



EUROPEAN COMMISSION  
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Directorate C: National and European Accounts  
**Unit C-3: Public finance**



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## **- FINAL FINDINGS -**

### **EDP dialogue visit to Bulgaria**

**4-5 March 2008**

## **Executive Summary**

A first EDP dialogue visit to Bulgaria after the EU accession took place on 4-5 March 2008 with the aim to review institutional responsibilities in the field of government finance statistics including EDP statistics, to analyse the EDP tables and to ensure that the provisions from the European system of accounts (ESA95), ESA95 Manual on Government Deficit and Debt (MGDD) and the recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Bulgarian EDP notification and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the compilation and reporting of data under the ESA95, EDP and other government statistics. In Bulgaria, the EDP tables are under the responsibility of the Ministry of Finance (MoF), whereas most of the government finance statistics (GFS) (ESA95 tables 2, 9, 11, 25), as well as annual financial accounts (ESA95 tables 6 and 7) are compiled by the Bulgarian Statistical Institute (BSI). The Bulgarian National Bank (BNB) provides some source data for compilation of GFS and develops the quarterly financial accounts of general government (ESA95 table 27). Three institutions work under the Memorandum of Co-operation signed in 2005 and methodological issues are dealt by them in the regular meetings of a dedicated Working Group.

Next, the characteristics of the data sources for government statistics reporting were discussed. Eurostat concluded that the sources of government finance data on stocks and flows seemed to be rather good in Bulgaria and encouraged the Bulgarian authorities to discuss and identify the best data sources which should be used by all institutions, both for EDP and GFS.

Concerning the EDP tables, the issue of market valuation of compensation vouchers was clarified. In view of the good market data availability, Eurostat recommended for the calculation of government expenditure to use a yearly average price (e.g. based on quarters) and to take into account the amount of the vouchers issued. The revised method was implemented for the April 2008 EDP notification.

Particular attention was focused during the meeting on the issue of recording of accrual tax revenue, recorded at that time by the Bulgarian authorities for most of the taxes on assessment and declaration basis. In particular, levels of coefficient for non-collectible taxes were discussed. Eurostat concluded that the assessment and declaration methods used by the Bulgarian authorities to record tax revenue do not fulfil the requirements of the Regulation 2516/2000 and invited to change the recording. For the EDP notification of April 2008 a simple cash method might be used (implemented by the Bulgarian authorities). The Bulgarian statistical authorities will investigate possibility of the introduction of a time-adjusted cash method for the October 2008 EDP notification, with a prior consultation of Eurostat.

Further, the compliance with the rules established by the MGDD were examined, e.g. delimitation of general government, treatment of capital injections, EU flows, military expenditure, and recording of other specific government transactions.

Concerning the classification of units, Eurostat concluded that a detailed classification test would need to be undertaken concerning the railway infrastructure company JI.

As regards the issue of debt assumptions, Eurostat enquired about the lack of data on debt cancellations and debt assumptions. The discussion revealed that data sources should be in principle available and the Bulgarian authorities agreed to report debt assumptions in the April 2008 EDP notification.

It was also agreed that the Bulgarian authorities should improve the reporting of data on dividends and super-dividends in the relevant table of the EDP related questionnaire. Following information provided during the meeting, Eurostat concluded that the Bulgarian authorities have already the necessary detailed information for such reporting.

Finally, the accounting treatment of Public-Private Partnerships (PPP) and concessions was discussed. So far, in Bulgaria there were no occurrences of PPP contracts in the meaning of the Eurostat decision, however numerous concessions have been granted by various ministries of the Bulgarian government. It was concluded that the Bulgarian statistical authorities would need to monitor such contracts for establishing the appropriate recording of government revenue (e.g. accrual time of recording).

## **Final findings**

### **Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure (hereinafter the Regulation) Eurostat carried out an EDP dialogue visit in Bulgaria on 4-5 March 2008.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of Unit Public Finance, in the directorate National and European Accounts. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Bulgarian Statistical Authorities were represented by the Ministry of Finance (MoF), the Bulgarian Statistical Institute (BSI) and the Bulgarian National Bank (BNB).

In relation to procedural arrangements in the framework of the EDP dialogue visits, Eurostat explained the procedure, in accordance with article 8 of Regulation 3605/93 as amended, indicating that the *Main conclusions and action points* would be sent within a few days to the Bulgarian statistical authorities, who may provide comments. Within coming weeks, the *Provisional findings* would be sent to the Bulgarian authorities in a draft form for their review. After adjustments, *Final findings* will be sent to the EFC and published on the website of Eurostat.

