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FINAL FINDINGS

EDP dialogue visit to Bulgaria

16-17 September 2010

Executive Summary

A regular EDP dialogue visit to Bulgaria took place on 16-17 September 2010. 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 (MGDD) and Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data.

First, in the context of the institutional arrangements and division of responsibilities for the compilation and reporting of data under the EDP and ESA95 Transmission Programme, the implementation of the revised Memorandum of Co-operation was reviewed and clarified.

Next, in view of significant changes of deficit in 2009 reported in April 2010 EDP notification, in comparison to information provided in the Convergence Programme of January 2010, particular attention was given to the results of audits for the identification of the amounts of the liabilities of the budget spending units under contract annexes identified in the late 2009/early 2010, as well as to their statistical recording in national accounts.

Concerning the issues of sectoral classification, changes in the composition of the general government sector (S.13) were discussed. In this context, it was concluded that a reclassification of the railway infrastructure company National Railway Infrastructure Company / Железопътна инфраструктура inside S.13, starting from 2007 data, will be implemented for the October 2010 EDP notification¹. Sectorisation of other entities, in particular those owned by local governments, as well as the State Railway Company / Български Държавни Железници will be analysed in detail by the Bulgarian statistical authorities.

Further, following the conclusions of the previous EDP dialogue visit and the subsequent exchange of correspondence, the implementation of the time-adjusted cash method for the calculation of accrual tax revenue for October 2010 reporting, as agreed, was confirmed and the impact from the new method on government statistics was clarified².

With respect to other aspects of the accrual recording of transactions, the Bulgarian statistical authorities will start reporting in the EDP related questionnaire details of other accounts receivable and payable relating to financial and non-financial transactions, according to the breakdowns available in source data. Concerning accrual recording of interest, the discussion was focused on the recording of premiums and discounts in the EDP tables. It was agreed that the Bulgarian statistical authorities will investigate the recording of relevant adjustments in EDP tables 2.

Finally, the statistical recording of capital injection into Bulgarian Energy Holding / Българският Енергиен Холдинг and the transfer of liabilities of the Steam Power Station "Sofia" / Топлофикация София was discussed. It was confirmed by the Bulgarian authorities that the liabilities of the Sofia Steam Power Station to BEH remained in place and were due to be repaid up to 2016.

¹ Implemented in the October 2010 notification.

² idem

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 16-17 September 2010.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Unit C-4 Statistics for Excessive Deficit Procedure II at Eurostat. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Bulgaria was represented by the National Statistical Institute (Национален статистически институт – НСИ), the Ministry of Finance (MoF), the Bulgarian National Bank (Българска народна банка – БНБ), as well as, for the specific items of the agenda, by representatives of various government departments and the National Audit Office (Сметната палата на Република България).

In relation to procedural arrangements, Eurostat recalled 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 a good co-operation on the 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

Since October 2008, the EDP tables for Bulgaria have been transmitted to Eurostat by the Bulgarian National Statistical Institute (NSI) and not, as previously, by the Ministry of Finance (MoF). This change follows the revised Memorandum of Co-operation between NSI, MoF and the Bulgarian National Bank (BNB) of 2008, i.e. three institutions sharing responsibilities for compiling and transmitting EDP notifications and government finance statistics under ESA95.

Discussion

Eurostat enquired about practical aspects of the application of the new Memorandum. The Bulgarian statistical authorities explained that a formal working group for compilation of government statistics was established, following the new Memorandum, with participation of NSI, MoF and BNB. This group meets regularly, once a month, with ad-hoc meetings also organised upon request of any member. The meetings are documented in minutes containing a summary of the issues discussed and description of the decisions taken. An annual report of the activities of the working group in 2010 will also be prepared.

Concerning application of national accounts methodology to government finance statistics, Eurostat asked about the decision-taking process in the working group, when

methodological cases are discussed. Eurostat was informed that the NSI is the leading institution, having in practice the final decision on the application of ESA95 methodology to Bulgarian government finance statistics.

Concerning data transmitted by MoF and BNB, the NSI further explained that the Memorandum precisely describes the information to be transmitted, together with deadlines. Information is received by the NSI in an electronic format.

Findings and conclusions

Eurostat took note that regular meetings take place of the formal inter-institutional working group on government finance statistics. Eurostat encouraged the NSI to provide a full statistical analysis, and its opinion on cases, whenever it wrote to Eurostat to seek advice.

Action point 1: The NSI will provide to Eurostat the annual report of the activities of the formal inter-institutional working group on government finance statistics. Deadline: as soon as available.

1.2. Source data characteristics and revision policy

1.2.1. Changes in data sources since the last EDP visit

Introduction

Eurostat noted that since the previous EDP dialogue visit, the Bulgarian statistical authorities have identified data sources for monitoring and accounting for government debt cancellations, super-dividends, as well as for the national accounts treatment of concessions.

Discussion

Eurostat asked whether there were any other changes in the source data availability. The NSI explained that no additional new data sources have been used for the EDP notification purposes.

Findings and conclusions

Eurostat took note of these explanations.

1.2.2. Review of specific data sources

Introduction

Several aspects of EDP source data characteristics were considered during the meeting.

