to Eurostat a short note describing the current situation with the shipyards. The Croatian authorities explained that Brodosplit and Brodotrogir had been privatised in 2013. Kraljevica went bankrupt in August 2012. One part of the shipyard 3rd May is currently being sold to Uljanik, which is the only profitable shipyard. However, four of the daughter companies of 3rd May had not been included in the privatisation process and had been transferred into government ownership. Three out of these four daughter companies are currently in a pre-bankruptcy procedure and the government will confirm the level of their debt.

In this context, Eurostat explained that no consensus had been reached in the Financial Accounts Working Group (FAWG) as to how to treat companies in liquidation. A CMFB consultation is foreseen on this issue.

Findings and conclusions

Action Point 22: The Ministry of Finance will explain its arguments for splitting the recapitalisation flows into HBOR into subsidies and acquisition of shares.

Action Point 23: The CBS will continue to impute tax revenue relating to Tourist offices and will introduce related subsidy expenditure in the end-September 2013 EDP notification¹⁷.

6.3. Implementation of the accrual principle

6.3.1. Tax revenue and social contributions

Introduction

In the previous EDP dialogue visit to Croatia in May 2012, it had been agreed to implement the time-adjusted cash method for VAT. Currently, the CBS applies one month time-adjustment to VAT cash taxes. One month and four month time-adjustment is applied to personal income taxes and corporate income taxes, respectively.

Discussion

VAT

Eurostat enquired about any changes in the Croatian VAT system and what impact this might have had on revenue statistics. The Croatian authorities explained that the VAT system would

¹⁷ Action point completed.

be adapted to the EU legislation as of 1st of July 2013, the date of accession of Croatia to the EU.

The Croatian authorities explained that VAT payments are in most cases made within one month. However, some tax payers are allowed to pay their due VAT amounts with a certain delay (in some cases up to 36 months). This refers only to the arrear payments which had remained unpaid until 31st of January 2013 and for which the tax payers had requested an extension of the payment deadline. Eurostat enquired about the frequency and the size of such cases with an extension of the deadline for VAT payments.

The CBS presented the results from an analysis performed using different time-adjustment lags – one month vs. four months. The results of the analysis showed that the impact from the different time lags was insignificant. Therefore, the one month time-adjustment for VAT seems to be appropriate. Still, Eurostat encouraged the CBS to also investigate the possible impact from bigger delays in the payment of VAT.

Eurostat asked whether the one month time adjustment was in line with the VAT refund policy. The Croatian authorities explained that VAT refunds are matched to the same month as VAT revenues, as generally tax refunds have to be paid within 30 days. As concerns deadlines for VAT payments and refunds, until 1st July 2013 the deadline for submitting the VAT form and VAT refund was the last day of the month for the previous month. The tax payer who had the right to receive the VAT refund usually submitted the request on that last day. The deadline for the refund is 30 days, an actual refund would take place the following month or exceptionally, the month after (e.g. refunds at the beginning of March for requests submitted on 31st January, referring to December). It has to be noted that since 1st July 2013 the deadline for submitting the VAT form has been changed to 20th in the month, although the refund deadline remained the same, at the end of the month. In that case, even if the request for refund is submitted within the new deadline (e.g. on the 20th), the refund will take place the following month.

As a matter of principle, Eurostat advised the Croatian authorities to separate the time-adjustment of tax refunds from the time-adjustment of tax payments. The Croatian authorities are expected to implement this approach in the following year, based on available data. The CBS will check the impact of the late payments of VAT refunds and will decide on the appropriate time-adjustment for VAT refunds.

Eurostat pointed out that in case the Tax administration decides to change the VAT system, this could lead to changes in the way VAT refunds are treated. Therefore, the CBS should be kept informed about any changes in the tax system.

Personal income taxes and corporate income taxes

Eurostat asked the Croatian authorities to explain the one month time-adjustment for personal income taxes and the four month time-adjustment for corporate taxes. The CBS explained that both time-adjustments are based on legal and administrative provisions on the payment of personal and corporate taxes. As regards corporate income taxes, Eurostat advised the CBS to provide estimates in the April notification for the year n-1, which will be later revised in the October notification, when cash data for March and April will be available.

