



**EUROPEAN COMMISSION**  
EUROSTAT

Directorate D Government Finance Statistics (GFS)  
**Unit D-3: Excessive Deficit Procedure II**

**Luxembourg, 15 October 2012**

## **FINAL FINDINGS**

**Pre-accession EDP dialogue visit to Croatia**

**10 - 11 May 2012**

## Executive Summary

Eurostat carried out a pre-accession EDP dialogue visit to Croatia on 10-11 May 2012. The objective of the visit was to review the compliance of the Croatian EDP data with the EDP statistical framework, as well as to review the situation as regards the handover of institutional responsibilities in EDP compilation and reporting. This visit followed a technical assistance visit on 25-26 April 2012 aimed at providing a more complete assessment of the data on government deficit and debt, preparing the requested pilot EDP tables, as well as clarifying methodological questions and the role of the Croatian authorities in compiling the EDP tables. The pre-accession visit in May resulted in an extensive set of recommendations and measures to be taken by Croatia in the following period.

The main issue under consideration was institutional – reviewing the steps to be made for the Croatian Bureau of Statistics (CBS) to take over the compilation of government finance statistics (GFS) and historical EDP data from the Ministry of Finance (MoF). A number of action points were agreed for this particular purpose. As a result, at end-March 2013 the CBS should be in a position to compile and transmit an EDP notification to Eurostat.

It was agreed that Croatia would develop an Action Plan and revision policy for EDP purposes, upgrade the existing Agreement on Cooperation between the CBS, the Croatian National Bank (CNB) and the MoF regarding their involvement in compiling EDP notifications, begin work on compiling quarterly GFS – starting with the first quarter of 2012 – and begin work on drafting an EDP Inventory.

Among other issues, government guarantees (in particular those granted to shipyards) and the sector classification of some government-owned entities - Croatian Railways, Croatian Motorways, Croatian Bank for Reconstruction and Development (HBOR), Croatian Radio-Television, the Financial Agency FINA, etc. - were extensively discussed.

As regards guarantees, Eurostat found that Croatian government repeatedly meets guarantee calls for some corporations, including shipyards and Croatia Airlines. The Croatian authorities agreed to identify all cases of repeated guarantee calls over three years or more. Where there were repeated calls, the whole debt under guarantee must be recorded as assumed by government.

Based on the 50% test results, it was agreed that Croatian Radio-Television and the Railway Infrastructure Company would be reclassified into General Government. HBOR will remain classified outside General Government. As regards Croatian Motorways, the CBS agreed to investigate the basis of calculation for Consumption of Fixed Capital (including examination of the level of fixed assets).

The CBS will also confirm the sector classifications of the Nuclear Waste Disposal Fund, the Oil Reserves Agency and the tourist offices. Eurostat requested some additional information on FINA which would bring more clarity concerning its sector classification.

In addition, the CBS will analyse the public corporation "Zagrebački holding d.o.o." for the 50% test and analyse any similar Local Government corporations in Croatia.

On other issues, the Croatian authorities committed to make an effort to include accruals-based "net lending/borrowing" data for all extra-budgetary units, report taxes and interest on an accrual basis, and identify and report all payables.

It was further agreed that the CBS would statistically analyse the recently signed Zagreb Airport concession contract.

## **Introduction**

Eurostat carried out an EDP pre-accession dialogue visit to Croatia on 10-11 May 2012.

Eurostat was represented by Mr John Verrinder (Head of Unit D3 "Excessive Deficit Procedure II"), Mr Viktor Popov (Desk Officer for Croatia), Mr Denis Besnard, Mr Gabe de Vries and Mr Colin Stewart. DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

Croatia was represented by the CBS, the MoF and the CNB. Representatives from FINA and the Tax Administration (part of the MoF) also took part in the meeting.

The purpose of the pre-accession visit was to examine – with the participation of other important parties such as the MoF and the CNB – the compliance of the Croatian EDP data with the EDP statistical framework, as well as to review the situation as regards the handover of institutional responsibilities in EDP compilation and reporting, and the reporting of GFS data under the ESA transmission programme.

For this purpose, Eurostat had requested before the visit that a pilot 2012 EDP notification (covering the years 2008-2011) be prepared by the CBS in close cooperation with the MoF.

The pre-accession visit was intended to cover both EDP and National Accounts data transmission issues, to provide a clear picture of the areas where further work would be necessary to meet the requirements and standard applicable to EU Member States and to check compliance of the 2012 pilot EDP notification tables with Eurostat deficit and debt methodology. The visit covered the underlying sources and methods used in Croatia to produce public finance statistics and on the institutional arrangements for the compilation of the EDP notification tables. At the same time, other relevant methodological issues such as government guarantees, sector classification of public entities, valuation of Maastricht debt, accrual recording and PPPs were discussed.

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 prior to the EDP dialogue visit and the good cooperation on EDP-related issues from the Croatian statistical authorities.

## 1. INTRODUCTION

The Director General of the CBS, Mr Ivan Kovac, 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 for the first point on the agenda as regards statistical capacity issues.

Eurostat informed the Croatian authorities about the arrangements for EDP reporting by Member States under Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community. In particular, the clear role of Eurostat in receiving and assessing the EDP notifications was explained, together with the reporting obligations of Member States as regards actual and planned data.

Eurostat also referred to the extended powers of Eurostat and the NSIs under Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure.

In view of the forthcoming accession of Croatia to the European Union, Eurostat stressed the importance of ensuring the highest possible quality of the first post-accession Excessive Deficit Procedure Notification (to be transmitted by 1<sup>st</sup> October 2013), which has to be fully in line with the requirements of Regulation 479/2009, as amended.

In this respect, Eurostat noted that the role of the CBS, including the resources it devotes to GFS, would need to be progressively reinforced.

## 2. REVIEW OF STATISTICAL CAPACITY ISSUES

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

#### *Introduction*

The "Agreement on Cooperation in the field of General Government National Accounts and related statistics" was signed in December 2007 between the CNB, the MoF and the CBS. As indicated in the Agreement, the MoF and the CBS are responsible for the compilation of General Government non-financial accounts, whereas the CNB is responsible for the compilation of financial accounts. The MoF, in cooperation with the CBS and the CNB, is the institution responsible for compiling and submitting fiscal notifications to Eurostat.

#### *Discussion*

As a first step, Eurostat asked the CBS to establish, in cooperation with the MoF, a roadmap describing the measures to be implemented for the handing over the responsibility for compilation of the past data in EDP notification tables, and related GFS, from the MoF to the CBS.

The Director General of the CBS set out three important preconditions for the successful transfer of the EDP responsibilities from the MoF to the CBS: 1) full support from the MoF,

including access to MoF data sources; 2) transfer of know-how from the MoF to the CBS; 3) building up administrative and statistical capacity, including assistance from Eurostat.

The Croatian authorities fully recognized the need for handing over the EDP compilation process from the MoF to the CBS. In particular, the MoF expressed its support for the process of handover of EDP responsibilities to the CBS as well as its willingness to cooperate.

