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FINAL FINDINGS

EDP dialogue visit to Croatia

26-27 February 2015

Eurostat dialogue visit to Croatia

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Final findings

Executive summary

Eurostat carried out an EDP dialogue visit to Croatia on 26-27 February 2015. The previous Eurostat EDP dialogue visit to Croatia had taken place on 26-27 June 2013.

The objective of the February 2015 EDP dialogue visit was to review the implementation of ESA methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions, are duly implemented in the Croatian EDP and Government Finance Statistics (GFS) data. A significant amount of time was devoted to the issues of data sources and the delimitation of the General Government sector under implementation of new ESA 2010 rules.

The discussions primarily focused on the implications for the Croatian EDP data compilation arising from: 1) the changeover to the new methodological framework ESA 2010, 2) the recent public sector accounting reform, 3) compilation and estimation of gross fixed capital formation figures 4) data sources on taxes and 5) other relevant issues relating to EDP and GFS data reporting.

In particular, Eurostat reviewed with the Croatian statistical authorities the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, the quality and exhaustiveness of primary data source, and the sector classification of specific units under the new ESA 2010 rules, e.g. HBOR (Croatian Bank for Reconstruction and Development), DAB (State Agency for Deposit Insurance and Bank Rehabilitation), HANFA (Croatian Financial Services Supervisory Agency) and HAKOM (Croatian Regulatory Authority for Network Industries).

Eurostat very much appreciated the co-operation and transparency demonstrated by the Croatian statistical authorities during the meeting and the documents provided before the dialogue visit.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Croatia on 26-27 February 2015.

Eurostat was represented by Mr Eduardo Barredo Capelot (Director of Directorate D "Government finance statistics (GFS) and quality"), Mr Luca Ascoli (Head of Unit D1 "Excessive Deficit Procedure and methodology"), Mr Denis Besnard (Unit D1) and Ms Milana Brkić (Desk Officer for Croatia). DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

Croatia was represented by the Croatian Bureau of Statistics (CBS), the Croatian National Bank (CNB) and the Ministry of Finance (MoF). In addition, representatives from the Agency for Public-Private Partnerships, the Ministry of Defence and the MoF units Tax administration and the State Budget Treasury participated for some of the agenda points.

The previous Eurostat EDP dialogue visit to Croatia had taken place on 26-27 June 2013.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA methodology and to ensure that provisions of the ESA Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions, are duly implemented in the Croatian EDP and Government Finance Statistics (GFS) data.

The main aim of the EDP dialogue visit was to review the implementation of ESA 2010 methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt, as well as Eurostat's decisions, are duly implemented in the Croatian EDP and Government Finance Statistics (GFS) data. In addition, a significant amount of time was devoted to the issues of data sources and the delimitation of the General Government sector under implementation of new ESA 2010 rules.

With regard to procedural arrangements, the Main Conclusions and Action Points would be promptly sent to the Croatian statistical authorities for review. Then the Provisional Findings would be sent to the Croatian statistical authorities for review and comments. After this, Final Findings will be sent to the Croatian statistical authorities and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

1.1.1. Institutional cooperation and EDP processes

Introduction

In the EDP Notification three institutions, the Croatian Bureau of Statistics (CBS), the Croatian National Bank (CNB) and the Ministry of Finance (MoF) are involved, but the final responsibility for EDP reporting is of the CBS. A working group of the three institutions was established in 2013 to discuss all methodological and classification issues. The working group has meetings regularly, once or twice every quarter, which can take place more often before or during the EDP Notifications. EDP tables are officially reported to Eurostat by the CBS. The Croatian Bureau of Statistics compiles the EDP Tables 2, the Croatian National Bank compiles the EDP Tables 3 and the Ministry of Finance compiles forecast data.

Non-financial government ESA tables (ESA Table 2, 9, 11 and 25) are compiled by the statistical office. ESA Tables 6, 7, 27 and 28 are compiled by the Croatian National Bank.

