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Directorate D: Government Finance Statistics
Unit D-3: Excessive Deficit Procedure II



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FINAL FINDINGS

EDP dialogue visit to Bulgaria

27-29 February 2012

Executive Summary

Eurostat undertook a standard EDP dialogue visit to Bulgaria on 27-29 February 2012. This visit followed an upstream EDP dialogue visit on 29 November to 2 December 2011. Eurostat carried out these visits in order to review the implementation of ESA95 methodology, to assure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data, and to assess the quality and completeness of upstream data sources and of the processes in place to prepare government finance statistics.

The main conclusions of the upstream EDP dialogue visit are summarised in a separate document, and there was a follow-up discussion at the standard EDP dialogue visit under agenda point 3 (see below).

First, the institutional arrangements currently in place were reviewed, together with the Inventory on sources and methods for the compilation of GFS. Then, the Bulgarian authorities briefly presented the revision policy applied in the context of the EDP fiscal notifications.

The discussion carried on with a follow-up on the implementation of the action points from the upstream dialogue visit which had taken place on 29 November – 2 December 2011, as well as with the implementation of the action points from the latest EDP dialogue visit to Bulgaria which had taken place on 16-17 September 2010.

Next, the October 2011 EDP notification tables were examined in detail, together with the Questionnaire relating to the EDP notification tables.

The sector classifications of Metropolitan, Shumen District Heating Company and the Bulgarian Railway Company (BDZ) were discussed. Concerning Metropolitan, the discussion focused on the need to estimate the consumption of fixed capital on all fixed assets used by Metropolitan, including those reported on the balance sheet of Sofia Municipality. As for Shumen District Heating Company, it was agreed that the NSI would confirm its sector classification by the end of March 2012. As regards BDZ, Eurostat noted that close attention should be paid to the Passenger Company subsidiary.

Concerning the implementation of accrual recording, the discussion focused on the time-adjusted cash method for taxes. It was agreed that the Bulgarian statistical authorities would provide to Eurostat their spreadsheets describing how taxes are time-adjusted.

Further, the statistical recording of specific government transactions was discussed. 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 thoroughly discussed, mainly referring to government guarantees granted to BDZ.

The Bulgarian pension system and any related transactions were briefly covered during the visit. Eurostat also followed up on the implementation of the statistical recording of the Bulgarian Development Bank (BDB) settlement scheme for government liabilities.

Finally, Eurostat presented its latest position with regard to the statistical recording of assigned amount units and EU trading scheme permits.

Final Findings

Introduction

In accordance with articles 11 and 11a of Council Regulation (EC) No 479/2009 as amended by Council Regulation 679/2010 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Bulgaria on 27-29 February 2012.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Unit D-3 Excessive Deficit Procedure II at Eurostat. The European Central Bank (ECB) also participated in the meeting as observer. Bulgaria was represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB). For one of the items on the agenda, representatives from the Bulgarian Development Bank (BDB) also took part in the meeting.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to assure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data.

In detail, the main aims of the dialogue visit were to review the institutional arrangements for the compilation of government finance statistics, to analyse the October 2011 EDP notification, to discuss sector classification of certain units, to discuss the revisions due to updated data sources and to clarify the new way of recording EU flows. The visit also reviewed the progress on action points established during Eurostat's 29 November to 2 December 2011 upstream EDP dialogue visit.

Regarding procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that the Main conclusions and action points would be sent within days to the Bulgarian statistical authorities, who may provide comments. Within weeks, the provisional findings would be sent in a draft form for their review. After adjustments, final findings will be sent to 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 responsibilities for the reporting of data under the ESA95, EDP and other government statistics

Introduction

The institutional responsibilities of the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB) are clearly specified in the Memorandum of Cooperation signed by the three institutions.

EDP tables, non-financial accounts and annual financial accounts are under the responsibility of the NSI, whereas the MoF is responsible for planned data and debt compilation. The quarterly financial national accounts for the General Government sector and some data sources in the area of compilation of the GFS data, provided to the ECB, are under the responsibility of the BNB.

Discussion

Eurostat enquired if there had been any important organisational changes in the work of the working group operating under the Memorandum of Cooperation. The Bulgarian authorities explained that the working group meets regularly and cooperation between the institutions is good. No other changes in the institutional set-up were reported.

Findings and conclusions

There have been no important organisational changes in the work of the working group. The decision-making process within the working group will be further specified in an updated Memorandum, to be provided by the Bulgarian authorities as part of the action points agreed during the upstream dialogue visit (see point 3 below).

1.2. EDP inventory

Introduction

As a matter of principle, the Inventory of the sources and methods used for compiling EDP data must be updated whenever significant methodological changes are implemented. This must be considered as a permanent process. Therefore, Eurostat had requested an updated version of the June 2009 EDP Inventory to be sent by the NSI before the visit.

The updated Inventory had been sent on 17 February 2012, ten days before the visit. Eurostat looked through the document and came up with some proposals for a further improvement of the Inventory.

Discussion

During the visit it was agreed that some further changes would be made by end-March 2012 to improve the content of the Inventory. Some of the proposals made by Eurostat had already been implemented.

In addition, Eurostat encouraged the NSI to complete as many as possible sections from the new "Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA 95". The Bulgarian authorities were encouraged to provide a first draft of the revised Inventory by the end of 2012.

Findings and conclusions

Action point 1: The NSI will send the updated EDP inventory (including agreed changes) to Eurostat (deadline: end of March 2012)¹.

2. REVISION POLICY

Introduction

The following lines summarize the discussion on the revision policy. Data sources, and in particular data sources for "Currency and deposits" (F.2) and "Other accounts receivable/payable" (F.7), were discussed under point 5.2 on statistical discrepancies.

Significant revisions in the October 2011 Notification were observed in tables 2A and 2C, mainly reflecting a new way of presenting the EU flows adjustment. The new recording of EU flows was thoroughly discussed under point 7.3.1.

Revisions were also made for the whole reporting period to Other Accounts Receivable (OAR) and Other Accounts Payable (OAP) due to updated data sources and a new approach for compiling other accounts (F.7).

¹ Action point 1 has been completed. The NSI sent the updated EDP inventory on 26 March 2012.

A brief note on the revision policy in place had been provided by the Bulgarian NSI before the visit.

Discussion

The Bulgarian NSI explained the current procedures for revision of National Accounts and EDP data.

First, it was explained that revisions to GDP might be due to two reasons: either because GDP figures had been initially based on quarterly data and were later revised with final data (usually available at t+15 months after the reference period), or because of changes in methodology.

As regards EDP data, the Bulgarian authorities pointed out that annual data for the year n-1 in the October EDP notifications are based on preliminary data. Therefore, revisions have to be made in the n+1 April EDP Notification when final data for year n-1 are available. More precisely, preliminary data for the year n-1 are available on 30 August in the year n, whereas final data for the year n-1 are available on 30 November.

Eurostat asked about any changes in source data availability. The Bulgarian authorities replied that no additional new data sources had been used for the October 2011 EDP Notification. The revisions made in the October 2011 Notification were mainly due to methodological changes – recording of EU funds and improved data for other accounts (F.7). In this context, the Bulgarian authorities explained that two significant methodological changes had been implemented following the 2010 visit to Bulgaria: for EU funds receivables and payables for the period 2007-2011 and for financial instrument F.7 for the period 2007-2010.

It was also pointed by the NSI that in principle revisions might also arise from changes in the source data for taxes. Estimations (based on forecasts made by the National Revenue Agency) are used for the first (April) notification because many of the income taxes in Bulgaria are paid in the following year, with information for the previous year available only after the October EDP notification. Thus, current taxes on income, wealth, etc. (D5) for year n-1 are normally revised in the year n+1 April Notification, when the final figures are available.

Findings and conclusions

Eurostat explained that in general revisions should be minimised for taxes, given that most of them are recorded on a time-adjusted basis. If such revisions nevertheless exist, they should be duly explained.

In addition, Eurostat encouraged the NSI to monitor the quality of the estimates made by the National Revenue Agency.