Findings and conclusions

Action point 24: The Croatian authorities will investigate the appropriate time adjustment for VAT refunds and inform Eurostat by end-February 2014.

Action point 25: The CBS will estimate the March and April cash receipts for the time adjustment of corporate income tax in the first EDP notification.

6.3.2. Interest

Introduction

In its April 2012 technical visit to Croatia, Eurostat had examined the approach used by the CNB to calculate accrued interest. It had been concluded that the approach was in line with the Manual on Government Deficit and Debt.

Discussion

The CNB explained how they compile interest on Loans (AF.4).

Findings and conclusions

No action points were identified.

6.4. Recording of specific government transactions

6.4.1. Recording of pre-accession EU flows and reporting in EDP tables

Introduction

Eurostat briefly explained the statistical treatment of EU flows in National Accounts.

Discussion

Eurostat explained that EU funds relating to third parties should not be recorded in government non-financial accounts, except for the national co-financing part. In other words, the revenue and expenditure related to EU flows to third parties should be excluded from the other government revenue and expenditure. The MoF (National Fund) explained that they are able to identify spending to third parties outside the general government sector and that they would make the necessary adjustments in EDP table 2. They will also make sure that the national co-financing is recorded in EDP table 2 with an impact on net borrowing/net lending.

The Croatian authorities described the arrangements in place to handle EU-related flows and ensured that the new EU monitoring system contains enough information for statistical needs. Pre-accession funds are held on a separate bank account of the MoF (National Fund), not part of the budget accounts, which allows the MoF to correctly neutralise the EU flows in the working balance.

The MoF explained that so far only advance payments related to pre-accession funds had been made by the EU. Receivables related to EU funds will be recorded only after the accession of the country to the EU. The MoF also explained that in the future it would be straightforward to identify the EU flows in the State Budget, as there would be a special codification system

in place, which would allow them to trace any EU transaction recorded in the budget. The working balance in EDP table 2 will include cash flows related to EU funds, and the necessary adjustments will be made under Other accounts receivable/payable to time adjust the EU flows.

Furthermore, the MoF explained that the EU money is distributed through the Central Government to the beneficiaries. Eurostat explained that complications had been seen in other Member States, when the EU money had been distributed from the Central Government through the Local Government to final beneficiaries. Thus, Local Government in some Member States accumulated balances over time. The Croatian authorities explained that EU money is transferred directly to beneficiaries.

Eurostat briefly presented Questionnaire table 6, which shows the recording of EU flows in the EDP tables. This table could be already applied to pre-accession flows, even if the amounts may be relatively small. The MoF committed to prepare a pilot Questionnaire table 6 by the end of the year.

Findings and conclusions

Action point 26: The Croatian Statistical Authorities will undertake a pilot compilation of EDP questionnaire table 6 by end-2013, and provide it to Eurostat.

6.4.2. Recording of military equipment procurement

Introduction

Eurostat briefly presented the rules for recording of expenditure for the acquisition of military equipment.

Discussion

Usually military equipment expenditure involves a long time lag between cash payments and deliveries as well as potentially large amounts. There may be cases, for example, where the delivery took place in December of the year n, whereas the payment was only made in January of the following year. Eurostat explained that in such cases cash recording would not be an appropriate basis.

The Croatian Ministry of Defence confirmed that some suppliers do ask for pre-payments. However, payments for deliveries of military equipment in Croatia are made within the same year. No adjustments are made to the cash paid, as the whole amount has to be paid within 60 days. Apparently, there had been no cases where the delivery took place at the end of the year.

Eurostat asked the Ministry of Defence whether it participates into any collaborative military projects with other countries, requiring some technological research to develop a new military equipment. The Ministry of Defence replied that Croatia was not involved in any such defence research projects.

Findings and conclusions

Eurostat encouraged the Croatian statistical authorities to closely monitor deliveries of military equipment, in particular those deliveries that take place in the end of the year and that may have accrual effect.

6.4.3. *Public-Private Partnerships (PPP) and concessions*

Introduction

Eurostat clarified the distinction between PPPs and concessions in National Accounts, and explained the relevant statistical rules of recording.