### **1. Review of statistical capacity issues**

#### **1.1. Institutional responsibilities for the reporting of data under the ESA95, EDP and other government statistics**

##### *Introduction*

Eurostat took note of the existing institutional arrangement in place in Bulgaria for the compilation of the government finance statistics. The EDP tables are under the responsibility of the Ministry of Finance (MoF), whereas most of the government finance statistics (GFS) (ESA95 tables 2, 9, 11, 25), as well as annual financial accounts (ESA95 tables 6 and 7) are compiled by the Bulgarian Statistical Institute (BSI). The Bulgarian National Bank (BNB) provides some source data for compilation of GFS and develops the quarterly financial accounts of general government (ESA95 table 27).

For the purpose of EDP and GFS, the three institutions involved work under the Memorandum of Co-operation signed in 2005. The Bulgarian authorities also explained that methodological issues (e.g. recording of taxes) are dealt by the three institutions in the regular meetings of a dedicated Working Group.

##### *Discussion*

A revised draft of Memorandum of Co-operation elaborated in 2007 was briefly presented and the Bulgarian authorities sought Eurostat comments on this draft. Eurostat noted that the BSI should in principle be the institution with the competence in the application of the national accounts methodology. In this context, Eurostat recalled that during the CMFB

consultations, only the NSIs and the NCBs, are participating in the voting procedure, and not the MoFs.

### *Findings and conclusions*

Eurostat nonetheless agreed exceptionally to provide comments of a general nature to the draft Memorandum of Co-operation.

## **1.2. Source data characteristics and revision policy**

### *Introduction*

The Bulgarian statistical authorities explained the main data sources for the EDP and GFS tables: the balance sheets and the so called "trial balances" of budgetary units, following a budgetary chart of accounts. All budgetary units provide cash information on monthly, quarterly and annual basis.

### *Discussion*

Eurostat in particular enquired about the content and timeliness of trial balances. The trial balances on cash and accrual basis include information on opening and closing balance, as well as debit and credit flows and are collected on an annual, as well as on a quarterly basis since 2006/2007. Quarterly information from trial balances is obtained by the MoF from the central government and local government units according to the following deadlines: for budgetary units cash data are available on t+45 days, accrual data are available on t+3 months; for municipalities: t+4 months.

The Bulgarian authorities indicated that there might still be rare cases of differences between EDP and GFS tables due to different data sources possibly used by MoF, BSI and BNB. However, these differences are discussed in the Working Group meetings and the Bulgarian authorities aim to implement the same sources/estimates at least for the year t-1.

Eurostat concluded that the sources of government finance data on stocks and flows seemed to be rather good in Bulgaria and encouraged the Bulgarian authorities to discuss and identify the best data sources which should be used both for EDP and GFS compilation.

Furthermore, Eurostat enquired about the data sources for compilation of the local government data, as these are not yet included in the Official Register of Government and Government Guaranteed Debt (ORGGGD). The Bulgarian authorities explained that they created the municipalities debt register and, since end-2007, a direct link with ORGGGD was established that allows automation of the debt data compilation process. The local authorities are legally forced to maintain a debt database updated. However, the information collected at present is not reliable enough and the deviation from the data in the trial balances is observed. That is why for the time being, the Bulgarian authorities use both sources to compile local government debt data. The intention for the forthcoming future is to eliminate major discrepancies and use the municipalities debt register as main data source. For the time being, however, it is difficult to assess the exact time schedule. The Bulgarian authorities assured in this context that the available data enable nevertheless a correct consolidation of the general government debt.

### *Findings and conclusions*

Eurostat took note of these explanations.

#### *1.2.1. EDP Inventory*

##### *Introduction*

An incomplete first version of the EDP Inventory was received from the Bulgarian authorities in September 2007. Following Eurostat comments in November 2007, the revised and completed version was sent to Eurostat in February 2008.

##### *Discussion*

During the discussion, the Bulgarian authorities explained briefly some changes to the previous draft of the Inventory, in particular in the sections on recording of taxes, as well as on social security contributions recording. The Bulgarian authorities enquired about the requirements of national publication of the Inventory.

### *Findings and conclusions*

Eurostat congratulated the Bulgarian authorities for the provision of the complete version of the Inventory and encouraged the national publication of the Inventory in Bulgarian.

***Action point 1: Following discussions on methods for the recording of taxes (item 3.1.1), the Bulgarian authorities will provide the updated EDP Inventory.***

#### *1.2.2. Revision policy*

##### *Introduction*

Eurostat enquired about the policy for revisions of government accounts.