3. FOLLOW-UP OF THE LAST EDP UPSTREAM DIALOGUE VISIT TO BULGARIA (29 NOVEMBER - 2 DECEMBER 2011)

Introduction

Eurostat carried out on 29 November – 2 December 2011 an EDP upstream dialogue visit to Bulgaria pursuant to Art. 11a of Council Regulation (EC) No 479/2009, as amended. The aim of this visit was to gather information on the accounting, auditing, control and reporting systems in place and to assess the quality of upstream data used as the basis for EDP notifications.

During the upstream dialogue visit 12 action points had been agreed. The main conclusions of the upstream EDP dialogue visit are summarised in a separate document.

Discussion

Eurostat followed up the main conclusions and recommendations from the upstream dialogue visit of 29 November – 2 December 2011.

All action points from the upstream dialogue visit remained outstanding at that time. The Bulgarian authorities justified the delay in the implementation of the action points with a deadline end-March by the upcoming change of the top management.

Findings and conclusions

Eurostat took note of the information provided and progress made. Eurostat took note that the NSI considers the upcoming change of the top management as the major risk for the timely implementation of the systemic action points.

The NSI will inform Eurostat in writing of any progress made.

4. FOLLOW-UP OF THE LAST EDP DIALOGUE VISIT TO BULGARIA (16-17 SEPTEMBER 2010)

Introduction

The previous EDP dialogue visit to Bulgaria had taken place on 16-17 September 2010.

Discussion

Some outstanding action points from the previous EDP dialogue visit were briefly followed up. It was agreed that most of these might be considered as implemented, while others were further discussed under the corresponding items on the agenda.

Findings and conclusions

Eurostat took note of the progress made in completing the action points outstanding from the previous EDP dialogue visit. As regards action point 9 from the September 2010 EDP visit to Bulgaria, the NSI promised to find out more about the unexplained payables of hospitals.

5. EXAMINATION OF THE EDP TABLES AND THE RELATION WITH THE QUESTIONNAIRE RELATING TO EDP TABLES OF THE OCTOBER 2011 NOTIFICATION

5.1. EDP tables

Introduction

Under this item Eurostat examined in detail the EDP tables and the Questionnaire relating to the EDP tables of the October 2011 Notification.

5.1.1. EDP Table 1

The largest revisions to the Central Government deficit were made for 2009 and for 2010 (improvement of deficit: +0.25% and +0.44% of GDP respectively). These were explained by updated data sources for other accounts (F.7) and a new way of presenting EU flows in the EDP tables.

Debt was revised for 2010 only, with the revisions duly explained in the Questionnaire relating to the EDP tables.

5.1.2. EDP Tables 2A-D

Discussion

The role of the Central Government entity FLAG was discussed and it was explained by the NSI that this entity borrows from international financial institutions before passing the funds borrowed to municipalities. It was made clear that no EU funds pass through FLAG.

Findings and conclusions

It was agreed that the Net borrowing/lending (NBL) of FLAG would be reported for the next notification under the item "NBL of other CG bodies"².

Action point 2: The NSI will send to Eurostat the latest audited accounts of FLAG (deadline: end of March 2012)³.

5.1.3. EDP Tables 3A-E

Discussion

Under this point of the agenda a question was raised on the high net change in fiscal receivables over 2006-2010 and the high magnitude of the unexplained remaining "other differences" over the same period observed.

Findings and conclusions

The Bulgarian authorities committed to investigate the issue⁴.

5.1.4. EDP Table 4

Introduction

² This was implemented in the April 2012 EDP Notification.

³ Action point 2 has been completed. The NSI sent the 2010 and 2011 audited accounts of FLAG on 26 March 2012.

⁴ Following the revisions made to taxes in the April 2012 EDP Notification, the problem of high net change in fiscal receivables and high magnitude of unexplained remaining "other differences" no longer exists.

Public hospitals in Bulgaria make frequent use of trade credits and advances. The Chart of Accounts applied by budgetary units should allow direct identification of trade credits and advances payable by general government units to suppliers from non-financial corporations.

Discussion

Eurostat noted that no amounts for trade credits and advances payables had been reported in EDP table 4. The Bulgarian authorities explained that all amounts for Trade credits and advances are shown in EDP table 3 under "Net incurrence of other liabilities".

As a point of information, Eurostat mentioned that a CMFB Task Force had been set up on trade credits to discuss the possible reclassification of some trade credits payables (involving refinancing by banks, factoring without recourse, interest payments, etc.) to loans.

Therefore, careful consideration should be given to trade credits in the future.

Findings and conclusions

Eurostat encouraged the NSI to fill in data on "Trade credits and advances (AF71L)" in EDP table 4, provided that all trade credits and advances could be captured.

5.2. Statistical discrepancies in EDP tables

Introduction

A brief note summarizing the main reasons for statistical discrepancies observed between EDP data and Quarterly Financial Accounts of General Government (QFAGG) had been sent by the Bulgarian authorities before the visit.

Consistency checks between EDP and ESA table 27 in the October 2011 Notification still showed some discrepancies, in particular in "Currency and deposits", "Other financial assets" and "Other liabilities", even though an improvement compared to the April notification was noted. In this context, data sources, and in particular data sources for "Currency and deposits" (F.2) and "Other accounts receivable/payable" (F.7), were discussed under this point.

Discussion

The causes for statistical discrepancies between QFAGG and EDP tables were thoroughly analysed.

Data sources for "Currency and deposits" (F.2)

The main data source used by the NSI to compile F.2 in the EDP tables is the so-called form 91. Form 91 is designed by the MoF and requires information on deposits held by all budget spending units, including information on foreign bank accounts held by budget entities. Banks have the obligation to fill in and report this form to the BNB on a regular basis. Then the BNB has to transmit the form to the MoF.

On the other hand, for the compilation of the QFAGG the BNB uses information from the Monetary and Banking Statistics. The BNB reports these data to the MoF on a monthly basis. The Monetary and Banking Statistics provides information only on domestic deposits; foreign deposits are added on top of these.

The Bulgarian authorities explained that data from the two data sources are cross-checked on a monthly basis and the differences are in general insignificant. However, it has to be noted that form 91 does not cover some entities such as hospitals, FLAG and the National Railway Infrastructure Company (NRIC), whereas Monetary and Banking Statistics provide information on all units. Data on deposits and other financial instruments of public corporations reclassified to the General Government sector is provided by the NSI. The NSI regularly reports data on hospitals and non-budgetary units to the BNB and the MoF.

Eurostat pointed out that in other Member States there is a practice of disseminating the register of general government units to all other institutions, including to the banks. There seems to be no such practice in Bulgaria.

Finally, it was agreed that for the compilation of F.2 direct data sources (the so-called form 91) can be considered more reliable.

Data sources for "Other accounts receivable/payable" (F.7)

As regards F.7, a common methodology had been agreed between the three institutions where each separate sub-account is investigated. The NSI and the BNB use the same data sources for compiling F.7 – the trial balances sent by the MoF. Separate data on stocks and flows are available within the same data source (the trial balances) and there are no significant other flows.

Findings and conclusions

It was concluded that considerable progress had been achieved to resolve statistical discrepancies between QFAGG and EDP tables, both for financial instruments "Currency and deposits" (F.2) and "Other accounts receivable/payable" (F.7).

Eurostat expects discrepancies between QFAGG and EDP tables to be brought down to zero for the October 2012 EDP Notification.

5.3. Other EDP related tables

5.3.1. Questionnaire relating to EDP tables

Introduction

In the October 2011 Notification a negative stock of Other Accounts Payable related to D.5 was observed in Questionnaire table 5. Transactions in 2007, corresponding to the difference between the time-adjusted refund (calculated by the NSI) and the cash refund (reported by the NRA), are negative. At the same time they exceed the accumulated stock. As a result, a negative stock of Other Accounts Payable related to D.5 is generated at the end of the year.

Discussion

The discussion focused mainly on Questionnaire tables 4 and 5.