Discussion

Firstly, the issue of noticeable revisions between the first and second notification of the year n in data on other accounts receivable and payable (F.7) for the year n-1 was discussed. The NSI explained that such revisions are due to more complete data sources available for the second EDP notification. Eurostat was informed that for the first notification of the year, for calculation of the amounts of F.7, preliminary data from quarterly balance sheets (so-called "trial balances") and cash reports are used, covering the first level budget spending units and autonomous budgets, i.e. entities financed from the budget (e.g. radio, television, hospitals, as well as public companies). Final source

data are available in September, for the second EDP notification of the year. Information available considered as final includes also results of audits of the consolidated statements of the first level spending units, e.g. ministries.

The Bulgarian authorities underlined that, already in 2010, the availability of source data from quarterly balances for the first notification of the year has been improved, as the reporting deadline was advanced to 20 March (from 15 April previously). Taking into account the positive results of the first reporting according to the new deadline, they expressed an intention to reduce the scope of revisions between two consecutive notifications of the year.

Next, the revision policy of EDP and GFS was discussed. The Bulgarian statistical authorities explained that they are currently analysing different source data, in particular for recent years. This involves statistical recording of audit findings relating to that year, but revisions due to these findings would not be significant. On Eurostat enquiry about possibility of revisions of data for earlier years due to audits, NSI answered that no such cases had been so far identified.

The Bulgarian statistical authorities also noted that due to the implementation for the October 2010 EDP notification of the time-adjusted cash method for the recording of accrual tax revenue, as well as inclusion of FISIM, the government deficit and GDP/GNI would be revised (see also below item 3.2.1) starting from 1995.

Local government (S.1313) source data were also analysed. The Bulgarian statistical authorities explained that the EDP data for S.1313 are also based on quarterly balances covering the same detail of information as for the state budget. During discussion, Eurostat enquired about other entities, in particular local government-owned public corporations and whether their sector classification is monitored by the NSI. Eurostat was informed that the NSI maintains a central register of all corporations in Bulgaria, containing information on their ownership, including those of government. However, so far, an analysis of the sector classification of the local government-owned public corporations has not been regularly undertaken. Eurostat recalled that for the purpose of classification of units in the general government sector, the ESA95 market/non-market rule need to be applied and regularly checked.

Finally, details of the audits of the information reported under working balances in EDP tables 2A-D were discussed in the meeting. The Bulgarian statistical authorities explained that audits are undertaken on the budget consolidated on the first-level spending units, e.g. ministries. Nevertheless, the auditors have access to all detailed source data at the lower level (spending units). Eurostat was informed that reports on the consolidated budget audits are published by the National Audit Office (see also below item 1.2.3).

In the context of the post-audit revisions to EDP data, the NSI informed that a revision would be introduced in the October 2010 EDP notification to the working balance in 2009 due to a reclassification of a leasing contract of one ministry from an operational to a financial type. Eurostat recalled that budgetary accounting rules or definitions do not always correspond to the statistical ones, and encouraged the NSI to evaluate the results of budget audits and their impact on the EDP data according to the statistical rules of ESA95.

Findings and conclusions

Eurostat welcomed efforts of the Bulgarian statistical authorities on the improvement of timeliness for the availability of the source data for the first EDP notification of the year

for other accounts receivable and payable, in order to reduce scope of revisions between April and October notifications.

Eurostat took note of the current procedures for revisions to EDP and GFS data, the compilation of working balances and the data sources available for local government.

Action point 2: The NSI will undertake a regular analysis of national accounts sector classification of public corporations and other bodies owned by local government, starting with companies and bodies with the largest levels of liabilities / debt. This will include the national accounts sector classification of Sofia Metro / Метрополитен София and the so-called District Heating Companies. A report on the results of the analyses will be provided to Eurostat. Deadline: January 2011.

Action point 3: The latest audit reports of the National Audit Office on (i) the execution of the consolidated budget and (ii) the annual report on the activity of the National Audit Office will be provided by the Bulgarian authorities. Deadline: November 2010.

1.2.3. Liabilities / commitments of the budget spending units under contract annexes

Introduction

In April 2010 EDP notification, the general government deficit reported by the NSI for 2009 of -3.9% of GDP was significantly higher than the latest forecast of -1.9% from the Bulgarian Convergence Programme of January 2010 submitted to the Commission. The higher than expected deficit resulted mainly from the accrual recording of government expenditure due to new government commitments under annexes to procurement contracts that were identified at the beginning of 2010. Eurostat was informed at that time that the final amounts of the above-mentioned commitments were to be known after the audits of the National Audit Office (NAO), after the summer 2010.

During the meeting Eurostat sought more detailed information about the statistical recording of the new commitments and the results of the NAO audits.

Discussion

First, the Bulgarian authorities described the procedures for the audit of public bodies and the documents available arising from this process. In detail, it was explained that between March and July of each year the NAO certifies annual financial statements of the so-called first level spending units (comprising above all the ministries and all 264 municipalities), meaning that in total around 350 reports are audited each year, on both a cash and accrual basis. In addition to these annual rounds of audits, the NAO also undertakes audits in which the financial statements of the above-mentioned spending entities are verified for compliance of commitments execution for longer periods, i.e. up to 3 years in the past. The Bulgarian authorities further explained that the findings for each audited entity are sent by the NAO to MoF and that, if relevant, corrections are made to the financial reports of the concerned entities. Separately, a global annual financial cash report on the execution of the budget and extrabudgetary funds and accounts is also audited by the NAO.