##### *Discussion*

The Bulgarian authorities explained that revisions between the first and second EDP notification in a given year are mostly due to the improved and more accurate data sources available only for the October notification. Another reason for revisions might be the sector reclassification of units. Currently, in national accounts no regular benchmark revisions are undertaken.

### *Findings and conclusions*

Eurostat took note of the explanations of the Bulgarian authorities.

## **2. Actual data – EDP reporting**

### **2.1. Examination of the EDP tables: April 2007 notification**

#### Missing data.

##### *Introduction*

Eurostat noted the high coverage of data in the EDP tables of the October 2007 notification, but enquired about the lack of estimates for 2007 for most of the items in EDP tables 2A-D.

#### *Discussion*

The Bulgarian authorities explained that this issue was already discussed in the Working Group on GFS, but no reliable solution has been found yet. The discussions will be continued and an effort will be made by the Bulgarian statistical authorities to calculate the current year's estimates.

Further, Eurostat recalled that the cells of the EDP tables should not be left empty but filled with zeros, or with codes for not available (L) / not applicable (M), where appropriate.

Eurostat asked about the meaning of not applicable status (code M) in the EDP tables 2A-D for all items under the heading "Financial transactions considered in the working balance". It was explained by the Bulgarian authorities that since 2002 the state budget on a cash basis (presented as a working balance in the EDP table 2A) and the consolidated cash fiscal programme of municipalities (working balance of the EDP table 2C) do not include any financial transactions in the meaning of national accounts (e.g. privatisations proceeds or loans).

#### *Findings and conclusions*

Eurostat took note of these explanations.

***Action point 2: The Bulgarian authorities in the forthcoming notification will review the empty cells of the EDP tables and fill in zeros, or codes for not available (L) / not applicable (M), where appropriate<sup>1</sup>.***

#### Market valuation of newly issued restitution vouchers.

##### *Introduction*

The Bulgarian authorities confirmed that the government expenditure (capital transfer) for newly issued vouchers is currently calculated using the simple average of end-of-year prices of three types of vouchers: real property compensations, land compensations and one called "compensation records".

##### *Discussion*

Eurostat enquired about the data availability of stocks and infra-annual prices for three types of these vouchers. The Bulgarian authorities explained that the stocks of the vouchers issued and daily prices are available at the Central Depository Office.

##### *Findings and conclusions*

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<sup>1</sup> Completed for the April 2008 EDP notification.

Taking into account the good market data availability, Eurostat recommended for the calculation of government expenditure to use a yearly average price (e.g. based on quarters) and to take into account the amount of the vouchers issued. In practice, as an intermediate step, a capital transfer for each type of the vouchers based on an amount issued could be calculated. The total capital transfer will be finally calculated as a sum of all types of vouchers.

***Action point 3: The Bulgarian authorities will amend the method for the calculation of a capital transfer for the newly issued compensation vouchers, taking into account the yearly average price and the amount of each type of the vouchers issued<sup>2</sup>.***

### **3. Actual data – methodological issues and recording of specific government transactions**

#### **3.1. Implementation of the accrual principle**

##### *3.1.1. Calculation of accrual tax revenue*

###### Data sources for income taxes.

###### *Introduction*

Since 2006 the National Revenue Agency (NRA) within the MoF is responsible for the compilation of revenue from taxes and social contributions on cash and accrual basis.

###### *Discussion*

The Bulgarian authorities explained that the main sources for calculation of tax revenues based on assessment and declaration are tax declarations and information from tax audits on amounts to be paid from previous years. In addition, an expert within the MoF assesses the coefficient for the amounts never to be collected. There are some data in the NRA system that might give indication on stocks of other account receivable / payable related to taxes and social contributions, but for the time being they are not used for compilation of these stocks.

###### *Findings and conclusions*

Eurostat took note of this information for the purpose of a further detailed discussion during the meeting on methods of calculation of tax revenue by the Bulgarian authorities (see below under item "Estimation of the amounts unlikely to be collected").

###### Time adjustment for cash-based taxes.

###### *Introduction*

Currently, for none of the cash-based taxes (personal income tax (PIT), customs duties, taxes on property and excises on imported goods) a time-adjustment is currently applied. The Bulgarian authorities explained that the Working Group on taxes concluded that a

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<sup>2</sup> Completed for the April 2008 EDP notification.



simple cash recording is appropriate for these types of taxes due to the fact that the cash revenue is always collected for these taxes during the year to which they refer.

#### *Discussion*

Eurostat enquired in particular about the reasons for no time adjustment for PIT. The Bulgarian authorities explained that for persons employed under an employment contract there are no tax declarations to be filled after the end-year and the tax is paid during the same year. The tax declarations are to be filled by the self-employed, or by persons with additional sources of income than only from one employment contract. The latter cases are however currently not very common in Bulgaria and the amount of the final tax settlement due from such cases is recorded in the year when it is paid, i.e. in the following year to which the tax liability refer (t+1).