Questionnaire table 4

First, Eurostat enquired on the breakdown of "Other accounts receivable/payable" in EDP table 3, as provided in Questionnaire table 4.1. In particular, Eurostat enquired about the "Other unspecified items" in tables 4.1.1 and 4.1.2 of the Questionnaire. The Bulgarian authorities explained that a more detailed split is available in the trial balances.

Negative stocks of Other Accounts Payable related to D.5 in Questionnaire table 5

The possible reasons for the negative stocks of Other Accounts Payable related to D.5 in Questionnaire table 5 were investigated. Transactions in 2007, being the difference between the time-adjusted refund (calculated by the NSI) and cash refund (reported by the NRA), are negative and at the same time exceed the accumulated stock. As a result, a negative stock of Other Accounts Payable related to D.5 is generated at the end of the year.

Time-adjusted cash method for taxes

Finally, the time-adjusted cash method used by the Bulgarian authorities for recording taxes was discussed.

Eurostat noted a significant increase in transactions in both Other Accounts Receivable and Other Accounts Payable relating to (D.2) in 2009 and 2010⁵. The corresponding figures reported for 2007 were also very high.

⁵ This was no longer the case in the April 2012 EDP Notification.

The Bulgarian authorities explained that in the April notification estimations for taxes are used for the year n-1, because most of the taxes in Bulgaria are paid in the following year (D.2 taxes, however, are paid 1 or 2 months later). Estimations amount to approximately 18% of the total taxes. For taxes paid in January or February, real data are received in April.

For D.5 estimates are needed for the whole year. Revisions for 2010 are first made in the October 2011 notification, then in the 2012 April notification, when the final figures are available.

Eurostat noted a big increase from 2006 to 2007 in the stock of Other Accounts Receivable relating to total taxes and actual social contributions. At the same time the transactions in Other Accounts Payable relating to total taxes and actual social contributions decreased significantly. The Bulgarian NSI explained that there was no change in the time-adjustment methodology. Data on stocks of CIT and VAT had only been available from 2004 onwards and a decision had been made to start with a 0 stock in 1994.

The Bulgarian authorities committed to further investigate the issue.

World Bank pool loans

Under this point, Eurostat also enquired on World Bank pool loans, mentioned in the Note accompanying the October 2011 notification tables. The MoF agreed to provide an example of such a pool loans contract.

Findings and conclusions

Eurostat invited the Bulgarian authorities to reflect on a better way of presenting tax refunds which would avoid negative stocks. To avoid negative stocks for the next notification, Eurostat asked if the NSI could consider time-adjusting together with receivables (put tax refunds on the Other Accounts Receivable side).

Action point 3: The NSI will provide feedback to Eurostat on the contents of other payables and receivables in EDP questionnaire tables 4.1.1 and 4.1.2 (deadline: end of May 2012)⁶.

Action point 4: The NSI will send to Eurostat within days the spreadsheets used for calculating the tax time-adjustment⁷. Eurostat will analyse the spreadsheets and provide

⁶ Two additional sub-accounts have been identified in the April 2012 EDP Notification: "Payables to medical services suppliers (SSF)" and "Receivables from customer".

⁷ The NSI sent the spreadsheets used for calculating the tax time-adjustment on 26 March 2012.

feedback by mid-March 2012. Furthermore the Bulgarian authorities will investigate the reasons for the receivables increase in 2009 (D.2) and payables decrease in 2007 (D.5)⁸.

Action point 5: The Bulgarian authorities will provide to Eurostat a World Bank pool loan contract, together with the calculation of accrued interest (deadline: end of May 2012)⁹.

5.3.2. *Tables on the financial turmoil*

Introduction

The supplementary tables for the financial crisis cover government interventions which relate to the support of financial institutions and subsequent related transactions. Their purpose is to show the actual and potential impacts on government deficit and debt from such government interventions.

The Bulgarian NSI has so far never filled in the tables on the financial turmoil.

Discussion

Eurostat enquired on the existence of any government interventions to support the financial sector in Bulgaria. The Bulgarian authorities explained that the financial sector in Bulgaria is rather stable and no such government interventions took place.

Findings and conclusions

No government interventions in financial institutions in the context of the financial crisis have been undertaken by the Bulgarian government.

5.3.3. *Table on intergovernmental lending*

Introduction

For the purpose of proper consolidation of general government debt in European aggregates and to provide users with additional information, Eurostat is now publishing data on government loans to other EU governments. The data is mainly related to loans given to Greece.

⁸ Following the revisions made to taxes in the April 2012 EDP notification, receivables relating to D.2 no longer increase in 2009.

⁹ The NSI provided an example of a World Bank pool loan contract, together with the calculation of accrued interest, on 31 May 2012.

The Bulgarian NSI has so far never filled in the tables on intergovernmental lending.

Discussion

Eurostat enquired on the existence of any intergovernmental lending to other EU Member States, in particular to Greece.

Findings and conclusions

The Bulgarian authorities explained that there were no such intergovernmental lending operations.

6. IMPORTANT ISSUES FROM 2011 RELEVANT FOR THE APRIL 2012 NOTIFICATION

Introduction

Eurostat had been informed on some privatization operations that had taken place in 2011.

Eurostat was also aware of a transfer of the professional pension funds to the Social Security Fund.

In addition, some of the operations related to the settlement scheme for government liabilities through the BDB, had to be implemented in 2011.

Discussion

Eurostat enquired if there were any other important transactions that took place in 2011, apart from the transfer of the professional pension funds to the Social Security Fund and the operations related to the settlement scheme for government liabilities through the BDB.

The largest government transactions in 2011 were briefly outlined during the meeting, with the biggest transaction being the partial privatization of "Bulgartabac holding" AD.

Findings and conclusions

The Bulgarian authorities explained that there were no associated transactions (such as debt assumptions, cleaning of the balance sheet, pension fund transfers, etc.) linked to the partial privatization of "Bulgartabac holding" AD.

7. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

Introduction

As part of the action points agreed during the Upstream Dialogue Visit to Bulgaria on 29 November – 2 December 2011, the NSI agreed to create and maintain a register of all government controlled entities and a sub-register of all general government units by the end of December 2012.

Prior to the visit, the Bulgarian NSI had sent a list of all general government units together with a list of all public corporations.

Eurostat had also to examine the practical application of the 50% test, in view of the new Questionnaire on public corporations where Member States would have to report the results of the test for all non-financial public corporations with total liabilities exceeding 0.01% of GDP.

In addition, Eurostat had been closely following several entities in Bulgaria regarding their sector classification: Metropolitan, Shumen District Heating Company and the Bulgarian Railway Company (BDZ).

Discussion

Eurostat explained the importance of maintaining a register of general government units. The Bulgarian authorities pointed to the Registration Agency as the body responsible for maintaining the register of all public and private legal entities. The NSI has a real-time connection to the register and can extract at any time all public entities, based on ownership. The NSI explained the difference between legal and statistical entities, the latter being only those entities which report to the NSI on an annual basis. Non-government organizations and other non-profit institutions also report to NSI on an annual basis and are considered statistical entities as such.

Eurostat explained that for the purpose of the new Questionnaire on public corporations Member States would have to report the results of the 50% test for all non-financial public corporations with total liabilities exceeding 0.01% of GDP, covering the preceding 3 years.

The NSI explained that the 50% test is performed on all public units, regardless of the size of their liabilities. A copy of an Excel file with the results from the application of the

50% test on all public corporations, covering the period 2007-2010, was provided to Eurostat immediately after the end of the meeting.

Findings and conclusions

Action point 6: Eurostat will analyse the results from the application of the 50% test on all public corporations, covering the period 2007-2010, and will provide comments by end-May 2012¹⁰.

7.1.1. Metropolitan Sofia

Introduction

Metropolitan is 100% government-owned company responsible for building the Sofia underground. It is financed by the Sofia Municipality (the owner of the company, which provides 65.8% of the total funding), European funds (29.2%) and national co-financing.

In 2011 the NSI had performed the 50% test on Metropolitan and had found out that the sales/costs ratio was below 50% for the 2006-2008 period but very high (around 90% in 2009 and 111% in 2010) for the next two years. This had been explained by the large increase in operating revenues in 2009 (due to the expansion of the network) and by a sudden drop of depreciation in 2009.