Discussion

In particular, Eurostat recalled that a PPP is a long-term contract between government and a private (or public) partner to build an infrastructure asset, where the government is paying regular unitary payments to the partner in order to cover the majority of the fees under the contractual arrangement (depreciation costs and maintenance fees, for example). On the contrary, when the end users of the infrastructure asset cover most of the costs, the long-term contract is treated as a concession. At the end of a PPP contract, the asset is usually given back to the government.

In a PPP, an increase in government debt and a corresponding capital expenditure (Gross Fixed Capital Formation) should be recorded, if the infrastructure asset is recorded on the government balance sheet.

Eurostat enquired about Zagreb Arena, a sporting facility built some time ago in Zagreb. The CBS and the Agency for PPPs described Zagreb Arena as a financial leasing, not a PPP. The publicly owned Zagrebački Holding had signed a contract with a private partner to build Zagreb Arena. The private partner was also responsible for the maintenance of the asset. The government itself was not directly involved, as it was only paying subsidies to Zagrebački Holding. Zagrebački Holding is in its turn paying the rent for the asset. However, in 20 years the asset will be transferred back to the government and to the City of Zagreb.

Eurostat agreed that this contract does not seem to have the features of a PPP, but rather of a concession. Eurostat encouraged the CBS to further investigate the nature of this contract.

The Croatian authorities explained that there had been a Law on PPPs in force since 1st June 2009, under which all public entities are obliged to send PPP contracts to the Agency for PPPs. However, the Agency has not yet received the contract on “Arena Zagreb”.

The Croatian authorities also pointed out that there is a working group on PPPs, including participants from the Agency for PPPs, the CBS, the CNB and the MoF. The working group meets to discuss the statistical treatment of concessions and PPPs.

Finally, Eurostat recalled that only real PPPs, in the statistical sense of the term, should be included in Questionnaire table 11.1. The Zagreb International Airport, the Adriatic Motorway and the Zagreb-Macelj Motorway, which had been reported in Questionnaire table 11 in the April 2013 transmission, seem to be rather concessions and should be therefore removed from the table, together with any other concessions reported in this table.

Findings and conclusions

Action point 27: The CBS will update EDP questionnaire table 11 to exclude concessions, and will examine the largest PPP contract for its statistical classification, by end-September 2013.¹⁸

6.4.4. *Capital injections in public corporations, dividends and privatisations*

Capital injections

Before the visit, Eurostat had requested from the Croatian statistical authorities a list of capital injections undertaken by government in 2012. The Croatian authorities did not provide such a list but explained that in 2012 one such capital injection had taken place into Croatia Airlines, a public corporation currently under restructuring. This capital injection has not been yet approved by the Croatian Competition Agency.¹⁹ Also, in 2010, the Croatian Post Bank, which is currently in the process of privatisation, received some government funds, however, as explained by the MoF, due to the expected return on investment, this transaction could not be considered as a real capital injection.

Eurostat clarified the notion of capital injections in public corporations and explained that to arrive at the split between capital transfers and equity injections, every individual capital injection should be assessed. In this context, Eurostat noted that based on the data provided in EDP table 3A under Shares and other equity (F.5), both local and central government seem to be active in buying shares. Eurostat pointed out that these equity purchases would need to be examined, as some of these might be treated as capital transfers to loss-making companies.

Eurostat requested from the CBS to obtain a list of shares acquired by company and to check if some of these companies are loss-making. Based on this analysis, the CBS should determine if the acquisition of shares is an equity transaction or a capital transfer. Eurostat pointed out that the Central Government should be a priority, but the same analysis should be later on performed for Local Government as well.

The Croatian authorities explained that as part of a restructuring plan of a number of companies in liquidation, the government implemented measures such as write-offs and debt-equity swaps. In the case of debt-equity swaps, Eurostat explained that the CBS should check whether the value of the equity received is similar to the value of the debt, using for example a discounted cash flow method. In case there is a difference between the two values, this should be treated as an implicit debt assumption.

Dividends

Eurostat reviewed the list of dividends paid by public corporations to government in 2012. Eurostat noted that some loss-making companies, as shown in the list, were paying dividends. Also, the operating profit of the CNB for the year 2011 was missing in the list.