#### *Findings and conclusions*

***Action point 4: The Bulgarian authorities will reflect on the introduction of the time-adjustment for PIT.***

#### Estimation of the amounts unlikely to be collected.

##### *Introduction*

An assessment and declaration method is applied for the calculation of the tax revenue for the following taxes: VAT, domestic excises and corporate income tax (CIT). The Bulgarian authorities explained that currently the assessment of the coefficients for uncollectible amounts for these taxes is done within the MoF and is based on an expert assessment following the legal provisions on tax frauds and tax evasion. The Bulgarian authorities also informed Eurostat that due to several positive factors, e.g. enforcements of improved tax collectability by the tax authorities, changes (lowering) of tax rates for corporations, and in general, the good conditions of the Bulgarian economy, the tax receivables are increasing. According to the BSI information from the balance sheets data sources, provided by the BNB representatives during the meeting, the stock of receivables related to taxes at the end of 2006, is 2.16 billion BGN (4.3 % of GDP) and to social contribution is 0.67 billion BGN.

##### *Discussion*

Eurostat recalled that in national accounts the concept of uncollectible taxes needs to be considered not in legal, but in statistical terms, i.e. based on an analysis of the tax revenue data over years. On the basis of the comprehensive tax revenue information provided by the Bulgarian authorities, Eurostat noted that coefficient for non-collectible amounts seemed very low for certain taxes: 1% for CIT and practically nil for excises. It was also noted that the coefficient seemed not to be stable over time in recent years: varying from approx. 50% to 70% for VAT; and increasing from 1% in 2000-2004 to approx. 25%-50% in 2005 and 2006 for CIT.

Taking into account the accumulation of tax receivables, the Regulation (EC) No 2516/2000 on taxes and social contributions of 7 November 2000 was recalled by Eurostat, which states the general principle of tax and social contributions recording in national accounts: "(...), the impact on general government net lending/borrowing of taxes and

*social contributions recorded in the system on an accrual basis shall be equivalent over a reasonable amount of time to the corresponding amounts actually received".*

With respect to the level and method of calculation of coefficients for non-collectible amounts, Eurostat stated that the Regulation 2516/2000 describes it as follows: *"The coefficients shall be estimated on the basis of past experience and current expectations in respect of assessed and declared amounts never collected. They shall be specific to different types of taxes and social contributions"*.

Further, Eurostat enquired about data sources on different taxes currently recorded on an assessment and declaration basis, in view of the possible change of recording into a cash time adjusted method. The Bulgarian authorities indicated that in principle such information can be obtained for VAT revenues and repayments, as well as for excises, but indicated that this would need a more detailed enquiry at the NRA.

#### *Findings and conclusions*

Eurostat concluded that the assessment and declaration methods used by the Bulgarian authorities to record tax revenue do not fulfil the requirements of the Regulation 2516/2000 and invited to change the recording. For the forthcoming EDP notification of April 2008 a simple cash method might be used. Alternatively, following the Regulation 2516/2000, the Bulgarian authorities could record revenues based on the current assessment method and impute the capital transfer for the non-collectible amount equal to the total difference between amounts assessed and cash received. Eurostat recalled also that, following Regulation 2516/2000, changes in methods of tax and social contributions recording need to be agreed with Eurostat in advance by a way of a formal request.

#### ***For the April 2008 EDP notification:***

***Action point 5: The Bulgarian authorities will revise the tax revenue data currently on assessment and declarations basis into recording of cashed amounts, either by recording of revenue equal to cash, or, if not, by using an assessment method and imputing a capital transfer for the whole amount of the difference between the amounts assessed and the cash received<sup>3</sup>.***

#### ***For the October 2008 EDP notification:***

***Action point 6: A detailed note explaining the new system of recording for each type of taxes will be provided to Eurostat for agreement, in due time before the notification. In addition, numerical information (in a form of a table) on revisions introduced in comparison to the October 2007 EDP notification, due to the new recording on cash / time-adjusted cash basis, will be also provided.***

***Action point 7: The Bulgarian authorities will reflect on the introduction of time adjustment for VAT revenues and VAT repayments, excises and CIT and report their findings in a form of a methodological note to Eurostat in due time before the notification.***

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<sup>3</sup> Implemented for the April 2008 EDP notification.

### 3.1.2. Social contributions

#### *Introduction*

It was confirmed by the Bulgarian authorities that social security contributions are recorded currently using the cash method.