Based on the results of the 50% test the Bulgarian authorities had taken a decision to classify Metropolitan outside the General Government sector. However, based on similar cases in other Member States, Eurostat decided to investigate how depreciation had been calculated.

Discussion

The main issue with Metropolitan was to determine its sector classification. First, Eurostat asked general questions on the financing of Metropolitan. Then the discussion focused on the possibility to estimate the consumption of fixed capital on all fixed assets used by Metropolitan, including those reported on the balance sheet of Sofia Municipality.

The Bulgarian authorities explained how Metropolitan was financed and how the individual transactions were recorded in National Accounts. It was made clear that the loans raised by Sofia Municipality and then passed to Metropolitan had been correctly recorded as debt of Local Government. Gross Fixed Capital Formation for the construction of the underground had been recorded in the accounts of Sofia Municipality.

¹⁰ Action point completed.

It was established that most of the fixed assets (rails, tunnels, metro stations, locomotives, etc.) used by Metropolitan had been reported on the balance sheet of Sofia Municipality and thus depreciation for these assets had not been taken into account in the 50% test. Actually, the depreciation used for the purpose of the 50% test had included depreciation on the right of Metropolitan to use the fixed assets reported on the balance sheet of Sofia Municipality.

In this context, Eurostat underlined that depreciation on intangible assets (the right to use the assets) should not be used for the purpose of the 50% test. Eurostat explained that for the 50% test consumption of fixed capital should be preferably used, as it is only on tangible assets by definition. Therefore, Eurostat requested an estimation of the consumption of fixed capital on all fixed assets used by Metropolitan, including those reported on the balance sheet of Sofia Municipality, so it could be added to the operating costs for the purpose of the 50% test.

The Bulgarian NSI explained that they usually estimate consumption of fixed capital at the level of the sub-sector and it would take some time to do this exercise at the level of an individual entity.

Findings and conclusions

Action point 7: The NSI will meet with Metropolitan to determine the detail of the depreciation calculation in its accounts. Following this meeting, the NSI will calculate, for the purposes of the 50% test, the consumption of fixed capital on all fixed assets used by Metropolitan. The results of this work will be reported to Eurostat by mid-June 2012¹¹.

7.1.2. Other Local Government public corporations

Introduction

As of August 2010, Shumen District Heating Company has been 100% owned by the Shumen municipality. Throughout the period 2006-2009 the revenues from sales / production costs ratio has been persistently decreasing and approaching the 50% threshold. In 2010 the ratio fell below the 50% threshold, which raised the question of the company's sector classification, which had been so far classified outside the General Government sector.

Discussion

¹¹ Action point outstanding.

The 50% test performed on Shumen District Heating Company for 2010 resulted in revenues from sales / production costs ratio below the 50% threshold, which would indicate that this company should be closely followed in the future. Moreover, it was noted that this company was under insolvency proceedings, although still operating.

The Bulgarian authorities agreed to closely follow Shumen District Heating Company and to decide on its sector classification by the April 2012 EDP Notification.

Findings and conclusions

Action point 8: The NSI will confirm the classification of Shumen District Heating Company, obtain data for the outstanding debt, and inform Eurostat of its conclusions (deadline: end of March 2012)¹².

7.1.3. Other public corporations

Introduction

The Bulgarian Railway Company (BDZ) is a holding group including the following subsidiaries: Freight Transport Ltd and Passenger Transport Ltd. All three entities (including the holding itself) are 100% owned by the Central Government. The holding is currently undergoing a major restructuring, trying to avoid bankruptcy proceedings.

The NSI had performed the 50% test on BDZ as a follow-up of Action Point 17 from the September 2010 EDP dialogue visit. For all years in the period 2006-2010 the sales / production costs ratio at the level of the holding group exceeded the 50% threshold.

Prior to the visit, Eurostat had examined the 2012 Business Plan of BDZ, including the 2011 balance sheet and profit and loss account. As of mid-2011 the operating activities together with the assets of the holding company had been transferred to its subsidiaries. As a result, both revenues and expenditure of the holding entity sharply decreased in 2011. In 2012 a profit is expected at the holding level.

The holding structure has been so far classified outside the General Government sector based on the 50% test performed at the level of the holding only.

Discussion

At the visit the Bulgarian NSI provided a copy of the results from the 50% test performed at the level of the separate entities within the BDZ holding. Eurostat noted that close

¹² Shumen District Heating Company has been reclassified inside the General Government sector (Local Government) for the April 2012 Notification.

attention should be paid to the Passenger Company subsidiary, as it did not meet the 50% test. Eurostat explained that even if the holding itself stays classified as a market entity, the Passenger Company subsidiary might have to be reclassified inside the General Government sector if it is found to be non-market in nature.

It was agreed on the meeting that the NSI should closely examine the financial plans for the restructured company for future years. If the perspectives for 2012 for the Passenger Company subsidiary are still poor and if the 50% threshold is still not met, the NSI should reclassify this entity inside the General Government sector.

The recording of any possible future injections or other forms of support to the Bulgarian Railway Company should also be closely monitored. Any future capital increase, given the current situation of the company, will probably have to be recorded as capital expenditure.

In addition, Eurostat enquired on the existence of other big public corporations, in particular transport companies. The Bulgarian NSI explained that most of the bus companies in Bulgaria are private. The 50% test had been performed on all public bus companies for the period 2007-2010, with all of them determined to be market entities.

Action point 9: The NSI will confirm BDZ Passenger subsidiary 2011 data (50% test), analyse its draft business plan/financial projections, and inform Eurostat in good time so that a classification decision can be made for the end-September EDP 2012 Notification.

7.2. Implementation of accrual principle

7.2.1. Tax revenue and social contributions

Introduction

Initially taxes and social contributions in Bulgaria had been recorded on assessment and declaration basis. However, there were some difficulties to calculate taxes assessed but unlikely to be collected, the time series being too short and unstable. An agreement was made subsequently to use the pure cash method for a certain period of time.

Data on social contributions are obtained from the cash reports on the execution of the budgets of the National Social Security Institute and the National Health Insurance Fund. After some changes to the legislation had been made in 2007, the pure cash method was accepted as more appropriate for social contributions.

Since October 2010 the NSI has been applying the time-adjusted cash method for most of the taxes. The time-adjusted cash method is used for PIT, CIT, VAT and excise taxes. Time-adjusted data for VAT, CIT and PIT is calculated by the NSI on a quarterly and annual basis. The Customs Agency provides cash data to the NSI together with time-

adjusted data on excises. The difference between time-adjusted cash data and pure cash data is recorded as F79.

The pure cash method is still used for customs duties, taxes on property, VAT on imports, excises on imported goods and social contributions.

Discussion

The discussion on taxes took place under point 5.3.1 where the problem of negative stocks of Other Accounts Payable related to D.5 in Questionnaire table 5 was discussed, followed by a more general discussion of the time-adjusted cash method for recording taxes.

Findings and conclusions

As indicated under action point 4, the NSI promised to send to Eurostat within days the spreadsheets used for calculating the tax time-adjustment¹³.

7.2.2. Interest

Introduction

Before the visit Eurostat requested from the NSI to fill in an spreadsheet with interest allocated to the underlying financial instruments in EDP tables 2A and 3B (CG only). The NSI provided this information for the period 2008-2010.

Under this point Eurostat also asked some questions on consolidation of debt.

Discussion

Recording of interest

Eurostat noted that accrued interest revenue, as reported in the spreadsheet, is equal to cash interest revenue. The Bulgarian authorities confirmed that interest revenue was still recorded on a cash basis in the Working Balance, without any adjustments being made in EDP tables.

Eurostat expressed its concern in case there are instruments where cash revenue and accrual revenue might differ significantly. The MoF assured that most of the interest revenue comes from deposits and straightforward financial instruments, therefore the difference between cash and accruals can be expected to be very small.

¹³ The documents have been sent.

It was explained that data on accrued interest on deposits and loans are from the Monetary and Banking Statistics.