Eurostat took note of these explanations, in particular that a significant number of units were the subject of an audit every year.

In the context of the findings of the audits, Eurostat asked whether they are published by the Bulgarian authorities. It was explained that the general report on the execution of the budget containing a summary of findings is submitted to the Parliament for information

and published in an electronic form on the website of the NAO, usually around November. In the same vein, a summary report about the audits of the individual spending units is also transmitted to the Parliament and published. Individual reports are currently not publicly available; however, a working group established by the MoF and the NAO is currently discussing the possible publication both of the accounting reports and relating audit reports.

Further, Eurostat enquired about specific reasons behind the higher tan expected level of the 2009 deficit, as reported in April 2010. The Bulgarian authorities explained that the difficulties identified with contract annexes were concentrated on the control of budgetary commitments, rather than on statistical reporting. According to the information received during the meeting, the change in deficit for 2009 between the forecast and the first EDP reporting was linked to deliveries in 2009 of goods and services from certain contract annexes in force. According to the budgetary accounting rules, such contractual commitments needed to be reported by the budget spending units as memorandum items (off-balance) to the financial statements under the category "financial commitments". Once an invoice for government payment was received in 2009 in relation to these commitments, the amounts to be paid under invoices appeared as financial liabilities on the balance sheets of the entities. Consequently, for the April 2010 EDP notification, the accrued government expenditure relating to the newly identified commitments was captured in the government finance statistics for 2009 (as other accounts payable) through the quarterly balances that are used as source data for compilation of statistical data on other accounts receivable and payable. The amounts of cash payments will be reflected in financial accounts mostly in 2010. In this context, the Bulgarian authorities confirmed that the government expenditure is recorded in national accounts on accrual basis following the amounts of invoices presented to government units for payment, irrespective of the budgetary recording practices of commitments by ministries.

Eurostat took note of these explanations and enquired about possible revisions due to the above-mentioned contract annexes for the years before 2009. The Bulgarian authorities explained in this context that the issues with contract annexes were identified in three ministries – the Ministry of Justice (contract signed in 2008, but no deliveries have yet started), the Ministry of Defence (contracts from 2008-2009) and the Ministry of Regional Development (partly from 2007). They added that any impact on government statistics, in addition to that reflected already in the quarterly balances, due to deliveries in the earlier years could be evaluated after the multi-annual audits, which would trace the timing of the execution of the above-mentioned contracts. In addition to the above-listed possible revisions due to the contract annexes, the Bulgarian authorities explained that some small amounts of revisions will be also introduced for the October 2010 EDP notification due to audit findings, but not relating to the new contract annexes, in the following ministries: Agriculture, Water and Environment, and Regional Development. The Bulgarian authorities underlined that routine audits will be continued and further changes to the EDP data are thus not excluded.

Finally, the Bulgarian authorities gave an overview of the efforts being made to improve budgetary control systems. In particular, it was explained that since 2010 new guidelines were issued by MoF to all first level spending units and extrabudgetary funds and accounts in order, among other reasons, to strengthen requirements concerning off-balance sheet reporting of memorandum items, e.g. financial commitments, as well as introducing multi-annual planning. In addition, some operational and control enhancements were introduced: e.g. unification of real-time cash management systems, strengthening of internal audits and financial controlling, requirements for the internal

written regulations on processes and operating procedures on financial management and control.

Findings and conclusions

Eurostat took note of the detailed explanations provided during the meeting by the Bulgarian statistical authorities and representatives of the NAO concerning statistical reporting of government expenditure on contracts and practices of government units' audits.

Action point 4: The Bulgarian authorities will provide to Eurostat copies of new laws and regulations for enhanced monitoring of the existing budget spending units' commitments and their future limits, together with any other legislative acts aiming at improvements of the integrity and completeness of the budgetary accounts. Deadline: November 2010.

Action point 5: Together with the October 2010 EDP notification, the NSI will provide explanations for all revisions arising from the findings of the audits of budget spending units.

Action point 6: The Bulgarian authorities will provide to Eurostat the amounts of additional commitments as of end-2009 arising from contract annexes not fully included before, broken down by the name of the budget spending unit, i.e. the reported amounts should correspond to the difference between the value of commitments at 2009Q4 and 2009Q3, excluding flows relating to other existing commitments or to new commitments. Deadline: as soon as possible.

Action point 7: The Bulgarian National Audit Office will transmit to Eurostat its reports and findings arising from the audits of the Ministries of Defence, Regional Development and Justice. Deadline: as soon as possible.

1.2.4. Hospitals – net lending/net borrowing, arrears

Introduction

As a follow-up of the discussions from the previous EDP dialogue visit, source data for publicly-owned hospitals were further considered. In this context Eurostat enquired about the statistical source data for hospitals and why the net lending / net borrowing of hospitals reported in EDP tables 2 continues to be compiled by the NSI from financial accounts (B.9F) and not from non-financial accounts (B.9), with a possible impact on the statistical discrepancy.

Taking into account publicly available information about the accumulation of hospital liabilities, the existence of possible arrears was discussed.