Just before the last dialogue visit in June 2013, CBS took measures, in cooperation with the MoF and the CNB, to take over the responsibility for compiling and transmitting historical EDP data, since MoF was previously responsible for EDP data compilation and transmission to Eurostat.

The latest version of Memorandum of Understanding (together with the annexes) which was signed in July 2013, ensures the independence of the statistical office, as well as the consistency of the EDP process with the European Statistics Code of Practice and the Code of Best Practice.

Discussion

Eurostat mentioned that the Memorandum of Understanding contains the deadlines for delivery of data sources from the Ministry of Finance to the Croatian Bureau of Statistics and the Croatian National Bank, in order to compile the EDP Notifications on time. However, from past experiences those deadlines were not always respected as there was late delivery of data sources from the MoF, as it was the case in April 2014. Eurostat asked whether some actions have been taken in order to prevent such late deliveries of data. Representatives from MoF explained that significant measures were taken in order to anticipate this problem. The Ordinance on financial reporting in budgetary accounting has been changed in January 2015, in order to bring forward the deadlines for the delivery of financial reports from central and local budgetary users to the MoF. The deadlines for submission of financial reports have been shortened by one month, and they have now to be submitted until the end of February. It was concluded that the measures taken will hopefully be sufficient in resolving this problem, and that from the April 2015 EDP Notification onwards, the data will be delivered on time respecting the deadlines from MoU.

Findings and conclusions

No action points were identified.

1.1.2. Quality management framework

Introduction

The Croatian statistical authorities provided a flowchart of the EDP statistics production process in March 2014. The flowchart covers all the institutions, upstream providers and data sources involved in EDP process.

In the process of the production of EDP statistics, it is important to have a quality management framework put in place. A process of collecting the data from the upstream entities and written procedures for the responsibilities of the each institution for collecting the data from data providers should be established. Data transmission should be a formalized as well as standardized process.

An action point regarding Revision policy from the last dialogue visit regarding the EDP Inventory, remains open:

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

Together with the other requested document prior to the mission, the Croatian Statistical Office has submitted to Eurostat a copy of the draft EDP/GFS revision policy. This seems to be in line with the suggestions provided during the EDP mission in June 2013 and includes guidelines for revising the complete time series and quarterly data.

Discussion

As there have been, so far, no upstream visits in Croatia dealing with quality issues in statistical processes, Eurostat asked whether the reporting obligations of upstream entities (e.g. ministries, agencies, Extra-budgetary funds, reclassified public corporations) exist in order to provide the data to the Croatian EDP statistics compilers.

The Croatian statistical authorities explained that there is a provision in Croatian law on statistics which obliges upstream entities to provide the data to the CBS. National legislation is in line with relevant EU legislation for EDP and GFS compilation. By analysing the sector classification of the units, the CBS receives on request extra data from all upstream entities, whatever their classification is, on request, which are used for statistical purposes. There are no specific provisions for getting more data, for instance, from units in General Government sector, as there is no need for that, since there are explicit provisions to that in the official statistical law. Apparently, there are no problems of delivery of data from the upstream entities to the CBS, the response rate from upstream entities being high.

There is at present an internal unit being established for assessing the statistical processes in the CBS, which can come up with the recommendations, but since EDP is rather a new activity in the CBS, an assessment has not yet been undertaken. Furthermore, there will be soon a special unit set up in the CBS, which will be dealing with quality issues.

Concerning the Revision policy, the note on the Revision policy which has been sent by the Croatian statistical authorities prior to the EDP mission contains all relevant information. Eurostat asked whether the CBS plans to publish the Revision policy. After the publication of general Revision policy, the EDP Revision policy will also be published.

Findings and conclusions

Action Point 1: Eurostat takes note that the Croatian statistical authorities will publish the EDP Revision policy document for the first time, once the general Revision policy will be endorsed.

1.1.3. Audit and internal control arrangements

Introduction

Council Directive 2011/85/EU requires that, as concerns national systems of public accounting, Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of General Government and containing the information needed to generate accrual data with a view to preparing data based on the ESA standards. Those public accounting systems shall be subject to internal control and independent audits.