Form 91 (stocks of deposits) is used for data on interest on deposits. Data sources for interest on loans depend on the notification – the cash reports are used for the April notification and the trial balances for the September notification.

The Bulgarian authorities explained the sources used for allocating interest: cash reports on the budget execution, data on cash and accrued interest from the State Debt Department at the MoF, and Income statements submitted by the National Railway Infrastructure Company (NRIC) and hospitals, where information on accrued interest is available.

The MoF mentioned that a survey to identify all interest revenues is currently on-going.

Consolidation of debt

A small consolidation issue, discovered by the Bulgarian authorities in the October 2011 EDP Notification, was briefly discussed with representatives from the MoF. The MoF explained the consolidation procedure in place and assured that government debt held by different government bodies as assets could be clearly identified through the Register of Central Government debt, the Register of municipality debt and the trial balances from Directorate State Treasury at the MoF. Information on loans granted to municipalities by the Central Government body FLAG is received directly from FLAG or from the trial balances.

Eurostat explained that in other Member States consolidation problems had been observed because of new operations – Central Government starts to lend to another general government body, which was not a normal practice in the past.

The Bulgarian authorities assured that creditors can be identified – both in the Chart of Accounts and in the Unified Budget Classification a dedicated account exists for acquired government bonds.

Findings and conclusions

Action point 10: The Bulgarian authorities will provide feedback on their exercise to check interest received by government, when this exercise is concluded, but with at least a progress report by end-May 2012¹⁴.

7.3. Recording of specific government transactions

¹⁴ Action point completed. No significant difference between cash interest revenue and accrued interest revenue has been identified.

7.3.1. Recording of EU flows and reporting in EDP tables

Introduction

Under the Bulgarian national methodology most EU flows are recorded as revenues and expenditures in the cash reports of the National Fund and the Agriculture Fund. In the EDP notification tables, the cash balances of these two entities appear under "NBL of other Central Government bodies". For the purpose of the EDP notification, the cash revenues and expenditures relating to EU flows are reclassified as financial transactions through the neutralization of the cash balances in the EDP tables.

In previous notifications the cash balances had been neutralized in "NBL of other Central Government bodies". However, for the October 2011 EDP Notification the adjustment of EU funds had been moved from "NBL of other Central Government bodies" to "Other adjustments", detail 2.

As one part of the Agriculture Fund revenues and expenditures (in particular, market interventions and direct subsidies to farmers) are already treated as financial transactions in the national methodology, there is no need to reclassify this particular part.

As regards JEREMIE and JESSICA payments, these are treated as financial transactions (including the national co-financing part) under the national methodology. An adjustment is therefore needed to take into account the impact on deficit of the national co-financing. This adjustment appears under "Other adjustments", detail 2.

For the October 2011 EDP Notification EU flows from Central Government to Local Government have been also identified and reclassified as financial transactions (except for the national co-financing part). In addition, the spending of general government units-beneficiaries has also been taken into account.

As a result, the adjustment for EU flows under "Other adjustments" in EDP Table 2 is now calculated in a more precise way.

Moreover, in EDP Table 3, EU flows have been neutralized through Other Accounts Receivable and Payable, and not through F.2 "Currency and deposits", as it had been the case in previous notifications.

Discussion

Eurostat enquired about the data sources used for identifying EU flows. The Bulgarian authorities explained that two parallel systems for accounting of EU flows exist in Bulgaria: a management system of the projects and a General Accounting System. Eurostat stated that it is important in such cases to have a system which would allow the

Bulgarian authorities to reconcile the management system of the projects and the General Accounting System.

The MoF informed Eurostat that for some of the operating programs the Management authority is not based in Bulgaria. Therefore, some payments could be received on the budget of the corresponding ministries and not in the Extra-budgetary accounts (National Fund and Agriculture Fund). The Bulgarian authorities assured that such flows would be captured in the working balance and adjustments would be made accordingly.

The Bulgarian authorities explained that payments from the Managing authority are reflected both in the cash reports (on cash basis) and in the trial balances (on accrual basis). In addition, any EU funds related payments made by the ministries can be easily identified and tracked down.

Findings and conclusions

Eurostat agreed on the new way of recording the EU flows' adjustment in EDP Tables 2 and 3. However, a proposal was made for the next notification to split the adjustment into receivables and payables under the "Other adjustments" line in EDP Table 2.

It was also agreed to remove the amounts under line 21 in Questionnaire table 6, as there should be no EU flows included in the Working Balance. A comment might be added that Local Government EU flows are included in "B9 of other government bodies", whereas the adjustment is made through "Other adjustments"¹⁵.

7.3.2. Recording of military equipment (financial leasing)

Introduction

Time of recording

Deliveries of military equipment are reported in Questionnaire table 7 as equal to cash expenditure on military weapons. However, military equipment expenditure usually involves long time lag between cash payments and deliveries as well as potentially large amounts. This would mean that cash recording might not be the optimal solution.

The Ministry of Defence (MoD) prepares trial balances based on the accruals Chart of Accounts, and therefore data on deliveries of equipment (and any related accounts receivable and payable) should be available.

¹⁵ This recommendation was implemented in the April 2012 EDP Notification.

Financial leasing operations

Financial leasing operations were also discussed under this point, as one of the two financial lease contracts reported in the October 2011 EDP Notification related to the acquisition of military equipment. This contract has been correctly treated as a financial lease and the Government liabilities under the financial lease have been properly classified as loans. The nominal amount under the contract has been recorded as expenditure in the 2009 Working Balance and a corresponding loan has been recorded in the financial accounts.

During the October 2011 clarification round the NSI had confirmed that there were no cash payments related to the military equipment after 2009.

The treatment of financial leasing operations in Bulgaria is covered in the Guidelines issued by the MoF for the application of accounting standard in the budget entities. Under the national methodology a cash expenditure and financing is recorded in the year of delivery of the asset, which is consistent with the MGDD rules.

In addition, in the Unified Chart of Accounts there is a separate account for financial lease interest expenses, which would allow identifying any interest payments.

Discussion

Eurostat recalled that the payments on the loan had to be split into interest payments and repayment of the loan.

The Bulgarian authorities explained that in the year of delivery of the military equipment, the whole amount of the purchase was reflected in the Working Balance, meaning that the Working Balance is not on a pure cash basis.

Eurostat concluded that the treatment of financial leasing operations in Bulgaria is in compliance with ESA95 and MGDD rules. However, it was established during the meeting that information was missing on the interest paid/accrued on the financial lease contract for the acquisition of military equipment.

Findings and conclusions

Action point 11: The Bulgarian authorities will confirm to Eurostat the recording of interest paid on financial leases of the Ministry of Defence (deadline: end of May 2012)¹⁶.

¹⁶ The NSI informed Eurostat on 31 May 2012 that the request had been made to the Ministry of Defence.

7.3.3. Public-Private Partnerships (PPP) and concessions

Introduction

No PPP projects have been reported in the latest EDP questionnaire. However, the Bulgarian government has been recently very active in building motorways.

Prior to the visit, at the request from Eurostat, the NSI had sent a list of motorways under construction, as well as a list of planned constructions in 2012. Motorways are mostly financed by EU funds (under the operational program "Transport"), the Government's contribution being limited to the national co-financing.

Discussion

The Bulgarian authorities confirmed that there were no PPPs in Bulgaria at that time.

The Bulgarian authorities explained that some of the projects were 100% financed by the Government (through the Road Infrastructure Agency), but the amounts involved were rather small.

Eurostat was informed on the preparation of a new law on PPPs in Bulgaria. The NSI was encouraged to ensure there would be a properly functioning reporting system at each level of Government which would allow the identification of all PPPs. At the same time, the NSI should have full access to all PPP contracts for statistical purposes.

Findings and conclusions

Eurostat will follow the development of the new law on PPPs.

7.3.4. Capital injections in public corporations, dividends and privatisations

Capital injections

Introduction

Before the visit Eurostat had requested a list of capital injections made by government in 2011. The list provided by the NSI included only equity transactions: acquisition of shares in the Black Sea Bank for Trade and Development, the EIB, the World Bank, the IMF, the Burgas-Aleksandropolis pipeline project company and the Central Depository.