Discussion

Concerning source data, the Bulgarian statistical authorities explained that for compilation of the net lending / net borrowing (B.9) of hospitals the sources differ between the first and the second notifications of the year. In April, a quarterly questionnaire for reporting to the NSI by all non-financial public corporations is used, containing summary information. Starting from the 2010 reporting, more comprehensive information has been requested in this questionnaire. For the October notification, annual surveys of financial reports are used, containing more extensive source information.

It was also explained by the NSI that until the 2010 reporting, source data for non-financial accounts of hospitals did not fully enable identification of different types of funding of hospitals, e.g. subsidies, payments from the health insurance fund, etc. The

Bulgarian statistical authorities suggested that the use of the improved data sources available since 2010 would need to be confirmed by a quality analysis.

As for other accounts payable of hospitals, the NSI presented data with some breakdowns of the total amounts. It was noted by Eurostat that, for example in 2009, around half of the total amount of hospital payables related to the liabilities to suppliers, i.e. in national accounts' terms connected to the intermediate consumption of hospitals. In this context, it was also confirmed by the NSI that the amounts of payables are consolidated within the general government sector, where the publicly-owned hospitals are classified in the Bulgarian national accounts. Eurostat further enquired whether any cancellations of hospitals payables by government took place in recent years. The Bulgarian statistical authorities confirmed that no such cancellations occurred.

Findings and conclusions

It was agreed that the net lending/net borrowing of publicly-owned hospitals will in future be compiled using source data for non-financial accounts, and not, as it is currently the case, from the financial accounts.

Action point 8: The NSI will report to Eurostat the results of the analysis concerning compilation of the net lending/net borrowing of publicly-owned hospitals on the basis of the non-financial data, including a comparison with the existing approach for calculation based on financial accounts. Deadline: January 2011.

Action point 9: Concerning payables of publicly-owned hospitals, the NSI will provide to Eurostat an analysis of the structure of payables, including information on the nature of the amounts payables that do not relate to transactions with suppliers. Deadline: January 2011.

2. EDP reporting

2.1. Examination of the EDP tables: April 2010 notification

2.1.1. EDP table 2:

2.1.1.1. other accounts receivable and payable

Introduction

The possibility of a provision in the EDP-related questionnaire of detailed breakdowns of other accounts receivable and payable (F.7) reported in EDP table 2 was discussed under this agenda item.

Discussion

Eurostat asked about the reasons for the current non-availability of detailed information in the EDP-related questionnaire for the categories of the underlying ESA95 transactions to which the amounts of F.7 reported in EDP table 2 relate. It was noted that the most significant share of F.7 is currently reported by the NSI as "other".

The Bulgarian authorities explained that the source data used for compilation of F.7 reported in EDP are quarterly balances. The typology of transactions reported in these balances do not allow for provision of breakdowns of F.7 according to a detailed breakdown of ESA95. Some information is nevertheless available, according to the quarterly balance specification, showing other accounts receivable and payable to e.g. suppliers, staff, interest, etc.

Findings and conclusions

Eurostat took note of the lack of full source data information and encouraged the NSI to provide in the EDP-related questionnaire any available breakdown of other accounts receivable and payable, according to national public accounting specifications.

Action point 10: For the October 2010 EDP notification, the NSI will provide in tables 4 of the EDP-related questionnaire the breakdowns of other accounts receivable and payable, according to the breakdowns available at the level of source data.

2.1.2. EDP tables 3:

2.1.2.1. Recording of accrued interest

Introduction

Several issues relating to the recording in EDP / GFS of accrual adjustment for interest were discussed.

Discussion

First, Eurostat sought confirmation of the current recording of the amounts of accrued interest revenue in EDP table 3 under other accounts receivable. The Bulgarian authorities explained that this is the case for all sub-sectors of general government. They also reported that they have recently undertaken an analysis of data sources in order to attribute the amounts of the accrued interest to the underlying financial instruments, but the results are not yet fully satisfactory.

Secondly, Eurostat enquired about the reasons for a seasonal pattern observable in the quarterly financial accounts data of general government with significant amounts of annual interest expenditure recorded in the first quarter of the year. The Bulgarian authorities explained that significant payments of interest occur in January each year and that they would confirm the accrual recording of these amounts after the meeting.

Further, taking into account the above-discussed aspects of the recording of accrued interest, Eurostat requested a general note explaining consolidation of interest flows in EDP tables 3.

Finally, in view of the same amounts reported for D.41 and EDP D.41 in EDP table 1, it was confirmed that the Bulgarian government did not contract any swaps or forward rate agreements during 2006-2009.

Findings and conclusions

Action point 11: The NSI will report to Eurostat about the results of an enquiry concerning the possibility of use of different data sources on interest revenue, in order to attribute the amounts of interest accrued to underlying financial instruments, in application of ESA95 paragraph 5.130. Deadline: January 2011.

Action point 12: The NSI will provide to Eurostat a note describing how interest flows are consolidated among EDP tables 3. Deadline: November 2010.

Action point 13: The NSI will clarify the recording of interest in quarterly public finance statistics (ESA table 25), notably with respect to the observed seasonal pattern in the data. Deadline: November 2010.

2.1.2.2. Flows of EU funds

Introduction

Eurostat enquired about the reasons for non-availability of data in table 6 of the EDP-related questionnaire showing neutralisation of cash flows of EU funds included in currency and deposits of the EDP tables 3A-B through the corresponding amounts of other accounts receivable and payable (F.7).