#### *Discussion*

Nevertheless data sources for recording on an accrual basis exist both for the revenue and the expenditure side, but are currently not used due to quality considerations. It was explained that the difference between cash and accrual data are small and are due to well identified reasons (time lag of 6 months for certain companies between declaration and payment of contributions).

#### *Findings and conclusions*

Eurostat took note of the explanations and concluded that the decision on the method for recording would need to be based on the quality analysis of data sources.

***Action point 8: The Bulgarian statistical authorities will provide to Eurostat a note explaining the cash and accrual data sources for the recording of social security contributions, together with a justification for the method used in EDP / national accounts.***

### **3.2. Delimitation of the general government sector: classification of institutional units according to ESA95 - application of the 50% rule in national accounts**

#### *Introduction*

Eurostat enquired about the institutional arrangements for methodological decisions on national accounts sectorisation of units.

#### *Discussion*

According to the information obtained, the BSI Directorate of Basic Statistics is responsible for sector classification. The same directorate maintains a register of sector classification by units.

#### *Findings and conclusions*

Eurostat took note of these explanations

#### 3.2.1. Publicly owned hospitals

Sectorisation. The Bulgarian statistical authorities confirmed that the publicly owned hospitals are currently classified inside the general government sector. There are approx. 230 public hospitals, owned mainly by municipalities.

Data sources for compilation of net lending / net borrowing.

## *Introduction*

The Bulgarian statistical authorities described briefly the data sources for the compilation of B.9 of hospitals for the purpose of the EDP notification. For the first notification of the year, the non-financial data from a special questionnaire is used. For the second notification, the financial accounts data are used, as deemed by the BSI to be more reliable. These different data sources were mentioned by the Bulgarian authorities as the main reason for the revisions of B.9 of hospitals between the April and October 2007 EDP notifications.

## *Discussion*

Eurostat indicated that, in practice, most of the EU Member States compile B.9 of hospitals from a non-financial side data, as a difference between revenue and expenditure.

## *Findings and conclusions*

***Action point 9: The statistical authorities will provide a note explaining the reasons for the use of financial accounts data for the compilation of the net lending / net borrowing of publicly owned hospitals.***

### *3.2.2. Public transport projects*

#### Railways.

## *Introduction*

The Bulgarian authorities explained that since 1 January 2002, with the enforcement of the new law on the railway transport, the old Bulgarian railway company BFJ was split into the operator for passenger and cargo transportation company BDJ and the infrastructure managing national company JI. Both companies are currently classified outside the general government sector.

Concerning the transport operator, government provides current transfers to BDJ based on a 5-year contract. The payments include two types of subsidies: general price subsidy and subsidy for reduced fares for students, retired, military, etc. The ceiling of the subsidies and compensation payments provided by the government to the transportation company BDJ are determined on an annual basis in the budget of the corresponding year. In recent years, there have been no capital injections from government to BDJ. As far as the infrastructure company JI is concerned, based on a multi-year contract, government is providing two types of payments: funding of investment costs and subsidy for infrastructure maintenance (since 2006). The Bulgarian authorities explained that the investment subsidy is not treated as revenue of JI, but reflected in the value of assets and depreciation.

## *Discussion*

On the basis of financial statements and balance sheets of both companies provided before the mission, Eurostat enquired about the position in the financial statement of JI "services" of 165 million BGN for 2006. The Bulgarian authorities explained that this amount is

mostly composed of the access charge payments (tolls) from BDJ for the use of infrastructure.

Further, Eurostat enquired on how the access charges are set and according to which criteria. The Bulgarian authorities informed that the fees are based on the level of expenditure for the current maintenance of the infrastructure (actual expenditure), and the infrastructure company JI is entitled to determine and to collect infrastructure fees within the limits set by a government act. The need to change the amount of the infrastructure payments for the next year is determined on the basis of the information for the actually executed expenditure for the current maintenance of the railway infrastructure for the previous year.

On the basis of the discussion and financial data provided by the Bulgarian authorities, Eurostat concluded that the operator company BDJ complies with the 50%-rule and can remain classified in the non-financial corporation sector. Concerning the infrastructure manager company JI, the classification decision would seem to depend on the treatment of access charges as market sales or non-market payments.