¹⁸ The CBS commented on the action point that it had been completed during the October 2013 EDP Notification. However, Eurostat considers this action point as not fully completed since no copy of the analysis of the largest PPP contracts has been provided so far.

¹⁹ Decision of the Croatian Competition Agency approving the debt-equity swaps and subsidies to Croatia Airlines in the period 2011-2015 from the Program of restructuring of the entrepreneur CA d.d. has been published in the Official gazette No. 105/13, on 15 August 2013.

Eurostat recalled that the super-dividend test should be regularly performed on payments made by public corporations to the government. Payments made by loss-making companies could not be assimilated to dividends.

Privatizations

The Croatian authorities informed Eurostat that the privatisation process of the shipyards was still on-going. The government also planned to privatize shortly the Croatian Post Bank and up to 50 percent stake in Croatia Insurance..

Apart from the debt assumption from the shipyards, there have been no other related to the privatisation process transactions.

Findings and conclusions

Action point 28: The Ministry of Finance will provide a breakdown of equity purchases of central government and the CBS will analyse if any such purchases should be considered as expenditure, by end-September 2013²⁰.

Action point 29: The CBS will compare dividends received by government with previous year operating results, and will identify any super-dividends, completing EDP questionnaire table 10.2 by end-September 2013²¹.

6.4.5. *State guarantees, debt assumptions, debt cancellations and debt write-off*

Debt assumptions

Before the visit, the Croatian statistical authorities had provided a list of the outstanding government guarantees, guarantee calls and repayments by individual companies for 2011 and 2012.

With reference to the documents provided before the visit, Eurostat enquired about the government guarantees granted to shipyards. As explained by the CNB, the guarantees granted to shipyards also included guarantees related to advances made by buyers of ships.

Eurostat also pointed out that the total stock of debt guaranteed by the government in Questionnaire table 9.1 should be reported on a consolidated basis. Moreover, guarantees where the debt had already been included in general government Maastricht debt should be excluded from the total stock of debt guaranteed by government in row 1. However, guarantees where the debt had already been included in debt in the Croatian public accounts, but not in Maastricht debt, should remain included in row 1.

The CNB asked for an advice on the recording of a debt assumption from the shipyard Uljanik. As already mentioned under point 5.1.2 of the present document, it was agreed that the debt assumption and the corresponding capital transfer would be recorded in 2011, the year when the agreement had been legally implemented.

²⁰ Action point completed.

²¹ Action point completed.

Debt cancellations and debt write-offs

In the technical visit in March 2013, the CNB had presented a case of write-offs of government loans granted to demobilized soldiers of the Croatian Army. At that time, Eurostat advised the Croatian authorities to treat one part of these write-offs as debt cancellations – capital transfers extended to the beneficiaries of the loans, provided the beneficiaries were still alive.

Eurostat expected to see some figures for the years 2011 and 2012 related to these debt cancellations in the October 2013 EDP Notification.

Findings and conclusions

Action point 30: The Croatian authorities will confirm the remaining stock of guarantees at end-2012, on a consolidated basis, which have not yet been recorded as being assumed into government debt. They will quickly send an update of the table on guarantees provided before the visit to clearly identify these issues.

Action point 31: Eurostat will quickly confirm to the Croatian statistical authorities the basis of reporting in row 1 of EDP questionnaire table 9.1, and the Ministry of Finance will check that this basis is respected²².

Action point 32: The Croatian authorities will confirm the recording of the Uljanik shipyard debt assumption and of the associated land transactions in the financial and non-financial accounts by end-July 2013²³.

6.5. Other issues

6.5.1. Transfer of pensions obligations and pension reform

Introduction

Eurostat informed the Croatian authorities about the recent amendment of the Stability and Growth Pact, which allows Member States to request that their mandatory fully funded pillars be examined and taken into account for EDP purposes, under certain conditions. Thus, Member States are given the possibility to claim that their headline deficit is lower because of their second pillar pension schemes.

In this context, if Croatia considers that the introduction of its second pillar pension scheme is eligible for treatment as a systemic pension reform²⁴, it should request an analysis of this pension reform. Eurostat will analyse the eligibility of the pension reform and, if confirmed, assist Croatia in determining the calculation of the net costs of the reform²⁵.