Discussion

The Bulgarian authorities explained that due to the use of the balances of the National Fund and Agricultural Fund, and not the amounts of other accounts receivable and payable for neutralisation of the time of recording of EU flows, table 6 of the EDP-related questionnaire is not fully comparable with EDP tables 3A-B.

Findings and conclusions

Eurostat took note of this explanation. It was concluded that the NSI will undertake analysis of the situation in order to neutralise in EDP table 3A-B cash flows from EU funds.

Action point 14: The NSI will investigate the recording of cash flows from EU funds under currency and deposits (F.2) and assure neutralisation by F.7, in order to correctly reflect the amounts in table 6 of the EDP-related questionnaire. Deadline: February 2011.

3. Methodological issues and recording of specific government transactions

3.1. Delimitation of general government sector in national accounts

3.1.1. Changes in sectorisation since the last regular EDP visit

Introduction

Eurostat sought information about sectorisation of units in national accounts, and in particular on changes in the composition of the general government sector (S.13) since the previous EDP dialogue visit in March 2008.

Discussion

The NSI explained that the only change in the composition of the general government sector since the previous EDP dialogue visit was a reclassification inside S.13 of the Fund for Local Authorities and Governments / Фонд за органите на местното самоуправление в България (FLAG / ФЛАГ). This entity is 100%-owned and controlled by government and its main task is allocation to municipalities of various forms of financial support, e.g. loans from EBRD, EU funds, etc. The source data used from this entity for the purposes of EDP and GFS are the audited reports of FLAG.

Eurostat took note of these explanations and enquired about the statistical classification of any other new entities that were created by government since the previous EDP visit. The NSI explained that no such cases were identified.

Eurostat further asked about practices in Bulgaria for identification of new government entities by the statistical authorities. The NSI explained that such information is obtained through budgetary sources, in particular from data on financial resources provided by government for setting-up new entities (for state entities), whereas for local government, such information is only available through the working group for compilation of government statistics.

Findings and conclusions

Eurostat took note that the main classification issue since the last dialogue visit related to FLAG.

Action point 15: Together with the October 2010 EDP notification, Eurostat will receive detailed explanations on revisions to EDP data relating to FLAG.

3.1.2. National Railway Infrastructure Company / Железопътна инфраструктура (follow-up)

Introduction

Eurostat and the Bulgarian authorities reviewed the available financial data on the National Railway Infrastructure Company / Железопътна инфраструктура (NRIC / НКЖИ) in order either to confirm the current sector classification in national accounts outside S.13, or to decide on the reclassification of the corporation inside S.13.

Discussion

Eurostat enquired about the structure and character of revenue and expenditure of NRIC on the basis of information provided before the meeting by the NSI. The Bulgarian authorities explained that the fees collected by NRIC from the operating railway companies, almost exclusively from the government-owned Bulgarian Railway Company / Български Държавни Железници (BDZ / БДЖ), are calculated on the basis of expenditure on investments incurred in the previous year, i.e. are reviewed on an annual basis. Eurostat noted that a significant share of the total revenue results from non-operating activities and enquired about the sources of such revenue. The Bulgarian authorities informed that the amounts of the non-operating revenue result mainly from the sale of assets and rents; they added that NRIC also receives a subsidy from the government not related to the number of trains using the infrastructure, as it has to be maintained irrespective of the effective use. Eurostat took note of these explanations and indicated that the economic nature of the infrastructure access charges received by NRIC that are calculated on the basis of the past costs incurred would need to be analysed, i.e. whether they could be considered as sales for the purpose of the ESA95 rules on the sector classification of units.

Eurostat asked about a method for calculation of depreciation of fixed capital. It was confirmed by the Bulgarian authorities that it is calculated according to business accounting standards, i.e. on a historic cost basis. Eurostat noted that for the purpose of national accounts sector classification, production costs need to include consumption of fixed capital calculated on the basis of current asset values, thus usually higher than the amounts of depreciation calculated on the historical cost basis.

Taking into account financial data of NRIC received before the meeting and the explanations received during the discussion on various components of revenue and expenditure of this corporation, it was concluded that since 2007 the company's sales were under 50% of the production costs and consequently NRIC could not be considered a market producer in ESA95 terms.

Finally, Eurostat enquired about sector classification of the operating company BDZ. The Bulgarian statistical authorities indicated that a ESA95 sectorisation analysis had not yet been undertaken.

Findings and conclusions

It was concluded that NRIC should be re-classified within the general government sector from 2007 onwards. Subject to further investigation of the setting of infrastructure charges for the operator BDZ, this re-classification might be extended to earlier years.

Action point 16: Taking into account the results of the analysis of NRIC, the NSI will reclassify it inside the general government sector starting from the year 2007. Deadline: October 2010 EDP notification.

Action point 17: As for NRIC, the sector classification of the railway transport company BDZ will be assessed by the NSI. Eurostat will receive from the NSI a national accounts analysis of sector classification, together with the underlying financial data. Deadline: November 2010.