#### *Findings and conclusions*

***Action point 10: The statistical authorities will provide a methodological note analysing the nature of the access charges paid by BDJ to JI, and whether these payments can be considered as sales for the purpose of the 50%-rule.***

### **3.3. Review of Eurostat decisions and other important methodological issues**

#### *3.3.1. EU flows*

##### *Introduction*

The Bulgarian authorities explained that the flows pertaining to the EU structural funds, transit through the National Fund, an extra-budgetary unit within the MoF, classified in S.13. The National Fund receives also the national co-financing of project financed through the EU funds. It was explained that for individual projects, the available data source enables the identification of the EU and of the national financing component. The National Fund is also responsible for the administrative tasks with respect to EU flows: it gives permissions for disbursements of EU funds to the final beneficiaries, as well as sends to the European Commission requests for costs reimbursements of the projects.

Concerning the treatment of EU flows in EDP, the Bulgarian authorities explained that the net lending / net borrowing of the National Fund on cash basis is eliminated from the working balance of the EDP table 2A.

##### *Discussion*

Eurostat enquired about the information on other accounts receivable / payable related to EU flows provided in the table II of the questionnaire related to EDP tables. Bulgaria reported transactions related to pre-accession flows on other accounts payable and receivable, as well as net transactions. The Bulgarian authorities explained that the information on other accounts receivable relates to the amount of money that the Bulgarian

government expects to receive from the EU for the projects already finished. Data on other accounts payable show advances from the EU already received for the future projects.

Eurostat concluded that based on the explanations of the Bulgarian authorities, figures reported so far in table II of EDP related questionnaire are stocks and not flows and would need rather to be reported under item "stocks" of this table. Item "flows" need to show the differences between stocks of receivables / payables between given two years.

Furthermore, the Bulgarian authorities explained that the flows related to the Common Agricultural Policy transit via the Agricultural Fund, another extra-budgetary fund. So far no direct payments on behalf of the EU were conducted by the Agricultural Fund, and the first payments will take place in 2008.

Eurostat recalled that the flows on behalf of the EU transiting through the Agricultural Fund need to be excluded from the net lending / net borrowing of S.13, in the same way as those transiting through the National Fund.

Finally, the issue of the recording of the Schengen facility and cash facility, both received for the first time by Bulgaria in 2007, was discussed. The Bulgarian authorities explained that the main beneficiary of the Schengen facility is the Ministry of Internal Affairs, for the purpose of the preparation of the entry of Bulgaria into Schengen agreement, whereas cash facility can be used for any activity of government.

Eurostat informed the Bulgarian authorities that the issues of an accounting treatment of Schengen and cash facilities are currently considered and that they will receive a methodological note once guidance is elaborated.

#### *Findings and conclusions*

***Action point 11: The statistical authorities will revise table II of the EDP related questionnaire and report correctly stocks and flows of receivables / payables related to the EU flows.***

#### Market Regulatory Agency.

##### *Introduction*

Agricultural market interventions on behalf of the EU are to be conducted in Bulgaria by a special unit of the Agricultural Fund. So far, there were no occurrences of such interventions.

##### *Findings and conclusions*

Eurostat took note of this information and recalled that interventions undertaken by such entities conducted on behalf of the EU need not to increase gross fixed capital formation of general government, following the conclusions of the Financial Accounts Working Group discussions on this issue.

#### 3.3.2. *State guarantees*

##### *Introduction*

Eurostat enquired about the meaning of "not applicable" status for most of the items in table IIIa of the questionnaire related to the notification tables, except for the reported items "total stock of outstanding guarantees" (with breakdown provided on "public corporations" and "other") and "new guarantees provided".

#### *Discussion*

The Bulgarian authorities replied that in recent years there have been no calls by beneficiaries on government guaranteed debt. The energy sector accounts for approx. 80% of the total stock of provided guarantees (mainly the Kozloduy nuclear plant for the amount of 300 million euro), followed by transport companies with a share of approx. 14%. It was also explained by the Bulgarian authorities, that there are very strict procedures in place for granting government guarantees, and each year the budget foresees a specific amount of resources for the case of a guarantee call.

#### *Findings and conclusions*

Eurostat took note of these comprehensive explanations, noting that the total stock of outstanding guarantees is relatively low in comparison to some other Member States, with an amount of approx. 2% of GDP in 2006.

#### Belene Nuclear project.

##### *Introduction*

Eurostat enquired about the nuclear project of the Belene Power Company (BPC) that is to be formed and which will be responsible for the construction, operation, maintenance of the future power plant, and sales of electricity from it. According to the available information, BPC will be at least 51% owned by a 100% state owned company (the Bulgarian National Electric Company - NEK). Eurostat asked whether government will not provide any guarantees for the project.

##### *Discussion*

The Bulgarian authorities explained that the project is indeed envisaged in the budget for 2008, but as of March 2008 it has not been effectively signed, and thus it is not clear whether it could involve government guarantee or not.