Eurostat acknowledged that the efficient completion of the EDP notification handover process could also require external technical assistance and advice. To this end, Eurostat committed to provide the further assistance and advice that might be required.

As regards building up administrative capacity, Eurostat encouraged the CBS to establish clear milestones. For this purpose the CBS should ensure adequate staff recruitment and retention.

As regards quality policy, the Croatian authorities explained that there is an Internal Audit function which is responsible for quality issues. However, it was not clear that the Internal Audit function would have responsibility for EDP systems audit in future.

It was agreed that the changes foreseen in the institutional set-up as to EDP responsibilities should be duly reflected in an updated Agreement on Cooperation. In particular, the updated Agreement on Cooperation should include the decision-making processes and should clearly nominate the CBS as the institution which takes the final decision on any statistical matters. Moreover, the working groups operating under the Agreement on Cooperation should consult Eurostat on any problematic areas.

In addition, the revised Agreement on Cooperation needs to ensure the independence of the CBS, as well as the consistency of the EDP process with the European Statistics Code of Practice and the Code of Best Practice.

### *Findings and conclusions*

Action point 1: The CBS will prepare an action plan, with milestones, for the handover of compilation of EDP tables (actual data) from the Ministry of Finance to the CBS by September 2012, in cooperation with the relevant institutions<sup>1</sup>.

Action point 2: In this context, the CBS will ensure the necessary resourcing for the new tasks, including staff recruitment and retention. Eurostat undertakes to provide the necessary technical assistance and training to the CBS.

Action point 3: The CBS will develop its quality policy and review the appropriateness of its present organisational structure and tools to deal with quality management, especially with respect to the new EDP responsibilities it will be undertaking and with regard to the principles of the recently updated ESS CoP.

Action point 4: The "Agreement on Cooperation in the field of General Government National Accounts and related statistics" will be updated by the end of 2012, clarifying the new institutional arrangements in these areas, especially regarding the compilation and notification

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<sup>1</sup> The CBS sent an action plan to Eurostat on 15 October 2012.

of EDP statistics, and a copy provided to Eurostat. The roles of each institution and the decision-making processes should be clearly described.

## **2.2. Preparation of an EDP inventory**

### *Introduction*

The CBS does not keep an EDP Inventory describing the sources and methods used for compiling debt and deficit data, and the MoF, which is currently the institution responsible for compiling fiscal data, also does not keep an EDP Inventory but it delivers explanatory notes with methodological clarifications with each fiscal notification.

### *Discussion*

Eurostat explained that EDP Inventories constitute an essential element in the assessment by Eurostat of the quality of the data reported by Member States. All Member States keep EDP Inventories which are regularly updated whenever the methods, procedures or sources adopted by the country to compile its statistical data change. Member States are also required to make public their EDP Inventories.

It was agreed that Croatia should start work on preparing a detailed inventory on the methods, procedures and sources used for the compilation of actual deficit and debt data and the underlying government sector accounts. In this context, Eurostat encouraged the CBS to fill in as many sections as possible from the new EDP Inventory structure.

### *Findings and conclusions*

*Action point 5:* The CBS will provide Eurostat with a draft of the new EDP Inventory by end-2012, based on its best efforts. Following Eurostat comments, the CBS will complete and publish the EDP inventory by December 2013.

## **3. REVIEW OF KEY DATA SOURCES FOR GOVERNMENT FINANCE STATISTICS**

### *Introduction*

EDP notification tables are presently compiled primarily using the source data and the resources of the MoF.

A detailed flowchart indicating the institutions involved in the EDP reporting process, the databases used and the methods of data processing had been sent by the Croatian authorities to Eurostat prior to the visit, together with a description of the main data sources used for the compilation of GFS.

Government units (both Central and Local Government units), as well as some units from other sectors of the Croatian economy, send their financial reports to FINA. FINA processes the financial reports and includes them into its databases. FINA databases for government and for non-profit institutions are kept on behalf of the MoF.

Uniform accounting rules and uniform chart of accounts are established for budgetary and extra-budgetary users on both levels of government. Only some of the extra-budgetary users

keep other types of accountancy (business or non-profit, according to their activities); however, they are also obliged to submit financial reports according to the budgetary accountancy methodology. Budgetary accountancy is based on the "modified accrual principle", i.e. revenues are recorded on a pure cash basis, whereas expenditure is recorded on an accrual basis. The budgetary financial reports set includes the so-called PR-RAS report, in which transactions are presented on the modified accrual principle, and besides that, some units also report on a cash basis.

The data from the databases are delivered from FINA to the MoF, respectively to the CBS. The MoF compiles the EDP report, while the CBS compiles sector accounts. So far, the MoF has used cash data from the budget execution (SAP IT system of the State Treasury) for the compilation of the working balance of the budgetary Central Government in the EDP report. For local governments, the cash-based data from financial reports (FINA database) have been used; the coverage, following agreements made in previous years with the IMF, only includes the 53 largest local units. The data for extra-budgetary users of Central Government have been used from their reports, mostly on a cash basis (only for Croatian Roads the data is on an accrual basis). The coverage of units for budgetary purposes is not identical to the coverage of the General Government sector according to the ESA 95 methodology.

The CBS provides data on non-profit institutions serving households (NPISH), non-financial corporations and the VAT report.

### *Discussion*

Eurostat opened the discussion by reviewing public finance data publications in Croatia, in particular the sections on GFS data in the MoF monthly Statistical Review and in the CNB Bulletin. Eurostat noted some differences between the two publications, in particular in the figures reported for extra-budgetary funds and budgetary Central Government. The MoF explained that they send data on extra-budgetary funds and budgetary Central Government to the CNB and that the two publications should in principle be fully consistent.

The Croatian authorities presented their data sources for both financial and non-financial accounts. Data sources are well explained in the Agreement on Cooperation between the three institutions, on the website of the CNB and partly in the GNI Inventory.

The CNB is responsible for the compilation of Maastricht debt figures (EDP table 1) and for the compilation of financial accounts. However, for EDP purposes (EDP table 3), the MoF used its own data in the past.

For the compilation of financial accounts the CNB uses Monetary and Banking Statistics and International Investment Position Statistics. Other sources for financial accounts are data from the Croatian Financial Services Supervisory Agency (HANFA) on insurance and leasing corporations, as well as on pension funds, annual reports from FINA, data on equity holdings from the Croatian Privatisation Fund (now part of the Agency for State Property Management) and data from the Zagreb stock exchange trading reports.

Data on General Government debt are available at both the CNB and the MoF.

For the EDP pilot notification, prepared for the pre-accession visit, the main data source for the state budget execution was the MoF cash-based SAP payment system. All ministries use



the SAP system on a daily basis. For certain subsets of data, the MoF can cross-check the data from the SAP system with FINA data.