3.2. Implementation of accrual principle

3.2.1. Accrual tax revenue: time-adjusted cash method (current state of implementation)

Introduction

During the previous EDP dialogue visit to Bulgaria in March 2008, it was concluded that the assessment and declaration methods used at that time by the Bulgarian statistical authorities to record tax revenue from the main taxes (VAT, domestic excises and corporate income tax (CIT)) did not fulfil the requirements of Regulation 2516/2000³. Starting from the EDP notification of April 2008, a cash method was used and the Bulgarian statistical authorities were requested by Eurostat to work on the implementation of a time-adjusted cash method for the above-mentioned taxes, as well as for personal income tax (PIT) and social security contributions.

It was subsequently agreed that the time-adjusted cash method would be implemented starting from the October 2010 EDP notification, linked to the major revision of national accounts and preparation of the GNI inventory by Bulgaria.

Discussion

Eurostat enquired whether the time-adjusted cash method implemented by the NSI corresponded to descriptions provided to Eurostat in earlier correspondence, and asked about revisions to EDP data, in particular net lending / net borrowing and other accounts receivable and payable that would be implemented for the October 2010 notification. The Bulgarian statistical authorities confirmed that the time-adjusted cash approach for calculation of tax revenue had been implemented in national accounts as previously elaborated and consulted with Eurostat. It was also specified by the NSI that source data for the new method are assured both for the annual and quarterly government statistics and are obtained directly from the National Revenue Agency (NRA).

During the meeting, the NSI presented a table with relevant data, showing revisions in tax revenue, GNI and government net lending / net borrowing resulting from the implementation of the time-adjusted cash method. It was specified that the most

³ See: *Final Findings, EDP dialogue visit to Bulgaria, 4-5 March 2008* on the Eurostat website at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/eurostat_edp_visits_member_states

important share of revisions is due to revised data on VAT, in particular due to significant cash revenue of the first months of 2010 moved to 2009 due to the time-adjustment, with significantly lower corresponding amounts moved from 2009 to 2008.

Eurostat took note of these explanations and in the context of revisions asked the tax authorities about practices in Bulgaria concerning revisions of cash data. The Bulgarian authorities explained that information on cash amounts received during 2 months after the reference month is not revised ex-post between the reference months. However, in rare cases, some amounts can be redistributed among different tax types within a given month, if the cash receipts recorded were initially not correctly attributed to a given tax category. This kind of revision does not change the total value of tax revenue, but its structure.

Further, Eurostat sought information about forecast source data used for the calculation of tax revenue of the first months of the year for the April EDP notifications. The NSI explained that the forecast of MoF is used for the purpose of EDP, but quantification of the share of the forecasted data in the total tax revenue reported in the first notifications of the year was not possible during the meeting.

Concerning recording of social security contributions, the NSI informed Eurostat that some changes in law were introduced in 2007, which meant that there is no need for a time-adjustment for statistical recording of these types of government revenue. Consequently, a simple cash method will be continued to be used for recording in national accounts / EDP.

Finally, the Bulgarian authorities asked Eurostat about the appropriate statistical recording of cases of repayments by government to the taxpayers of taxes to be undertaken in 2010, due to over-payments relating to the years 2007-2008. Eurostat informed the Bulgarian statistical authorities that the relevant national accounts guidance is included in the ESA95 Manual on government deficit and debt (MGDD), which provides for the time of recording of the amounts repaid either when the Court decision occurs (when the amounts are known beforehand) or in the year when the precise amounts to be paid are known as a result of that decision. The Bulgarian authorities specified that the latter is relevant in their case.

Eurostat recalled in this context, that in cases of uncertainties about the statistical recording of government transactions, after the discussions of the national statistical authorities, Eurostat can be consulted for a methodological advice. Such requests, however, must include a proposal for recording by the NSI.

Findings and conclusions

Eurostat took note that the time-adjusted cash method for the calculation of tax revenues, with an impact on the level of GDP and on net lending / net borrowing of the general government sector, would be implemented in the forthcoming EDP notification in October 2010. The simple cash method would be maintained for social security contributions due to current legal arrangements for their payment.

Action point 18: The NSI will calculate the share of total tax revenue based on forecasts / estimates that will be used for the time-adjusted cash method and included in the April EDP notification figures. Deadline: February 2011.

Action point 19: If deemed appropriate by the NSI, a letter asking for methodological advice by Eurostat will be sent concerning the approach to repayments of tax.

Introduction

Eurostat reviewed the existing treatment of EU related flows, notably the use of the balance of the National and Agricultural Funds to neutralise the timing effect of these flows, as well as source data situation for compilation of other accounts receivable and payable data on EU flows.

Discussion

Eurostat enquired why no information on the amounts of neutralisation of the time of recording of EU flows received by Bulgaria and directed to local government is available in table 6 of the EDP relating questionnaire. The Bulgarian authorities explained that source data for recording of EU flows in EDP and GFS were improved in 2008 for central (S.1311) and local government (S.1313) sub-sectors and that the results of collection of these data have been recently reviewed in order to correctly distinguish the relevant flows for S.1311 and S.1313. Eurostat took note of this information and welcomed progress achieved in this field.