²² Eurostat confirmed the basis of reporting in row 1 of Questionnaire table 9.1.

²³ The Croatian authorities confirmed the recording of the debt assumption in 2011. However, the treatment of the associated land transaction remains an outstanding issue.

²⁴ A systemic pension reform is defined as introducing a multi-pillar system that includes a mandatory fully funded pillar. The additional pillar of the pension system should be outside the general government sector.

²⁵ The net cost of the systemic pension reform is measured as its direct impact on the general government deficit (as defined in Article 1 of Regulation 479/2009): the net value of the contributions and benefits that are diverted

Discussion

Eurostat enquired about the structure of the Croatian pension system, as well as the operation of the second pillar pension scheme.

The Croatian authorities described in detail the current three pillar pension system. The system consists of a pay-as-you-go pension scheme (first pillar), a fully-funded, mandatory, privately managed defined contribution pension scheme (second pillar) and a privately managed voluntary pension scheme (third pillar).

Under this relatively new pension system (the second pillar was introduced in 2002), one part of the social contributions (currently 5% of the gross wage) is transferred to personal accounts in a mandatory second pillar pension fund chosen by the employee. The remaining part of the social contributions (currently 15% of gross wage) is paid in the first pillar pay-as-you-go pension scheme.

Four mandatory second pillar pension funds operate currently in Croatia, covering approximately a total of 1.6 million individuals. The financial accounts of these entities are audited and publicly available on their web-sites. The total amount of assets held in the second pillar pension funds stood at about HRK 57 billion at the end of year 2012.

About HRK 5 billion of social contributions are transferred to individual accounts each year. Yet the pensions paid out from the second pillar pension funds are relatively low, due to a number of reasons (the financial crisis, the introduction of supplementary pension schemes in 2008, not enough social contributions paid in to date, etc.).

As described by the Croatian authorities, the second pillar pension scheme has a broad coverage, is a mandatory and fully funded defined contribution pension scheme, and is classified outside the general government sector. In addition, the Croatian authorities explained that the government does not provide any guarantee on the level of the pension benefits. Thus, based on the description provided, the second pillar pension scheme would most probably qualify for constituting a systemic pension reform.

Nevertheless, in order to make a final assessment of the second pillar pension scheme, Eurostat requested a detailed description of the second pillar pension scheme in writing. In addition, Eurostat requested the Croatian authorities to complete a table showing the possible impact on the deficit.

Findings and conclusions

Action point 33: The CBS will write to Eurostat by end-August 2013 describing the Croatian second pillar pension scheme, with a completed financial template. Eurostat will quickly provide the template²⁶.

6.5.2. ESA95 Transmission programme

Introduction

from government to the second pillar pension scheme plus any lump sum payments by or to government linked to the transfer of existing pension benefit rights of participants.

²⁶ Action point completed.

Eurostat informed the CBS that the interim report for the Quarterly Government Accounts project, submitted to Eurostat before the visit, had been formally approved. However, more efforts are required so that Eurostat could approve the final report. In particular, the Croatian statistical authorities should transmit GFS data to Eurostat by the end of September, at the latest, including as many improvements from the mission as possible.

Discussion

Eurostat stressed that ESA table 2 and ESA table 25 should be fully consistent. The CBS assured that ESA tables 2 and 25 would be fully consistent by the end of September 2013. Inconsistencies were mainly due to the reclassification of HRT and CRI inside the general government sector.

Eurostat expressed its concern about the non-existence of direct data sources on a quarterly basis. Eurostat noted that some asset transactions were missing in ESA table 27 (AF.331, AF.332, AF.4 and AF.7). The CNB recognised the lack of data sources and explained that it would develop a database for the missing securities.

Eurostat also reminded the Croatian authorities to deliver ESA table 28 as soon as possible.

The Croatian statistical authorities explained that they would send ESA tables 2, 9, 25, 27 and 28 by the end of September 2013 and table 11 would be provided by the end of the year.

Findings and conclusions

Eurostat took note of the explanations provided.

6.5.3. Any other issues

No other issues were discussed in the meeting.

Eurostat will publish the Croatian EDP data series up to and including 2012 on 21 October 2013.

List of participants

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