FINA representatives explained their role in collecting and processing MoF data. All ministries send information to FINA and it is up to the ministries to ensure that their own sub-entities provide the information to the ministry level. An authorised person from each ministry has to sign the front page of the reported figures before sending the data to FINA.

The CBS does not have direct access to all data collected in FINA and in the MoF. FINA transfers the data to the MoF, then the MoF passes the data to the CBS, including a CD with the financial statements of all budget entities.

Whereas the State Audit Office performs an annual audit on fiscal data, the MoF does not carry out an audit to check the exhaustiveness of upstream information. No similar obligations to perform audit on sub-entity data seem to exist for ministries. However, the MoF can see the individual submissions from the sub-entities.

Concerning Local Government bodies, the MoF explained that a full coverage is available in FINA. However, it had been agreed with the IMF to report data on only the largest 53 Local Government entities. The MoF pointed out that small entities' reports contain considerably more mistakes.

The MoF uses for EDP purposes a specially designed bridge table between ESA transactions and the MoF national chart of accounts. The CBS has its own bridge table, the differences between the two bridge tables being insignificant.

The MoF explained that the chart of accounts is not frequently revised. However, whenever the chart of accounts is revised, the changes made are duly reflected in an updated MoF bridge table.

### *Findings and conclusions*

The three institutions must continue to work together and join their efforts to strengthen and improve data quality and consistency in the area of GFS. Full access to primary data by the CBS should be ensured and the institutions must be able to share problems and solutions.

Action point 6: Eurostat encourages cooperation between the CBS and the Ministry of Finance to investigate the technical possibilities for the CBS to have direct access to budgetary databases as soon as possible and as part of the handover of EDP responsibilities.

Action point 7: The Ministry of Finance will ensure complete coverage of Local Government in budgetary data (and therefore available to the CBS for statistical purposes) by end-March 2013. The Croatian statistical authorities will inform Eurostat of how the time series has been constructed.

## **4. REVISION POLICY**

### *Introduction*

Member States must explain any major revisions in their actual and planned government deficit and debt figures already reported. Eurostat explained that there is a much larger emphasis on EDP data revisions now than in the past, and also a growing importance of high quality quarterly GFS.

### *Discussion*

The Croatian authorities explained that no formal revision policies exist in any of the three institutions for GFS. It was agreed that a revision policy should be included alongside the Action Plan to be prepared by the CBS. Such a revision policy would include clear guidelines for dealing with complete time series and quarterly data, for keeping track of revisions, and for fitting the maturity of data sources into the calendar for EDP notifications.

In this context, Eurostat pointed out that the forthcoming implementation of ESA 2010 in 2014 would lead to changes in National Accounts and would also have an impact on EDP reporting.

### *Findings and conclusions*

Action point 8: In cooperation with the Ministry of Finance and CNB, the CBS will take the lead in establishing a revision policy for Croatian EDP data, and provide a draft to Eurostat by the end of 2012.

Action point 9: Eurostat encourages the Croatian authorities to implement quarterly GFS compilation and publication, with a pilot compilation of Q1/2012 by the end of 2012, and subsequently to compile quarterly data in 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*

Croatia currently sends EDP notification tables once per year to DG ECFIN. Fiscal notifications are based on bridge tables between the national chart of accounts in the MoF and the ESA 95 concepts. However, some adjustments are still in progress (e.g. for accrual accounting).

Before the pre-accession visit, Eurostat had requested a pilot EDP notification from Croatia to assess the compliance of the Croatian EDP data with the EDP statistical framework.

## *Discussion*

Eurostat thanked the Croatian authorities for sending the pilot EDP notification tables and welcomed the provision of an explanatory note for the October 2011 fiscal notification. Eurostat encouraged the Croatian authorities to continue to include explanatory notes with future transmissions.

Eurostat underlined the importance of meeting the timetable for reporting EDP notification tables and the related questionnaire, and being able to quickly answer to clarification requests thereafter.

Eurostat noted the importance of completing the EDP notification tables fully, and in particular providing reliable estimates for all items relating to the year n-1 in the April notification of year n. At the same time, the EDP notification tables should be internally consistent and fully in line with any ESA95 GFS transmissions.

Eurostat informed the Croatian authorities of the legal obligation on Member States to make public the actual deficit and debt data reported to the Commission.

The pilot notification tables were then examined and compared with the October 2011 EDP Notification.

Eurostat asked several questions on consolidation issues, as no consolidation amounts had been reported in questionnaire table 1.2.1. In particular, Eurostat enquired if there were any timing issues with consolidation where one unit would pay another unit in the end of year n and the other unit would receive cash only in year n+1.

The Croatian authorities explained that the Central Depository Agency keeps information on holdings of government debt at Local Government level. Consolidation of Local Government is made at the MoF. Local Government debt is however very low in Croatia.

In EDP table 1 all revisions made to debt figures were explained by the CNB in detail. Revisions were mostly due to the inclusion of HBOR loans granted to government and to the valuation of T-Bills at nominal value (as opposed to market value in the October 2011 EDP Notification).

## *Findings and conclusions*

Eurostat took note of the explanations given by the CNB for the revised debt figures in EDP table 1.

### *5.1.2. EDP Tables 2A-D*

#### *Introduction*

The starting point in table 2A (2C) is the overall cash-based deficit/surplus of the budgetary Central (Local) Government according to the national chart of accounts, excluding financial transactions. The working balance corresponds to the Net borrowing/net lending (NBL) measure used by the MoF in its regular publications (monthly statistical reviews and annual reports), which is in line with GFSM 2001 methodology.

The cash-based working balance in EDP tables 2 is further adjusted by the cash-balances of Central Government extra-budgetary funds (an accrual-based NBL is used for Croatian Roads only), other adjustments for guarantee calls, debt assumptions and payments for compensation to pensioners, and adjustments for the changes in arrears of government units.

So far, social security funds have been reported as part of the Central Government sub-sector.

### *Discussion*

The EDP tables were examined line by line. The Croatian authorities agreed to include data on all payables, not only on arrears, in EDP tables 2. In this context, the definition of arrears was clarified.

Eurostat explained that Other Accounts Payable (OAP) and Other Accounts Receivable (OAR) are also used for adjustments to the cash data for taxes, EU flows and military expenditure.

The Croatian authorities confirmed that "Net lending/borrowing of other government bodies" is mostly on a cash basis (except for Croatian Roads). This line includes only extra-budgetary funds, while hospitals and universities are reported in the working balance.

Public hospitals in Croatia are considered as budgetary users and are financed by the State budget for a large part through the Croatian Institute for Health Insurance, which is part of Central Government. Hospitals send invoices to the government based on the quantity of services provided. Public hospitals are classified inside the General Government sector (Central Government and Local Government sub-sectors), based on control.

The issue of payments between hospitals and Health Funds will be examined by CBS as there could be a risk of discrepancies when social security funds are included in S.1314 (see below). The financing of hospitals will also need to be better specified.