Discussion

Eurostat enquired on the purpose of the capital increases in the World Bank and in the Burgas-Aleksandropolis pipeline project company.

In this context, Eurostat briefly explained the new rules on the recording of capital increases in multilateral development banks (MDB). It was explained that capital injections into MDB facilities whose main or sole purpose is to provide concessional loans at marginal or zero interest rate should be recorded as capital transfers, while investments into MDB facilities providing non-concessional loans should be recorded as acquisition of other equity, as proposed by the ESA95, paragraph 5.95 (c). The statistical treatment is described in detail in the new section of the MGDD on capital increases in multilateral development banks.

Findings and conclusions

Eurostat considers that the capital increases in the World Bank and in the Burgas-Aleksandropolis pipeline project company deserve to be further investigated. In particular, it would be useful to know whether the capital increase in the World Bank was related to concessional loans extended to countries in development.

Action point 12: The NSI will check the 2011 World Bank and Burgas-Aleksandropolis pipeline project company capital injections and record appropriately in the end-March 2012 EDP Notification¹⁷.

Dividends

Introduction

Before the visit the NSI had provided to Eurostat a list of dividends paid to government in 2011. The biggest dividend had been paid by the BEH (83 million BGN), followed by the dividend paid by Bulgartabak holding (42 million BGN).

Discussion

Eurostat recalled that payments funded by asset sales, capital gains, or reserves accumulated over several years (with the exception of those which are foreseen for smoothing of dividends) should not be considered as dividends. These should be treated as withdrawals of equity in F5.

The Bulgarian authorities confirmed that they regularly perform the super-dividend test.

Findings and conclusions

¹⁷ The capital injections made into the World Bank and Burgas-Aleksandropolis pipeline project company in 2011 have been recorded as equity transactions in the April 2012 EDP Notification. The NSI confirmed their recording as equity transactions in a separate note, sent on 30 March 2012.

No particular issues have been identified as regards recording of dividends.

Privatizations

Introduction

Under the Bulgarian national methodology privatization receipts are treated as financial transactions and they do not appear in the Working Balance.

Discussion

The Bulgarian authorities informed Eurostat about the newly-created State Consolidating Company, which was set up by the Government in 2010 with the purpose of privatizing government-owned entities. In 2011 the Government sold its share in the electricity operator EVN through the State Consolidating Company¹⁸.

The largest privatization operation in 2011 was the partial sale of "Bulgartabak holding".

Findings and conclusions

According to the Bulgarian authorities, none of the above-mentioned privatization operations involved any related transactions (debt, historical liabilities, pensions, etc.).

7.3.5. State guarantees, debt assumptions, debt cancellations and debt write-off

Government guarantees

Introduction

A list of Government guarantees had been provided by the NSI prior to the visit. The Bulgarian government granted guarantees to African, Caribbean and Pacific States, Kozloduy Nuclear Power Plant, BDZ, BDB, NEC, Sofia Municipality, Pernik District Heating Company, Sofia Steam Power Station, Maritsa Power Plant and Smelter. Some municipalities and student loans also benefited from Government guarantees.

¹⁸ The State Consolidating Company has been reclassified inside the General Government sector in the April 2012 EDP Notification.

No guarantee calls had been reported in the Questionnaire. However, based on the information provided by the Bulgarian NSI before the visit, Eurostat understood there were some guarantee calls on debt contracted by BDZ.

Discussion

The Bulgarian MoF explained that according to the Government Debt Act the borrower is liable to reimburse in full the amount paid to the creditor by the Government under a Government guarantee (including the expenses incurred in relation to the payment).

Eurostat recalled that three repeated calls would imply recording of the total outstanding debt under guarantee of the entities involved as Government debt. In general, whenever it is established to be unlikely that the debtor is able to repay its Government guaranteed debt, the whole outstanding amount of debt should be deemed to be assumed by the Government.

The BDZ repaid the Government a few weeks after the activation of the guarantee. However, it was not clear how the company managed to repay the Government in a relatively short time after the exercise of each call, given its difficult financial position.

The NRA is the institution responsible for collecting all Government claims. The Bulgarian authorities agreed to investigate the procedure for NRA recovery of guarantee calls from BDZ.

Furthermore, there was a brief discussion on a Government guarantee on a student loan scheme. Eurostat enquired on the operation of the student loan scheme and the conditions of the government guarantee.

Finally, it was agreed that Government guarantee calls should be always shown in Questionnaire table 9.1 even if the original debtor repays the government soon afterwards.

Findings and conclusions

Government guarantees are recorded in compliance with the MGDD. However, calls and repayments should appear in the Questionnaire tables, even if the overall impact on B9 is nil¹⁹.

Action point 13: The Bulgarian authorities will investigate the procedure for NRA recovery of guarantee calls from BDZ, and the sources of finance in BDZ for such repayments (deadline: end of March 2012)²⁰.

¹⁹ The recommendation to show guarantee calls in Questionnaire table 9.1 was implemented in the April 2012 EDP Notification.

Action point 14: The Bulgarian authorities will confirm the operation of the student loan scheme, including conditions of government guarantee (deadline: end of May 2012)²¹.

Debt cancellations

Introduction

In 2011 Bulgaria signed an agreement for a debt cancellation with Zambia.

Discussion

No new debt cancellations were reported, apart from the agreement signed with Zambia in 2011. The discussion focused on the statistical recording of this debt cancellation as well as on the recording of an old loan to Vietnam which had been partly transformed into a development aid.

Findings and conclusions

The Bulgarian authorities confirmed the recording of loans transformed into development aid as capital transfer expenditures.

The debt cancellation agreement with Zambia was properly recorded as capital transfer expenditure.

Debt assumptions and Debt write-offs

There were no particular issues relating to debt assumption and debt write-offs. Before the visit Eurostat had requested the Bulgarian authorities to provide a list of debt assumptions, debt cancellations and debt write-offs for 2011, and no such operations had been reported (except for the debt cancellation with Zambia).

7.4. Other issues

7.4.1. Transfer of pensions obligations and pension reform

Introduction

²⁰ Action point 13 has been completed. The BDZ was allowed to offset its debt towards the Government against VAT refundable to BDZ.

²¹ The NSI has sent to Eurostat an explanatory note on the treatment of the students loan scheme, together with a copy of the Student and Doctoral-Candidate Loans Act.

The Bulgarian pension system consists of three pillars. Since 2000, in addition to the compulsory PAYG scheme (1st pillar), a compulsory supplementary pension scheme (2nd pillar) has been introduced which covers all insured persons under the state public insurance, born after 31 December 1959. The compulsory supplementary pension scheme is a defined contribution scheme administered by private insurance companies. In addition, a privately-operated complementary non-compulsory defined contribution pension scheme exists which forms the 3rd pillar of the pension system.

Civil servants are covered by the unfunded PAYG pillar. The Government pays social security contributions for civil servants, but this will most probably change in 2013 and civil servants will have to pay at least one part of the contributions by themselves.

In 2011 a transfer was made from the professional pension funds (part of the 2nd pillar) to the Social Security fund. This transfer has been recorded in national accounts as government revenue in the 1st quarter of 2011.

Discussion

The NSI gave an overview of the Bulgarian pension system, describing the three pillars of the system. The Bulgarian authorities explained that the Scheme for Civil Servants and the Teachers' Pension Fund are both part of the first pillar and are managed by the National Social Security Institute. Furthermore, they explained that the second pillar consists of universal pension schemes and professional pension schemes. Universal pension schemes are compulsory for people who are born after 31 December 1959 and who are already insured under the first pillar. Professional pension schemes are intended for a limited number of people, in particular for people who are exposed to difficult working conditions and are entitled to the right of early retirement.

Eurostat raised some questions on the transfer that took place in 2011 from the professional pension funds (component of the 2nd pillar) to the 1st pillar. The Bulgarian authorities confirmed the recording of the transfer from the professional pension funds to the National Social Security Institute as revenue. The amount of the funds transferred was calculated based on the actuarial value of the assets.