##### *Findings and conclusions*

Eurostat noted that this project would need to be carefully followed by the BSI in several aspects: sector classification of BPC, treatment of government guarantees and debt of BPC.

#### *3.3.3. Debt assumptions, debt cancellations, and debt write-offs*

##### *Introduction*

Eurostat enquired about the lack of any data in table IV of the EDP related questionnaire.

##### *Discussion*

According to information from the MoF, stock data of government claims on debt of foreign governments towards Bulgaria are not collected at the Ministry, but might be available from the accounting agent of such claims (a private bank). The BNB explained that such information is collected and included in the asset side of the international investment position. According to the BNB, such claims amount currently (end of 2007) at 2.71 billion BGN (at nominal value). The BSI explained that stock data of debt of public corporations towards government are available from the trial balances of non-financial corporations.

Furthermore, Eurostat enquired about the availability of data on debt cancellations and debt assumptions. The Bulgarian authorities informed that such information would be in principle available in the External Finance Directorate of the MoF from the accounting agent. They also indicated that most of such operations are registered and, as they usually involve also cash repayments of part of the debt, there should be no difficulties in identifying such transactions. According to the Bulgarian authorities, there might be two important debt cancellations / restructuring operations that took place in recent years: i) an agreement with Iraq signed and relevant for year 2008; the Bulgarian authorities could not provide immediate information whether this agreement actually involves a debt cancellation; ii) debt of Libya, for which there were no precise details known.

#### *Findings and conclusions*

***Action point 12: The Bulgarian authorities will enquire about the reliable data sources for the reporting of stocks of government debt / claims against foreign governments and public corporations, as well as debt cancellations for the purpose of table IV of the EDP related questionnaire. Debt cancellations should be correctly accounted in EDP as capital transfer (expenditure).***

#### *3.3.4. Super-dividends*

##### *Introduction*

Eurostat enquired about the lack of data on super-dividends in the table V of the EDP related questionnaire, taking into account that for all years 2003-2006 information on distributions from public corporations are available in that table.

##### *Discussion*

The Bulgarian statistical authorities informed Eurostat that so far the dividends from public corporations have not been tested against the profits from which they were distributed.

Furthermore, Eurostat asked about details on the total amount of distributions reported in table Va for the year 2006 of 449.7 million BGN<sup>4</sup>. According to the Bulgarian authorities, this amount includes mostly payment from Bulgargas treated as dividend.

#### *Findings and conclusions*

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<sup>4</sup> In the April 2008 EDP related questionnaire, this amount was revised to 439.1 million BGN.



As a conclusion, Eurostat recalled that government proceeds from sale of assets or from reserves of public companies should not be treated as dividend revenue. Eurostat also noted a low availability of data on dividends and super-dividends in the table V of the EDP related questionnaire. However, it seemed that the Bulgarian authorities have already the necessary detailed information for such reporting.

***Action point 13: The Bulgarian statistical authorities will introduce a regular monitoring of dividends paid to government by public corporations and by BNB against profits from which they were distributed, following the rules for the super-dividends test.***

***Action point 14: Starting from the April 2008 EDP notification, the Bulgarian authorities will report detailed information on dividends and super-dividends in the tables Va and Vb of the EDP related questionnaire. In particular, lines 27, 29, 30, 31 of table Va, and blocks IIB and IIC of table Vb will be reported.***

### 3.3.5. Military equipment expenditure

#### *Introduction*

With respect to good availability of data on delivery basis provided by the Bulgarian authorities in the table VI of the EDP related questionnaire, Eurostat enquired on why cash data are used in the EDP tables. Eurostat noted that for the years 2003-2006, both measures are different only for the year 2005 and for a relatively small amount of 32.1 million BGN.

#### *Discussion*

The Bulgarian authorities informed that the delivery data are available from the trial balances. For the April 2008 notification, the amounts of other accounts receivable / payable for the military expenditure will be introduced in the correction lines of the EDP tables to record the military expenditure on a delivery basis, following the Eurostat decision.

#### *Findings and conclusions*

***Action point 15: The Bulgarian authorities will record from the April 2008 EDP notification, military expenditure on a delivery basis<sup>5</sup>.***

#### Multi-purpose corvettes.

#### *Introduction*

Eurostat also enquired about the status of the project of acquisition of the military multi-purpose corvettes, on which Eurostat was consulted by the Bulgarian authorities in 2007.

#### *Discussion*

The Bulgarian authorities explained that the initially foreseen contract has not been yet signed.

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<sup>5</sup> Completed for the April 2008 EDP notification.

### *Findings and conclusions*

Eurostat took note of this information.