Eurostat enquired as to the reasons for the relatively large acquisition of fixed assets in Local Government, which was observed in the budget execution figures published on the MoF website.

Further clarification is needed concerning the adjustments made for guarantee calls in table 2A. It could be the case that among the adjustments made for guarantee calls there had been three consecutive calls and therefore recording imputed debt assumptions (in line with MGDD rules) might not have been made.

Eurostat also enquired about the HRK 2 billion of unpaid government bills that had been mentioned in the Croatian media. In particular, Eurostat was interested to know to what years these amounts related. The Croatian authorities explained that part of these unpaid bills related to FINA. Another part related to the shipyards and to the Catholic Church. The Croatian authorities promised to further investigate the issue.

Finally, Eurostat pointed out some advantages of creating a separate social security funds sub-sector, in particular greater transparency and including public hospitals within the social security funds sub-sector. Provided that the three existing social security funds have financial statements, are mainly financed with social contributions and have autonomy of decision, the

social security funds could be recorded in a separate sub-sector. Eurostat gave as an example that 25 Member States have a separate social security funds sub-sector. The two exceptions in the EU are for the UK and Malta.

The CNB asked a question on the sector classification of doctors' offices, referring to their identical mode of financing as for hospitals. Eurostat replied that doctors' offices are generally recorded as private entities in other countries and – given the situation described in Croatia - they should remain classified outside the general government sector.

### *Findings and conclusions*

Action point 10: The Croatian authorities will provide an explanation of the relatively large acquisition of fixed assets observed in Local Government, and inform Eurostat by end-June 2012<sup>2</sup>.

Action point 11: The Croatian authorities will include data on payables of General Government in EDP Tables 2 in the autumn 2012 EDP notification. At the same time, there will be a reconciliation between the data collected by the CNB and the data of the Ministry of Finance, notably for the 2009 data, and a confirmation if the publicly reported level of a HRK 2 billion stock for payables is correct<sup>3</sup>.

Action point 12: The Croatian authorities will seek to include accruals-based "net lending/borrowing" data for all extra-budgetary units in EDP Tables 2, including for units such as hospitals and universities to ensure full sub-sector coverage - and include the breakdown of this information in EDP questionnaire table 3 by end-March 2013.

Action point 13: The CBS will investigate the possibility of creating a separate sub-sector for social security funds (including public hospitals) and report its findings to Eurostat by 1 November 2012.

Action point 14: The CBS will also transmit an EDP notification to Eurostat at end-March 2013.

### *5.1.3. EDP Tables 3A-E*

#### *Introduction*

EDP tables 3 have been so far based on MoF data. However, for the purpose of the pilot notification exercise in May 2012, EDP tables 3 were partly compiled by the CNB, in particular for Currency and deposits (F.2) and Other accounts receivable / payable (F.7). This led to sizeable revisions for F.2 and F.7.

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<sup>2</sup> Action point completed.

<sup>3</sup> On 10 October 2012 the Croatian statistical authorities transmitted to Eurostat an explanatory note prepared by the Ministry of Finance on the HRK 2 billion stock of payables (the exact amount reported in the note is 2175.5 million HRK).

## *Discussion*

The CNB explained the reasons for the significant revisions made to F.2 and F.7 in EDP tables 3 compared to the October 2011 EDP Notification. These revisions were explained by differences in sector classifications and data sources used.

Eurostat stressed that the General Government sector classification has to be aligned with the General Government register. Eurostat also invited the Croatian authorities to step up efforts to achieve consistency between administrative data sources and Monetary and Banking Statistics.

As regards F.7, Eurostat noted a significant accumulation of Other financial assets in table 3B. Moreover, Eurostat expressed its concerns about a large adjustment reported for Net incurrence of other liabilities appearing for the year 2009 in EDP table 3B. The Croatian authorities explained that this amount could include Local Government flows as well. Eurostat would expect this large adjustment to unwind in the following year(s). Further efforts should be made to attribute F.7 flows to the corresponding sub-sectors.

As regards F.2, the CNB reported some figures for Currency and deposits in EDP table 3E, as it considers social security funds as a separate sub-sector. Eurostat invited the Croatian authorities to move F.2 from table 3E to table 3B, as for the moment there is no separate social security funds sub-sector; however, table 3E should be completed when such a sub-sector is established.

Eurostat noticed that in EDP table 3B differences for issuance above/below nominal value were recorded for treasury bills only. However, treasury bills represent only a part of debt instruments. Eurostat encouraged the Croatian authorities to include the discount of bonds issued below par in the line "Differences for issuance above/below nominal value".

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. At the same time, 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 Kuna.

## *Findings and conclusions*

Eurostat took note of the explanations provided by the Croatian authorities.

### *5.1.4. EDP Table 4*

#### *Introduction*

Only data on GNI are currently reported in EDP table 4.

#### *Discussion*

The Croatian authorities asked what should be reported under "Trade credits and advances" in EDP table 4. Eurostat explained that payables on purchases of goods and services should appear under this item.

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 payable (involving refinancing by banks, factoring without recourse, interest payments, etc.) to loans. Therefore, careful consideration should be given to trade credits in the future.

The Croatian authorities were not aware of any cases where the Government would borrow and then lend the money to public corporations.

While existing, the differences between market and nominal value of debt were considered to be insignificant.

#### *Findings and conclusions*

Eurostat encouraged the Croatian authorities to fill in more data in EDP table 4, notably for trade credits.

## **5.2. Statistical discrepancies in EDP tables**

### *Introduction*

A high level of statistical discrepancy is observed in EDP table 3D, mainly due to the incomplete coverage of Local Government units in EDP reporting.

### *Discussion*

The Croatian authorities committed to investigate the issue of discrepancies and it was concluded that the high level of discrepancy could also relate to the data on financial assets reported in EDP table 3.

### *Findings and conclusions*

Action point 15: After introduction of the new CNB reporting system aligned with General Government definitions, the Croatian authorities will reconcile data from CNB and Ministry of Finance sources on financial assets to be reported in EDP table 3, to ensure that these sources are consistent and that the statistical discrepancies are minimised.

## **5.3. Other EDP related tables**

### *5.3.1. Questionnaire relating to EDP tables*

#### *Introduction*

The whole set of tables had been sent before the visit but only a limited part of the mandatory tables were completed.

#### *Discussion*

The questionnaire tables were briefly discussed, with a particular focus on tables 3 (adjustments for sector delimitation), 4 (other accounts receivable and payable), 9 (government guarantees) and 10 (capital injections). It was concluded that more details should

be provided in tables 3 (adjustments for sector delimitation), 4 (other accounts receivable/payable), 7 (military expenditure), 9 (government guarantees) and 10 (capital injections). In addition, any revisions to debt and deficit should be duly explained in questionnaire table 1.

### *Findings and conclusions*

Eurostat invited the Croatian authorities to complete more tables from the Questionnaire in the future.