Next, neutralisation of EU flows in EDP table 2 was considered. Eurostat noted that the most precise way to assure no impact on government net lending / net borrowing (B.9) from the time of recording of EU flows is through other accounts receivable and payable (F.7) and not, as currently implemented by the NSI, through the balance of the National Fund and the Agricultural Fund. Although the change of the approach would not impact B.9, however under the current method, national co-financing of the National Fund and the Agricultural Fund are included in the balances of these entities, whereas F.7 would exclude national co-financing element. In addition, a more precise consistency with financial accounts of general government would be also achieved. Eurostat noted in this respect that the necessary information on the amounts of other accounts receivable and payable relating to EU flows are available, as these breakdowns are currently provided to Eurostat by the NSI in the EDP relating questionnaire. It was agreed that the amounts of the EU flows directed to local governments will be also appropriately reflected in the EDP relating questionnaire table 6.

Finally, Eurostat also asked whether there were any cases of EU funds disallowance in Bulgaria, i.e. cases when the European Commission does not reimburse prepayments made by national governments due to lack of their justification. The Bulgarian authorities explained that so far there have been no such cases for Structural Funds. However, there were such occurrences for Pre-accession Funds.

Findings and conclusions

Action point 20: Taking into account information provided by the Bulgarian statistical authorities on the improved data sources for the accrual recording of EU flows, in particular in the local government sub-sector, the NSI will provide to Eurostat detailed explanations of revisions to be introduced. Deadline: February 2011.

Eurostat encouraged the Bulgarian authorities to move to a neutralisation of EU flows based on recording of other accounts receivable and payable, since the necessary data appeared to be available fully and on time.

Action point 21: Concerning the method for neutralisation of EU flows in EDP tables 2, in view of available data sources, the NSI will report to Eurostat when a neutralisation through other accounts receivable and payable will be introduced for all EU flows, including agricultural funds, instead, as currently the case, through net lending / net

borrowing of other central government bodies (National and Agricultural Funds).
Deadline: February 2011.

In the context of possible disallowances of EU funds, Eurostat informed the Bulgarian statistical authorities that the third edition of the ESA95 Manual on Government Deficit and Debt includes guidance on the recording of such cases in EDP notifications and GFS.

3.2.3. Recording of premiums and discounts (interest paid) – results of the questionnaire

Introduction

As a follow-up of a dedicated questionnaire collected by Eurostat in 2009, recording in the EDP tables of premiums and discounts relating to government bonds issued by Bulgaria was considered in the meeting.

Discussion

The Bulgarian authorities explained that source data for the calculation of accrual interest is a comprehensive debt instruments register maintained by MoF. This database contains information for sub-sectors S.1311 and S.1313.

Concerning recording in EDP/GFS of premiums and discounts on the bonds issued, the amounts reflected in the working balance of EDP tables 2 are based on cash flows, i.e. there are no entries for discounts (as they do not involve cash flows), whereas the amounts of premiums are included in the working balance. According to the Bulgarian authorities, neutralisation of the amounts of premiums in EDP tables 2 is assured through entries in the item "difference between interest paid and accrued". For the corresponding adjustment in EDP tables 3, the amounts are included in the line "issuances below / above nominal value".

In this context, Eurostat also enquired about breakdowns of the relevant lines in EDP tables 2 and 3 for the recording of the accrual adjustment on interest, taking into account significant differences observable for some years. Provision of such detailed data was not possible during the meeting.

Findings and conclusions

Eurostat concluded from the discussions that while adjustments are made in EDP tables 3, it was not clear if such adjustments were made in EDP tables 2.

Action point 22: The NSI will confirm the recording of accrued interest in EDP tables and provide to Eurostat a note, explaining in particular two aspects of the current approach: (i) how premiums recorded as cash flows in working balances are neutralised in EDP tables 2; (ii) how figures reported in EDP tables 2 and 3 under the item "difference between interest accrued and paid" are to be reconciled, including breakdowns of the amounts reported in each table into: accrual adjustment, amounts of premiums, amounts of discount, and any other relevant sub-items. Deadline: January 2011.

3.3. Recording of specific government transactions

3.3.1. Government guarantees, debt assumptions and debt cancellations

Introduction

Eurostat and the Bulgarian authorities reviewed the recording of government guarantees and debt-related transactions.

Discussion

The Bulgarian authorities explained that no new guarantees have been granted by government. On the basis of the data on the amounts of government guarantees provided to Eurostat before the meeting, it was explained that the increases in the amounts of government guaranteed debt relate to drawings by corporations under existing guarantees. Eurostat enquired whether in recent years there were any guarantee calls from the benefiting corporations for the repayment of their guaranteed debt by government. The Bulgarian authorities confirmed that calls had occurred in 2010 relating to guarantees for the Bulgarian Railway Company, but the amounts paid by government have been subsequently recovered. Eurostat took note of this information.

On Eurostat question whether government is receiving any fees for guarantees from the benefiting corporations, it was confirmed that such fees are not collected by government.

Concerning assumptions of debt by government, the Bulgarian authorities confirmed that no such transactions occurred for 2006-2009.

Finally, Eurostat enquired about cases of local government guarantees. The Bulgarian authorities replied that they were not informed about such cases.

Findings and conclusions

It was identified that possible guarantees issued by local government were not yet included in the relevant EDP questionnaire tables.

Action point 23: The NSI will report to Eurostat the results of an investigation concerning guarantees issued by local governments, in order to reflect the relevant amounts in EDP and EDP relating questionnaire, as required. Deadline: November 2010.