Eurostat enquired if the contributions made to the second pillar are collected by the Government and then passed to the insurance companies from the second pillar. The Bulgarian authorities explained that the contributions for the second pillar are collected together with the contributions for the first pillar, and then passed to the insurance companies within a deadline of 10 days, which would imply a relatively small accruals impact.

Eurostat enquired on the Bulgarian Social Security Reserve Fund (the so-called Silver Fund) as it had been a widely discussed public topic. The Bulgarian authorities explained that the Silver Fund is part of the central budget and it had been created to accumulate reserves that would be subsequently transferred to the first pillar. The Silver Fund keeps deposits at the BNB and invests in foreign bonds and shares. It is not allowed for the

moment to invest in Government bonds, although the intention of the Government is to abolish this limitation.

Findings and conclusions

The Bulgarian authorities should keep an eye on the changing legislation on the Silver Fund. If the Silver Fund starts investing in Government bonds proper consolidation should be ensured.

The 10 days delay between collection of social contributions and passing them to the second pillar needs to be confirmed.

Action point 15: The NSI will obtain the laws for the second pillar pension scheme and provide the information to Eurostat as soon as possible²².

7.4.2. ESA95 Transmission programme

Introduction

A rather big inconsistency between EDP and QFAGG data has been observed for Net incurrence of liabilities/other liabilities in 2006 for Central and General Government.

Table 11 (annual COFOG data) was transmitted on 6 February 2012 only, beyond the legal deadline of December 2011. Moreover, a new transmission was expected as there were several outstanding inconsistency problems.

Discussion

The Bulgarian NSI explained that the big inconsistency between EDP and QFAGG data for Net incurrence of liabilities/other liabilities in 2006 for Central and General Government was probably due to the fact that historical EDP data (for the period 1995-2006) had not been updated after the introduction of new methodology for compiling "Other accounts receivable/payable" and EU flows.

Eurostat enquired about the reasons for the delay in the submission of ESA table 11 (annual data). The lack of sufficient resources was pointed by the NSI as the main reason for missing the deadline.

Findings and conclusions

The Bulgarian authorities will ensure consistency of historical data.

²² The NSI transmitted the laws for the second pillar pension scheme to Eurostat on 30 March 2012.

Eurostat took note of the concerns expressed by the NSI about lack of sufficient resources.

7.4.3. Any other issues

Bulgarian Development Bank (BDB)

Introduction

In 2010 the BDB settled liabilities of the government to suppliers for an amount which corresponded to the nominal value of the approved for settlement claims minus a 7% discount. This operation has been recorded as a loan from the bank to the Government for the amount settled, with the main issue being how to treat the 7% discount.

Eurostat advised to record the difference between the nominal amount of the liabilities and the amount actually settled by the bank (the loan), which corresponds to the 7% discount, as a revaluation of government's liabilities and suppliers' receivables (and not as a debt cancellation granted by suppliers).

Therefore, no capital revenue should be recorded in the accounts of Central Government in 2010 but a revaluation of government claims with a corresponding reduction of suppliers' receivables in the Revaluation account.

In addition, the difference between the nominal amount of the liabilities and the amount actually settled by the bank (the loan) should be recorded as an interest paid by the Government to the bank, spread over 2010 and 2011.

At the same time, the Government made a deposit in the bank, which should be recorded as a deposit transaction, based on paragraph 5.75, ESA 95 (short-term loans treated as deposits).

Discussion

Eurostat reviewed the statistical recording of the BDB settlement of government liabilities scheme. The Bulgarian authorities confirmed that the statistical recording had been duly implemented in both 2010 and 2011, and that there was no further amount outstanding after mid-2011.

Eurostat explained that government-owned banks deserve particular attention because sometimes they may be acting on behalf of the Government. If the Government sets the strategy but the bank acts through its own resources, then the principal is the bank and no transactions should be rerouted to government accounts. However, in some cases the Government may ask the bank to act as its agent. In this case, the Government would be the principal actor and some transactions will have to be rerouted from the bank to the Government.

In this context, Eurostat also enquired about any operations implemented by the BDB on behalf of the Government. The representatives of the BDB mentioned one such historic operation with a loan facility from a German bank for the amount of 10 million DM, where the BDB was acting on behalf of the MoF. This loan was correctly recorded in government accounts.

Findings and conclusions

The statistical recording of the BDB operations has been duly implemented.

Assigned Amount Units and EU trading scheme permits

Introduction

The recording of emission trading permits has been extensively discussed over the last three years. Bulgaria is currently not auctioning any permits but there are such plans for the future.

Discussion

Eurostat enquired about an Extra Budgetary Account in the 2012 Budget seemingly dedicated to funds from sales of assigned amount units. The Bulgarian authorities explained that an agreement had been made with the Ministry of Environment and the first contract had been signed with Austria for 8 million BGN to be used for green investments.

Eurostat presented its latest position with regard to the statistical recording of Assigned Amount Units and EU trading scheme permits. Eurostat informed the Bulgarian authorities that a new section of the MGDD on emission permits was under preparation.

As regards recording Assigned Amount Units, it was mentioned that these should be treated as sales of non-financial non-produced asset, implying a negative capital expenditure at the time of sale.

The payments for emission permits, issued by governments under cap and trade schemes, should be booked as other taxes on production in the year of surrender of the permits. Permits issued for free do not give rise to entries in government accounts.

Findings and conclusions

The Bulgarian authorities took note of the statistical recording of Assigned Amount Units and EU trading scheme permits. This issue will be followed in the future.

Annex 1

List of participants to the EDP dialogue visit to Bulgaria, 27 – 29 February 2012

Name	Institution	Department
John Verrinder– Head of Unit	European Commission (DG Eurostat)	Excessive Deficit Procedure II
Gabe de Vries	European Commission (DG Eurostat)	Excessive Deficit Procedure II
Viktor Popov	European Commission (DG Eurostat)	Excessive Deficit Procedure II
Istvan Varjas	European Commission (DG Eurostat)	Quality Management and Government Accounting
	European Commission (DG ECFIN)	
Dagmar Hartwig-Lojsch	European Central Bank	
Elka Atanasova– Director	NSI	Macroeconomic Statistics directorate
Antoniya Pacheva – Head of Division	NSI	Financial Statistics division
Milada Dimcheva	NSI	Financial Statistics division
Milen Kolev - Head of Division	NSI	Non-financial National Accounts division
Elena Bakalova	NSI	Non-financial National Accounts division
Vania Koleva	NSI	Non-financial National Accounts division
Svetla Kostova – Director	MoF	Treasury directorate
Pavel Kyuchukov – Head of Division	MoF	Government Finance Statistics division
Nikola Pavlov	MoF	Government Finance Statistics division

Vania Vatcheva	MoF	Government Debt and Financial Markets directorate, Strategies, Analyses and Statistical Reporting division
Valentin Iliev	MoF	Government Debt and Financial Markets directorate, Strategies, Analyses and Statistical Reporting division
Emil Dimitrov – Director	BNB	Statistics Directorate
Kornelia Bezhanova	BNB	Statistics Directorate
Yordan Yordanov	BNB	Statistics Directorate

Annex 2



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government finance statistics (GFS)
Unit D.4: GFS quality management and government accounting

Luxembourg, 14.02.2012

EDP UPSTREAM DIALOGUE VISIT TO BULGARIA

29 November - 2 December 2011

Main conclusions and recommendations – final report

In view of the strategy towards robust quality management for European Statistics related to enhanced economic policy coordination which includes mechanism to ensure the high quality of statistical indicators, especially for statistics related to EDP, Eurostat staff visited Bulgaria to assess the quality of upstream data used as the basis for EDP notifications.

The aim of this visit was to gather information on the accounting, auditing, control and reporting systems in place and to assess the strengths and weaknesses of those systems.

In addition to meetings with the National Statistical Institute (NSI), the National Audit Office (NAO), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB), Eurostat met with representatives of three ministries providing upstream data and some entities coordinated or controlled by those ministries (e.g. hospitals, local administrations).