#### *5.3.2. Tables on the financial turmoil*

##### *Introduction*

Three financing models have been put in place in cooperation with the CNB:

Model A: The government, in cooperation with HBOR, co-finances bank credits in a proportion of 40% by HBOR and 60% by commercial banks.

Model B: Government forms a guarantee fund to take over part of the risk coverage for new bank credits.

Model C: Direct aid to firms in difficulty, which could survive after restructuring.

##### *Discussion*

The Croatian authorities confirmed that the three financing models put in place in cooperation with the CNB did not have any direct implications for government accounts.

### *Findings and conclusions*

Eurostat took note of the explanations of the Croatian authorities.

#### *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.

##### *Discussion*

The Croatian authorities confirmed that Croatia was not involved in intergovernmental lending to Greece.

### *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*

Some of the debt related issues had already been solved during the technical visit in April, for example the valuation of Maastricht debt at nominal value. Other debt-related issues were covered under point 5.1.3 on EDP tables 3.

#### *Discussion*

Debt consolidation and debt valuation issues were discussed, notably recalling that Maastricht debt should be on a consolidated basis and valued at nominal value. Eurostat underlined that interest figures should also be presented on a consolidated basis.

The Croatian authorities explained that the difference between the nominal value and the issue value of Treasury bills is treated as accrued interest and is distributed over the life of the instruments, as provided for in the Manual on Government Deficit and Debt.

It was clarified that the CNB compiles all government debt data and sends them to the MoF which accepts them as official. In this context, Eurostat encouraged the Croatian authorities to perform a reconciliation exercise between the CNB data and FINA (MoF) data on debt.

An outstanding problem is that the stock of debt includes accrued interest, which is not in compliance with Maastricht debt definitions. The Croatian authorities committed to solve this issue for the next EDP notification.

#### *Findings and conclusions*

Action point 16: The Croatian authorities will undertake a reconciliation exercise between the government debt data compiled by the CNB and the government debt data compiled by the Ministry of Finance by the end-March 2013 EDP notification.

Action point 17: The CNB will exclude any accrued interest from Maastricht debt data by the autumn 2012 EDP notification.

Action point 18: The Croatian authorities will investigate the holdings of government debt instruments by government units, and possible intra-government loans, and ensure that there is an appropriate consolidation in the autumn 2012 EDP notification.

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

#### *6.2.1. Process of establishment of the registers of General Government units and public units*

## *Introduction*

In Croatia, the government coverage for budgetary purposes comprises the budgetary Central Government (including its budgetary users), Central Government extra-budgetary users (funds), and Local Government budgets with their budgetary users and Local Government extra-budgetary users (county road authorities). However, so far, for statistical reporting purposes, the coverage comprising the budgetary Central Government, Central Government extra-budgetary funds and the largest 53 Local Government units (budgets) has been used.

From 2007 Central Government budgetary funds include social security funds: the Croatian Institute for Health Insurance, the Croatian Pension Insurance Administration and the Croatian Employment Service.

Central Government extra-budgetary funds include the Croatian Privatisation Fund (CPF) (merged into the Agency for State Property Management), Croatian Waters, the Fund for Environmental Protection and Energy Efficiency, the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), and Croatian Roads (CR).

A statistical register of all economic units (both public and private companies) exists at the CBS. There is no separate register of public corporations, but these can be easily extracted from the statistical register.

The Croatian Statistical authorities had sent to Eurostat before the visit the full list of General Government sector units and public corporations, together with a description of the procedures for updating the General Government entities register and the list of public corporations.

A list of institutional units by ESA 95 sector is available on the CBS website ([www.dzs.hr](http://www.dzs.hr)) in Croatian language. Central and Local Government units, as well as social security funds, can be easily identified with their corresponding code. A note on the methodology for the classification of units into sectors is included in the extended version of the GNI inventory.

A register of General Government entities for budgetary purposes (Budget Users Register) is kept at FINA on behalf of the MoF and is available at the MoF website. The CBS keeps a different coverage of General Government entities, i.e. those which have been classified as such in the sector classification database. It should be noted that the CBS and the CNB use the same coverage of General Government entities.

The MoF is responsible for updating the General Government entities register. The MoF decides, according to the rules established by law, which entity should be considered as a budgetary entity or as an extra-budgetary user, and updates the Budget Users Register. The CBS is responsible for sector classification of institutional units based on the ESA 95 methodology, while the MoF and the CNB participate in the process of sector classification through a working group with the CBS.

## *Discussion*

Eurostat enquired on the procedures in place to make sure the register of economic entities is up-to-date and exhaustive. The Croatian authorities explained that as soon as a new entity is created it has to be put into the national administrative register and a reference number is allocated to it.

It was confirmed that dormant companies exist and there is a procedure in place for dealing with these. Only a court order can take a company off the administrative register but they can be taken off the statistical register following a review if the company has no property and has not been active for a certain period of time.

Eurostat emphasized on the importance of maintaining a common register of units classified to the General Government sector. This register should be regularly used for performing the 50% test on bodies with significant sales and debt. New or restructured bodies should also be carefully examined.

Eurostat informed the Croatian authorities on the new Questionnaire on government-controlled entities not classified in general government which will be compulsory for EU Member States as of December 2012. Under this new questionnaire, Member States will have to show 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.

#### *Findings and conclusions*

Eurostat encouraged the CBS to take over full responsibility for sector classification.

It was agreed that the three institutions should work towards using one common register of General Government and government-controlled entities for EDP purposes.

#### *6.2.2. Local Government public corporations*

##### *Introduction*

The analysis of the public transport sector as regards its market nature is currently a crucial issue in the EU. As a result of dialogue visits carried out in other Member States, some units have been reclassified into the government sector.

##### *Discussion*

The Croatian authorities explained that the biggest public transport corporation in Zagreb is "Zagrebački holding d.o.o.", which is partly financed by issuing bonds guaranteed by the City of Zagreb.

Eurostat requested the 50% test to be performed on the "Zagrebački holding d.o.o." subsidiaries. In addition, the Croatian authorities were invited to analyse any similar Local Government corporations in Croatia.

Eurostat encouraged the CBS to undertake a regular analysis of sector classification of public corporations owned by the Local Government. In this context, Eurostat stressed the importance of applying the same classification rules to Local Government as for Central Government.

## *Findings and conclusions*

*Action point 19:* The CBS will analyse the "Zagrebački holding d.o.o." subsidiaries for the 50% test, reporting to Eurostat by September 2012, and analyse any similar Local Government corporations in Croatia.

### *6.2.3. Review of specific units - Croatian Railways, Croatian Radio-Television, Croatian Motorways and other public bodies*

#### *Introduction*

Before the visit the Croatian authorities had performed the 50% test for market/non-market nature on the Croatian Railways subsidiaries, Croatian Radio-Television, Croatian Motorways and the major ports in Croatia.

The Croatian Railways holding is made up of 5 sub-entities, including the holding itself. The holding was set up in 2007 and so far it has been classified outside the General Government sector, based on the 50% test. It receives large subsidies and guarantees from the government.