3.3.2. Capital injections in public corporations, dividends and super-dividends

3.3.2.1. Capital injection in Bulgarian Energy Holding EAD / Българският Енергиен Холдинг ЕАД and related flows

Introduction

Eurostat and the Bulgarian authorities discussed transactions surrounding government capital injection into Bulgarian Energy Holding (BEH) and related transfers of Steam Power Station "Sofia" / Топлофикация София liabilities towards Bulgargaz / Булгаргаз into BEH.

Discussion

The Bulgarian authorities explained that the transaction between SPS Sofia (the biggest heat producer in Bulgaria), Bulgargaz (gas provider, a part of BEH holding) and BEH concerned the accumulated debt of SPS Sofia towards Bulgargaz. At end-2009, liabilities of SPS Sofia towards Bulgargaz amounted to 215 million BGN; they were acquired by BEH from Bulgargaz. The agreement foresees deferred payment of liabilities by SPS Sofia to BEH until 2016. At the same time, in 2009, government provided a capital injection into BEH for the amount of 400 million BGN, recorded in EDP statistics as an acquisition of equity.

Eurostat took note of these explanations and recalled that according to national accounts rules, when government provides funds to a public corporation to cover past losses, the amounts need to be recorded as capital transfer expenditure.

In this context, the Bulgarian authorities informed Eurostat that SPS Sofia liabilities have not been cancelled by BEH and that the company is servicing its liabilities towards BEH according to the agreed schedule. It was also confirmed that no new guarantees have been granted by the Bulgarian authorities in the context of the transactions.

Finally, Eurostat enquired about sector classification of SPS Sofia. The NSI explained that it is currently classified in non-financial corporation sector, but that the market/non-market test has not yet been undertaken to confirm this classification.

Findings and conclusions

Action point 24: The NSI will monitor scheduled repayment by Steam Power Station "Sofia" / Топлофикация София its liabilities towards Bulgarian Energy Holding / Българският Енергиен Холдинг (BEH / БЕХ) (bought from Bulgargaz).

4. Other issues

4.1. Any other business

Three further issues were also considered during the meeting.

The Bulgarian authorities explained that, given the revisions to be undertaken in the forthcoming EDP notifications, it would not be possible to ensure full consistency between EDP and ESA tables with S.13 data (GFS) in the October EDP notification. Eurostat accepted that such a full consistency would take time to establish.

Action point 25: With respect to various revisions to be undertaken in the October 2010 and April 2011 EDP notifications, the NSI will assure full consistency between EDP and GFS data for the April 2011 EDP notification.

Eurostat noted that in May 2010, the NSI had written to Eurostat on cash settlement scheme of certain government liabilities through the Bulgarian Development Bank / Българска банка за развитие (BDB / ББР), and that Eurostat had replied in June 2010 with some elements of consideration.

Action point 26: Concerning the scheme for cash settlement of certain government liabilities relating to procurement contracts that were identified by new government in the beginning of 2010 and involvement in it of the Bulgarian Development Bank / Българска банка за развитие (BDB / ББР), as a follow-up of the previously exchanged correspondence, the NSI will provide a response to the issues raised by Eurostat, together with a proposal for the recording of the scheme in national accounts.

Eurostat took note that the statistical discrepancy for 2008 was particularly high compared to other years. No detailed information on particular reasons of this unusual discrepancy was available to the NSI during the meeting.

Action point 27: The NSI will investigate and report to Eurostat about the reasons for unusually high level of statistical discrepancy (outlier) observed in central government in 2008 of 0.12% of GDP.

Annex 1

List of participants of the EDP dialogue visit to Bulgaria 16-17 September 2010

Name	Institution	Department
John Verrinder – Head of Unit	European Commission (DG Eurostat)	National and European Accounts, Statistics for Excessive Deficit Procedure II
Denis Besnard	European Commission (DG Eurostat)	
Marcin Woronowicz – Desk Officer	European Commission (DG Eurostat)	
Bozhil Kostov	European Commission (DG ECFIN)	
Emmanuel Larue	European Central Bank	
Elka Atanasova – Director	NSI	Macroeconomic Statistics Directorate
Antoniya Pacheva – Head of Division	NSI	Financial Statistics Division
Milena Veselinova	NSI	
Dimitar Dimitrov – Head of Division	NSI	Non-financial National Accounts Division
Elena Bakalova	NSI	
Vania Koleva	NSI	
Svetla Kostova – Director	MoF	Treasury Directorate
Pavel Kyuchukov – Head of Division	MoF	Government Finance Statistics Division
Boriana Nestorova	MoF	
Milka Napetova	MoF	
Tzvetanka Chipeva – Head of Division	MoF	Budget Accounting and Payment Procedures Division
Nikola Pavlov	MoF	
Vania Vatcheva	MoF	Government Debt and Financial Markets Directorate, Strategies, Analyses and Statistical Reporting Division
Valentin Iliev	MoF	
Velichka Petrova	MoF	Customs Agency
Liubomir Dragomirov – Acting Head of Division	MoF	National Fund Directorate
Detelina Karaeva	MoF	
Trifon Pavkov – Director	MoF	National Revenue Agency
Emil Dimitrov – Director	BNB	Statistics Directorate
Kornelia Bezhanova	BNB	
Radi Ivanov	BNB	
Valeriy Dimitrov – President	National Audit Office	
Maria Cvetanova – Senior Auditor		