1. GENERAL STATEMENTS

Eurostat, in coordination with the Bulgarian NSI, reviewed practices regarding the management and control of the flows of public finance data that come from public entities to the NSI and are used to compile the ESA deficit and debt.

A key interest of this approach regarding the quality of upstream public finance data was to assess the exhaustiveness of the coverage of public corporations and the integrity and transparency of the processes and their compliance with the Code of Practice.

Eurostat welcomed the cooperative approach of Bulgarian authorities and their willingness to clarify and resolve the issues discussed.

Eurostat appreciates the competence, commitment and continuous effort of EDP staff in

place but also acknowledges that they have not been given the necessary means in terms of access to all the necessary input upstream data, including that kept at the Ministry of Finance in their database as well as resources. This creates a risk for the quality of these key statistical data. Remedial actions have to be taken to ensure high quality public finance statistical data. Potential risks identified and remedial actions recommended are described below.

Eurostat reserves its position with respect to its discussions with the MoF and National Revenue Agency, pending the explanations requested. Some further follow-up discussions may be necessary in the context of the regular dialogue visit to take place in 2012.

2. ASSIGNMENT OF RESPONSIBILITIES AND ACCESS TO SOURCE DATA

In Bulgaria, the main upstream data provider is the MoF. However, the NSI does not have access to the primary source data kept at the MoF in their databases.

In view of Art. 16 of R.479/2009 Eurostat recommends

(a) that the NSI develops a pro-active approach concerning management and control of source data in order that the NSI is granted access in real time to the primary source data collected and held by the MOF i.e. MicroStrategy database, SEBRA and additional data on arrears.

Action point 1 : Provide a description how this will be done by end February 2012.

(b) Furthermore, the NSI needs to take action to ensure traceability of data (i.e. who supplies what and when to whom) through the whole statistical production chain/process and that procedures are in place to ensure reliability and clear assignment of responsibilities. This in particular applies to the transmission process by the MoF to the NSI and this latter should be combined with a business continuity plan.

Action point 2: Provide a description of the actions planned to be taken including a clear timetable. At first the data flows in the MoF are to be addressed by end March 2012. The work should be finalised before the EDP notification in October 2012.

(c) Eurostat encourages the Bulgarian NSI to build knowledge of the system of data flow in the upstream area i.e. which data is supplied from the respective entities to a higher level and what assurances of quality are in place (e.g. audit). The NSI should take a coordination role in ensuring that data suppliers are aware of their responsibilities when they report data for EDP purposes.

Action point 3: Provide a description of the actions planned to be taken including a clear timetable. At first the data flows in the MoF are to be addressed by end March 2012. The work should be finalised before the EDP notification in October 2012.

3. TRANSPARENCY

Eurostat welcomes the existence of the Memorandum of Cooperation concluded by the NSI, MOF and BNB and supports the planned updating of this document. Eurostat considers the efforts on further updating this document as essential. Eurostat points out, that the ESS CoP has been revised in order to further reinforce the independence of NSIs throughout the ESS. Thus the revised version of the Memorandum should duly take this into account and also consider the new developments resulting from the revised Council Reg. 479/2009 and COM 2011/211. In particular, the NSIs shall have the sole responsibility for deciding on statistical methodology, standards and procedures, and on the content and timing of statistical releases and the revised Memorandum should make a distinction between those issues and other issues where decision-making process such as majority voting may be appropriate. Improving the clarity of roles between the various players is therefore important.

Action point 4: Update the Memorandum of Cooperation by end February 2012 and thereafter review it regularly (e.g. annually). The following issues are of particular importance for the current and annual review of the Memorandum of Cooperation:

- stronger reference to European statistical law and revised Code of Practice in order to reflect the leading role of NSI
- In the Working group
- The NSI has final decision on statistical methodological issues
- The NSI may bring up any matter it considers necessary for GFS purposes
- All institutions cooperating give NSI access to all relevant primary source data it deems necessary in real time
- The transparency of the supply and production from the sources of primary data to the NSI. Presently, it is not transparent and moreover it should be documented (supply and production chain).

Eurostat recommends that the NSI assess the possibilities for concluding Memoranda of Cooperation between it and other major source data providers in particular in view of the integrated statistical IT system development (cf. below). Depending on progress concerning point 8 below, a Memorandum of Understanding could be agreed with the National Audit Office (NAO).

Action point 5: Assessment report is to be provided to Eurostat by end February 2012.

4. IT SYSTEMS

Eurostat is of the opinion that the integrated IT system for GFS should be implemented at the earliest possible stage. IT Systems seem to be fragmented and in some cases not sufficiently documented so NSI should speed up implementation of an integrated and sufficiently automated IT system. The leadership of the project should be with the NSI. The functional analysis already done by NSI should be supplied to Eurostat. To the extent possible, this should take into account existing good practice cases already in use e.g. the IT system of the NSSI (National Social Security Institute).

Action point 6: A detailed Action Plan for the integrated IT system development project is to be provided to Eurostat by end June 2012.

5. REGISTER OF PUBLIC CORPORATIONS

Eurostat recommends that the NSI to create and maintain a register of all government controlled entities and a sub register of all government entities included in its GFS/EDP statistics, be it inside or outside the existing statistics register, taking into account the format used in the recent "Questionnaire of public entities" circulated by Eurostat.

Action point 7: The register is to be put in place by end December 2012.

6. PROCEDURES

In order to build up the sub-register of all government entities, (cf above point 4) statistical decisions about the classification of entities have to be taken. NSI should establish written procedures for the (re)classification of entities, including public corporations.

Action point 8: Procedures to be put in place and information concerning those procedures provided to Eurostat by end February 2012.

7. QUALITY MANAGEMENT

To ensure high quality statistical data it is recommended to establish a more comprehensive quality management system to be applied to GFS/EDP. Such a system should have the following elements:

- process mapping and listing of processes in place
- process documentation and procedure for keeping documentation up to date
- business continuity plan.

Action point 9: The work should be finalised before the EDP notification in April 2013.

8. CONTROLS

Eurostat supports the NSI initiative to develop a closer cooperation with NAO with respect to upstream data. This work should take account of the work of the Contact Group of the European Supreme Audit Institutions concerning cooperation, in consultation with Eurostat.

9. RESOURCES

An effective and efficient statistical administration and control system is based on sufficient resources in terms of number and quality.

The NSI has obtained additional tasks and responsibilities in recent years by national law, by European legislation as Regulation 479/2009 and Communication of the Commission (2011)211.

Eurostat has seen that the NSI has very committed and motivated staff working on EDP who are aware of the importance of their job and responsibilities. However in Eurostat's view the GFS/EDP unit does not possess the necessary means in terms of primary data and resources.

It was understood that for the NSI the maintenance and further development of the level of GFS expertise is an issue. Staff turnover and the lack of sufficient staff might create risks for the quality of the statistics and this has to be addressed.

Eurostat acknowledges that the NSI has similar concerns over the staff situation and also holds the view that substantial additional resources are needed.

Action point 10: Develop a systematic approach to maintain and further develop the specific level of GFS expertise through continuous training. Explanatory note to be provided to Eurostat by end February 2012.

Action point 11: In view of the increasing number of tasks, the lack of sufficient staff might be an issue in the coming years and it is necessary to take measures to retain staff and to attract additional staff to EDP of suitable professional standing and expertise in order to address the existing and challenging new issues. Explanatory note to be provided to Eurostat by end June 2012.

There are three key partners involved in the production of GFS and the NSI needs to enhance further still, its important and leading role. The concerns over apparent substantial disparities amongst these partners (NSI, BNB and MoF) with respect to staff remuneration issues appear to be a contributory factor in the difficulties for the NSI in retaining and attracting staff. This may have direct, negative consequences for the statistical system at both national and European level.

Action point 12: Eurostat would encourage national level action to address any such major imbalances.

As the above points relate to ongoing structural or systemic issues, it is not possible at this stage to put final deadlines. However, Eurostat intends to review progress made during 2012.