Croatian Radio-Television has been so far classified as a market producer outside the General Government sector, based on the assumption that television fees are part of sales. However, television fees are now recorded as taxes by the CBS, which would imply reclassifying this unit inside the General Government sector, based on the new results from the 50% test.

Croatian Motorways is a 100% government-owned limited liability company, responsible for the operation, construction and maintenance of those Croatian motorways which are not under concession. Initially it was classified inside the General Government as an extra-budgetary fund. In 2008, based on the results from the 50% test, Croatian Motorways was reclassified to the non-financial corporations sector as it turned to be a market producer.

In addition to the discussions held on the above-mentioned bodies, Eurostat asked some questions on HBOR. HBOR is a 100% government-owned bank whose main goal is to promote development and support exports in Croatia. The bank operates directly or indirectly through other banks and legal entities and provides loans at rates below the market rates. The government guarantees all of the bank's liabilities. Moreover, HBOR cannot go bankrupt or be liquidated, and is not liable to pay any taxes.

Finally, the sector classification of other bodies was discussed.

#### *Discussion*

Eurostat, together with the Croatian authorities, reviewed the sector classification of some government-owned entities. Based on the results from the 50% test for Croatian Railways carried out at the level of the individual entities composing the holding, it was agreed to reclassify the Railway Infrastructure Company inside the General Government sector. Based on the new treatment of television fees as taxes paid by households and by enterprises, Croatian Radio-Television was also to be reclassified inside the General Government sector.

It was also agreed that the CBS would investigate the calculation of Consumption of Fixed Capital used for Croatian Motorways assets. The investigation would also include an examination of the level of the fixed assets used by Croatian Motorways.

The current classification of HBOR as financial intermediary was also discussed. Eurostat enquired about any examples of operations undertaken by HBOR on behalf of the government.

Eurostat expressed some doubts about the sector classification of FINA as a financial auxiliary. FINA seems to have a range of activities, including providing rating and banking services through a branch network, but there was uncertainty over whether or not its predominant business is with government.

The Croatian authorities explained that FINA used to be a non-profit institution in the past. However, in the last ten years FINA had started making profits and it currently acts as any other business entity. Moreover, FINA is paid for its services by the MoF on a contractual basis.

Additional information was requested on FINA which would bring more clarity concerning its sector classification. In particular, Eurostat invited the Croatian authorities to investigate the share of the other activities performed by FINA, on top of government-related activities.

Finally, Eurostat enquired on the sector classifications of the Nuclear Waste Disposal Fund, the Oil Reserves Agency, tourist offices, and some other units.

The Croatian authorities replied that the Nuclear Waste Disposal Fund is not a budget user and that information on its sector classification should be available on the CBS website. Eurostat pointed out that funds of this type tend to be part of the General Government sector and can accumulate significant reserves.

Eurostat asked whether tourist offices are market producers. The Croatian authorities explained that tourist offices apply non-profit book-keeping, but they agreed to further investigate their sector classification.

Eurostat enquired if the State Agency for Deposit Insurance and Bank Rehabilitation, an extra-budgetary fund of Central Government, still keeps impaired assets and therefore acts as a financial defeasance structure.

### *Findings and conclusions*

Action point 20: The CBS will investigate the revenue sources for FINA (by business line) to determine the proportion of government business by end-June 2012. To the same deadline, Eurostat will investigate the classification of the equivalent Slovenian organisation, and inform the CBS<sup>4</sup>.

Action point 21: The CBS will reclassify the Railway Infrastructure Company and Croatian Radio-Television to General Government as soon as possible and make any necessary revisions to past data.

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<sup>4</sup> Action point completed. FINA remains classified outside the general government sector, as its main business is with banks.

*Action point 22:* The CBS will investigate the basis of calculation for the Consumption of Fixed Capital of Croatian Motorways, including examining the level of fixed assets, and will report to Eurostat on its findings by end-June 2012<sup>5</sup>.

*Action point 23:* The CBS, in cooperation with the working group, will confirm the sector classifications of the Nuclear Waste Disposal Fund, the Oil Reserves Agency, the tourist offices, and the remaining units which were left over from the last classification exercise. The CBS will report back to Eurostat by September 2012 on the results of this work.

### **6.3. Implementation of accrual principle**

#### *6.3.1. Tax revenue and social contributions*

##### *Introduction*

The transition to the ESA 95 accruals principle remains incomplete in Croatia, notably for taxes and interest, both recorded on cash basis in the EDP tables<sup>6</sup>. Many Member States use for taxes the time-adjusted cash method, when data are available on a monthly basis and there is sufficient information how the different types of taxes are levied, and a similar solution could also be applied in Croatia.

Croatia is in the process of reforming its taxation systems to come into line with EU legislation, notably on the VAT side. There are also reforms to the health insurance system. Therefore, there might be some transition issues, for example changes in administrative delays or in arrangements for reimbursement of taxes paid.

Before the visit, the CBS had provided Eurostat with a completed questionnaire on recording of taxes and social contributions, together with the Croatian national tax list.

##### *Discussion*

The Assistant-Director of the Tax Administration presented the tax collection process. It was explained that Central Government shares the obligation for tax collection with Local Government. After a certain period of time, uncollected taxes and social contributions are written-off. As regards VAT, payments are normally made within 1 month but there can be greater delays in some cases, if for example tax payers request for an extension of the payment deadline. Social contributions, on the other hand, are paid by employers together with salary payments.

There is no time delay between cash payments to government and tax deductions. As regards tax refunds, tax payers have to be repaid within 30 days. Corporate income tax refunds have to be repaid within 15 days.

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<sup>5</sup> Action point completed. Croatian Motorways remains classified outside the general government sector, based on the new results from the 50% test.

<sup>6</sup> In National Accounts VAT are recorded on an assessment basis; however, VAT were reported on a cash basis in EDP tables.

A special code is assigned to each type of tax paid by companies and budget entities, both at Central and Local Government level. FINA collects from the banks data on all tax revenues, including social and health contributions, on a daily basis. In general, all state revenues, including tax revenues, transit through the Single Treasury Account which is held at the CNB. However, Local Government tax revenues are booked into a separate account. The FINA database matches with the Single Treasury Account as FINA is responsible for managing the payment settlement system.

Eurostat encouraged the Croatian authorities to record taxes using the time-adjusted cash method. One difficulty to implement the time-adjusted cash method could be the introduction of new schemes that allow companies to pay taxes later. Other difficulties could arise from the tax reforms implemented in Croatia to comply with EU legislation. Nevertheless, provided that information on the time delay for taxes is available, which seems to be the case in Croatia, Eurostat would favour the use of the time-adjusted cash method.

### *Findings and conclusions*

Tax data on a cash basis were reported to be available on a monthly basis and there is sufficient information how the different types of taxes are levied. Therefore, Eurostat recommended the time-adjusted cash method for recording taxes on an accrual basis.