#### *3.3.6. Private Public Partnerships (PPP)*

##### *Introduction*

The Bulgarian authorities presented the national framework for the PPP contracts. Eurostat was informed that there is no specific law on PPP arrangements and that such type of contracts will be elaborated on the basis of concessions and public procurement laws. So far, the PPP contracts in the meaning of the Eurostat decision, where government is asking the partner to provide a specific assets and a service that it will pay for, have not yet been concluded.

Concerning concession type contracts, the corresponding ministries, who represent the grantor and who is responsible for the state property, which is subject to the concession, are very active in contracting such arrangements and currently there are approx. 400 concession contracts running in Bulgaria, e.g. in natural resources exploration, mineral water production, etc. The register of concession contracts and reports on their execution are publicly available from the government website. In 2007 concession fees received by government amounted to approx. 50 million BGN and these were recorded in national accounts as non-tax revenue. The signed concessions with biggest investment costs are: Varna and Burgas airports, Varna ferry and ship terminals, Balchik, Oriahovo, Svishtov ports.

##### *Discussion*

Eurostat took note of these explanations and enquired whether the BSI has analysed the concession contracts signed. It was noted that in national accounts there might be a different treatment of the concession fees received by government than in the budgetary classification, and an accrual time of recording of such revenue might be also different than cash.

According to the information received from the BSI, no accounting analysis of concession contracts signed has been undertaken yet.

### *Findings and conclusions*

Eurostat welcomed the transparency for the public concerning the concession agreements granted by government. Concerning the national accounts treatment, the BSI would need to monitor such contracts for establishing the appropriate recording of government revenue.

***Action point 16: The Bulgarian authorities will ensure the monitoring of concessions and PPP contracts for the purpose of the EDP and national accounts accounting.***

#### Trakia Motorway.

##### *Introduction*

Further, Eurostat enquired about the current developments in the Trakia Motorway project, on which it was consulted by the Bulgarian authorities in 2005 and 2006, and asked when the second addendum to the contract, together with the national accounts analysis of the BSI, would be available.

*Discussion*

The Bulgarian authorities indicated that they are expecting the relevant documentation from another ministry and as soon as it is available, the required documents will be transmitted to Eurostat.

*Findings and conclusions*

***Action point 17: Once available, the Bulgarian authorities will provide to Eurostat the second addendum to the Trakia Motorway contract, together with the national accounts analysis of the BSI<sup>6</sup>.***

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<sup>6</sup> The Trakia Motorway concession contract has been in the meantime cancelled, as the construction company was not able to secure adequate financing from financial institutions.

## Annex I

### List of participants of the EDP dialogue visit to Bulgaria 4-5 March 2008

Name	Institution	Department
Luca Ascoli	European Commission (DG Eurostat)	Public Finance Unit, National and European Accounts Directorate
Jean-Pierre Dupuis	European Commission (DG Eurostat)	
Marcin Woronowicz	European Commission (DG Eurostat)	
Bozhil Kostov	European Commission (DG ECFIN)	
Hans Olsson	European Central Bank	
Iana Paliova, Director	MoF	Treasury Directorate
Milena Bojkova, Director	MoF	Government Debt and Financial Markets Directorate
Marina Stojcheva	MoF	Treasury Directorate
Mila Napetova	MoF	Treasury Directorate
Boriana Nestorova	MoF	Treasury Directorate
Desislava Georgieva	MoF	Government Debt and Financial Markets Directorate
Petya Nenkova	MoF	Government Debt and Financial Markets Directorate
Dimo Vassilev	MoF	Tax Policy Directorate
Galina Stojcheva	MoF	Tax Policy Directorate
Bojko Petev	MoF	Tax Policy Directorate
Valio Tochev	MoF	Tax Policy Directorate
Vladimir Goranov	MoF	State Expenditures Directorate
Julia Tsaneva	MoF	State Expenditures Directorate
Roumen Porojanov, Director	MoF	Real Sector Finances Directorate
Vassil Ivanov	MoF	External Finance Directorate
Dora Stoyanova	MoF	External Finance Directorate
Nikoleta Gluhcheva	MoF	National Fund Directorate
Todor Todorov, Director	NSI	National Accounts Directorate
Anatoli Hristov	NSI	
Antoaneta Hristova	NSI	
Elena Bakalova	NSI	
Emil Dimitrov, Director	BNB	Statistics Directorate
Radi Ivanov	BNB	
Daniela Dobрева	BNB	
Valeri Popov	National Revenue Agency	
Ivan Pejchinov	National Revenue Agency	
Hristina Mitreva, Chief Actuary	National Social Security Institute	
Ivan Ivanov	Ministry of Defence	