For social contributions, cash recording would be appropriate, as cash data and accrual data are the same, as explained by the Croatian authorities.

*Action point 24:* Taxes will be reported on a time-adjusted basis in the autumn 2012 EDP Notification tables, including other accounts receivable data in Tables 2 and 3, together with data in EDP questionnaire tables 4 and 5<sup>7</sup>. For social contributions, based on a description of the operation of the system, cash data are considered to be equivalent to accruals.

*Action point 25:* The CBS will investigate the possible impact of longer tax payment delays for VAT on a simple time-adjusted cash model, and if adjustments would need to be made, by end-September 2012.

## 6.3.2. Interest

### *Introduction*

Interest is recorded on a cash basis, both in Central and Local government. However, the CNB has developed a methodology for calculating accrued interest. The CNB compiles accrued interest on an individual instruments basis, except for some loans; data on F.4 are from the Monetary and Banking Statistics and are already consolidated.

### *Discussion*

The recording of bonds and treasury bills issued at discount was briefly discussed again (see point 5.1.3). The MoF explained that discounts and premiums are already recorded in the

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<sup>7</sup> The CBS informed Eurostat that reporting VAT on a time-adjusted cash basis would require more time. Eurostat agreed to postpone the deadline for reporting VAT on a time-adjusted cash basis to the April 2013 EDP Notification.

working balance. Eurostat pointed out that in this case only the pure timing adjustment is needed in EDP tables to arrive to an accrual basis.

Eurostat recalled that the stock of debt should exclude accrued interest. Accrued interest accumulates in the financial accounts to arrive to the nominal value of the debt instrument.

Finally, Eurostat requested that D.41 and EDP D.41 lines should be identical if no swaps and forward rate operations exist and should be on an accrued and consolidated basis, in line with ESA95 Table 2.

### *Findings and conclusions*

*Action point 26:* The Croatian authorities will report interest on an accrual basis in the autumn 2012 EDP notification, providing an explanatory note to Eurostat of the approach used.

## **6.4. Recording of specific government transactions**

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

#### *Introduction*

Croatia is currently in the process of putting in place a monitoring system for EU flows. In this context, future statistical needs should be taken into account, notably tracking the timing of expenditure and ensuring that EU flows relating to third parties are excluded from the government accounts.

#### *Discussion*

Eurostat explained that EU funds should not be recorded in government non-financial accounts, except for the national co-financing part.

The Croatian authorities described the arrangements in place to handle EU-related flows. For each project the national co-financing could be clearly identified. In addition, any advance payments made could be easily identified in the budgetary system. The Croatian authorities explained that the new EU monitoring system contains enough information for statistical needs.

### *Findings and conclusions*

Eurostat took note of the explanations given by the Croatian authorities.

### *6.4.2. Recording of military equipment procurement*

#### *Introduction*

The acquisitions of military equipment in Croatia are recorded in the national chart of accounts as intermediate consumption, which is in compliance with ESA 95. However, military expenditure is not recorded on a delivery basis in EDP tables. Usually military equipment expenditure involves a long time lag between cash payments and deliveries as well



as potentially large amounts. If this is the case in Croatia as well, cash recording would not be an appropriate basis.

#### *Discussion*

Eurostat explained that military expenditure should be recorded on delivery basis in EDP tables.

Eurostat asked the CBS if they had access to data from the Ministry of Defence which would allow them to record military expenditure on delivery basis.

#### *Findings and conclusions*

Action point 27: The CBS will contact the Ministry of Defence to determine if data on military equipment deliveries are available, thereby allowing military procurement to be recorded on a delivery basis, and report back to Eurostat by September 2012.

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

#### *Introduction*

There is a legal framework for PPPs in Croatia, with the MoF being the authority responsible for approving PPP contracts undertaken by both Central and Local Government. Both a register for PPPs and a register for concessions exist.

#### *Discussion*

Eurostat briefly explained the difference between PPPs and concessions for EDP purposes. It was explained that it is crucial that the CBS has access to all PPP contracts which are kept at the Agency for PPP.

#### *Findings and conclusions*

Action point 28: The Croatian authorities will ensure that the CBS has access to the register of PPP projects and to contracts of PPPs for statistical purposes. The CBS will analyse the Zagreb Airport concession contract and inform Eurostat of the results by end-March 2013.

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

#### *Introduction*

Before the visit the Croatian authorities had sent to Eurostat a list of dividends paid to government by public corporations in 2011, including the operating profit of these public corporations.

The Croatian authorities had also provided a list of capital injections made by government in 21 public corporations, covering the period 2004-2011. According to the data provided in this

list, large subsidies had been granted to the Croatian Railways holding, Jadrolinija and Croatia Airlines.

A separate table showing subsidies granted to shipyards from 2004 to 2011 had also been provided, with the amounts being quite significant.

In the October 2011 EDP Notification Central Bank payments made to government were recorded as withdrawals from quasi-corporations in the Questionnaire table 10.1. The same approach is used in the MoF monthly Statistical Review.

### *Discussion*

Eurostat explained the treatment of capital injections in public corporations. Eurostat recommended the adoption of a prudent approach - whenever there is doubt on the long-term profitability of the project or there is no acceptable business plan, capital injections should be recorded as capital transfers.

The Croatian authorities explained that capital injections had so far always been treated as capital expenditure. As regards the coverage of the public corporations benefiting from capital injections, the MoF explained that it also prepares annual reports on the business operations carried out by 63 companies considered to be of special state interest.

The definition of dividends was clarified, as the Croatian authorities had so far considered as dividends only the payments made by quoted companies. Eurostat explained that payments made from the CNB's operating profit are to be treated as dividends, provided they do not exceed the operating profit. In addition, Eurostat clarified that central banks are not considered as quasi-corporations.

However, 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 over short time periods) are not considered as dividends. These should be treated as withdrawals of equity (F.5).

Finally, it was made clear that privatization proceeds are not treated as revenue in the national chart of accounts, which is in compliance with ESA 95 rules. They are included in "Disposal of financial assets" in the fiscal notification. In 2012 the Post Bank and Croatian Insurance, and possibly one or two shipyards, could be privatized.

### *Findings and conclusions*

Action point 29: Eurostat will check the recording of Central Bank transfers to government in EU Member States, and report back to the CBS by end-May 2012<sup>8</sup>.

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<sup>8</sup> Eurostat provided feedback to the CBS on the recording of Central Bank transfers to government in other Member States on 30 May 2012.

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

##### *Introduction*

Before the visit Eurostat had requested a list of outstanding government guarantees, guarantee calls and repayments by individual companies in 2010 and 2011. The issue of guarantee calls is particularly important in the shipbuilding industry. Shipyards, which are currently undergoing major restructuring, benefit from large government guarantees. The total amount of outstanding guarantees in the shipbuilding industry is estimated at around 3.5% of GDP in 2012. About 80% of these guarantees represent financial guarantees.

The Croatian authorities had provided a list of all government guarantee calls that had occurred in 2010. A separate table on guarantee calls in the shipbuilding industry from 2009 to 2011 had been provided.

A short note on government guarantees relating to shipyards had also been provided by the Croatian authorities, including the amounts involved, the number of shipyards and future plans for their restructuring.

Guarantees cash calls are treated in Croatia as net acquisition of loans according to the national chart of accounts but they are reclassified as expenditure in EDP table 2 according to ESA 95 rules.

##### *Discussion*

Eurostat briefly explained the statistical treatment of guarantee calls. Repeated calls (three successive years) would imply recording of the total outstanding debt of the entities involved as government debt in the third year. 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 guaranteed debt should be deemed to be assumed by the government.

The treatment of individual calls of guarantees in the Croatian EDP notification tables is considered correct: guarantee calls are treated as capital expenditure of General Government with an impact on the government deficit. However, it was established during the meeting that some repeated calls (and the corresponding debt assumptions) that had occurred in previous years need to be analysed, in particular for the shipyards and Croatian Airways. This analysis could lead to corrections in the time series.

##### *Findings and conclusions*

*Action point 30:* The Croatian authorities will identify all cases of repeated guarantee calls over three years or more, and report to Eurostat by end-June 2012 on the amounts involved and necessary revisions to government deficit and debt data<sup>9</sup>.

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<sup>9</sup> The Croatian authorities raised some additional questions on the recording of repeated government calls which were further clarified by Eurostat.

#### 6.4.6. *Securitisation operations, leasing and sale and lease-back operations*

##### *Introduction*

No securitisation and sale and lease-back operations were reported by the Croatian authorities.

##### *Discussion*

There was only one leasing operation involving the purchase of police cars, which had been treated as an operational lease according to the Croatian accounting standards (which are based on international accounting standards).

##### *Findings and conclusions*

Eurostat took note of the explanations provided.

### **6.5. Other issues**

#### 6.5.1. *Transfer of pensions obligations and pension reform*

##### *Introduction*

The social security funds are currently recorded as part of the Central Government sector. Budgetary Central Government revenues and expenditures include pension insurance contributions as well as payments of pension benefits. The difference between social contributions and social benefits is offset by budget transfers. Until 1 May 2004 domestic pension payments were paid directly through the State Treasury, while payments of foreign pensions were performed through the Croatian Pension Insurance Administration. Since 1 May 2004 all pension payments have been performed directly through the State Treasury.

Health insurance contributions, employment contributions as well as expenses for settlement of particular obligations of the Croatian Employment Service and the Croatian Institute for Health Insurance, are also included in the budgetary Central Government revenues and expenditures.

Transactions of social security funds can be identified in the financial statements available in FINA databases.

##### *Discussion*

The Croatian authorities gave an overview of the Croatian pension system, which consists of three pillars. The first pillar is a PAYG system. The second pillar is a funded, mandatory, privately managed pension scheme, which is classified in the financial corporation sector (S.125). The third pillar is a privately managed voluntary pension scheme.

The social security funds are presently part of the Central Government sector. However, as already discussed under point 5.1.2, social security funds might be moved into a separate sub-sector.

Eurostat enquired about any transfers of pension obligations from public or private entities to the government. No such transfers from the funded schemes to the State were reported by the Croatian authorities.

#### *Findings and conclusions*

Eurostat took note of the explanations provided.

#### *6.5.2. ESA95 Transmission programme*

##### *Introduction*

Tables 2, 9 and 11 have been compiled for the period 2002-2009 and will be sent to Eurostat according to derogations.

At present Croatia is not sending ESA tables 25, 27 and 28 to Eurostat.

Table 25 is still not produced although there is a pilot exercise on-going. This table will be produced in December 2012 for the first quarter of 2012.

The CNB is responsible for table 27, whereas the MoF is responsible for table 28, which will be produced after accession.

The CNB compiles tables 6 and 7, which are published at the national level.

##### *Discussion*

Eurostat reminded the Croatian authorities about their commitments to send ESA tables, once derogations had been formally established.

Croatia stated its intention to start the transmission of quarterly public finance statistics in December 2012, starting with the transmission of data for the first quarter of 2012.

#### *Findings and conclusions*

Eurostat took note of the explanations provided.

#### *6.5.3. Any other issues*

No other issues were discussed in the meeting.

**LIST OF PARTICIPANTS**  
**PRE-ACCESSION EDP DIALOGUE VISIT TO CROATIA**  
**Zagreb, 10-11 May 2012**

	<i>NAME</i>	<i>INSTITUTION</i>	<i>TITLE</i>
1.	Mr. Ivan Kovač	Croatian Bureau of Statistics (CBS)	Director General
2.	Ms. Jadranka Vuglar	Croatian Bureau of Statistics (CBS)	Director of Economic Statistics Directorate
3.	Ms. Galjinka Dominić	Croatian Bureau of Statistics (CBS)	Head of Sector Accounts Department
4.	Ms. Marija Kamenski	Croatian Bureau of Statistics (CBS)	Head of International Relations Department
5.	Mr. Maroje Lang	Ministry of Finance	Assistant Minister
6.	Mr. Stipe Župan	Ministry of Finance	Expert advisor
7.	Ms. Andreja Milić	Ministry of Finance	Head of State Accounting
8.	Mr. Stanko Kršlović	Ministry of Finance	Director of Bureau for Macroeconomic Analysis and Planning
9.	Ms. Željka Papež	Ministry of Finance	Head of Fiscal Statistics Division
10.	Mr. Hrvoje Radovanić	Ministry of Finance	Head of Sector for Public Debt Management
11.	Ms. Sanja Flegar	Ministry of Finance	Head of Department for International Financial Institutions
12.	Mr. Krešimir Dragić	Ministry of Finance	Head of Sector of Economic Affairs
13.	Mr. Niko Raič	Ministry of Finance	Head of Budget Preparation Department
14.	Mr. Stjepan Jusup	Ministry of Finance	Senior officer
15.	Ms. Ivana Jakir-Bajo	Ministry of Finance	Head of Budget Execution Department
16.	Ms. Dubravka Flinta	Ministry of Finance	Head of National Fund
17.	Mr. Ljubinko Jankov	Croatian National Bank (CNB)	Executive Director of Research and Statistics Area
18.	Mr. Igor Jemrić	Croatian National Bank (CNB)	Director of Statistics Department
19.	Mr. Davor Galinec	Croatian National Bank (CNB)	Chief advisor
20.	Mr. Tomislav Džidić	Croatian National Bank (CNB)	Senior analyst
21.	Mr. Nikola Ljubić Karanović	Croatian National Bank (CNB)	Senior analyst
22.	Ms. Branka Viduka	Financial Agency (FINA)	Advisor
23.	Ms. Ivana Kalčiček	Financial Agency (FINA)	Expert assistant
24.	Mr. Stanko Zorica	Ministry of Finance - Tax administration	Assistant to Director