According to the questionnaire on internal control and audit which Eurostat received in January 2014, the system of internal controls and internal audit seems to exist at the level of the organizational units in the bodies classified within central government, local government and social security funds.

Discussion

The representative from the CBS elaborated about the audit and the internal control arrangements established in Croatia. There is a supreme audit body, the State Audit Office (SAO), which is not only responsible for the audit of the bodies classified in General Government but also for the companies and other legal entities in which the Republic of Croatia holds the majority of shares. It is also responsible for the audit of the use of EU funds and other funds granted by the other international organizations. The audits are performed according to the SAO's annual plan, which includes units classified in General Government which are audited each year. The audit of the units classified in the public sector (e.g. Croatian Railway Infrastructure Company, Croatian Radio-Television) is decided based on the performed risk assessment, the financial significance of the entities, the results of previous audit, etc. After the audit is completed, the findings are publicly available on the website of the State Audit Office.

In September 2014, the Croatian Bureau of Statistics organized a meeting with the SAO, in order to include the SAO in the work of compilation of EDP statistics. As a first step of cooperation between the institutions, it was unofficially agreed that the SAO would be included in the EDP working group. After that, it will be decided whether there would be a need for signing an official cooperation agreement between these two institutions.

The CBS also offered help to the SAO as regards the setting of the programme for performing the audit of data used in EDP Notifications according to the ESA methodology, particularly for the companies Croatian Railway Infrastructure, Croatian Radio-Television and Croatian Motorways, as up to now the findings from the SAO audits are not so relevant for the CBS in the context of the EDP process, since the SAO audits are not based on national accounts methodology.

Eurostat encouraged the discussion and cooperation with the State Audit Office and asked to see the conclusions which will be reached together at the end of the process.

Regarding the internal control arrangements, the Croatian representatives explained that, at the level of ministries, there are internal audit services established in each ministry. Those internal audit services are also in charge for auditing all the units which are under responsibility of a single ministry. Besides the internal audit services, there are financial control units established at the level of each unit too. There is also a law on fiscal responsibility in force for each entity classified in General Government sector. The head of each unit submits, at the end of each year, a Statement on fiscal responsibility, where the legal spending of financial sources and functioning of established internal controls are confirmed.

Findings and conclusions

Action Point 2: Eurostat takes note of the initial contacts of the CBS with the State Audit Office, which might in the future take part in the EDP working group.

1.1.4. EDP Inventory

Introduction

The inventories constitute an essential element in the assessment made by Eurostat of the quality of the data reported by Member States. An EDP Inventory is still missing in the case of Croatia. In the EDP dialogue visit in June 2013 Eurostat explained the importance of working on completing a detailed inventory on the methods, procedures and sources used for the compilation of actual deficit and debt data and the underlying government sector accounts.

An action point from the last EDP dialogue visit regarding the EDP Inventory is still open. The action point was as follows:

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

Discussion

Eurostat received a draft EDP Inventory prepared by the Croatian statistical authorities in November 2013, based on ESA 1995 rules. The document received was only partially completed. Eurostat invited the Croatian statistical authorities to complete the EDP Inventory thoroughly and resend it as soon as possible. Representative from the CBS explained that the majority of the EDP inventory has been adapted to the new ESA 2010 rules, and the rest is planned to be finalized soon and to be published, at the latest, by October 2015 EDP Notification.

Findings and conclusions

Action Point 3: Eurostat welcomes the intention of the Croatian statistical authorities to publish the Inventory on sources and methods for EDP, at the latest, by October 2015¹.

¹ The first draft of the EDP inventory was provided to Eurostat on 9 October 2015.

2. Review of key data sources

Introduction

The data sources used for the compilation of EDP tables in Croatia seem to be fragmented and not fully consistent between the three institutions (the CBS, the CNB and the MoF).

The public entity FINA is the central data source in Croatia. All public and private entities in Croatia send their financial reports to FINA. Budgetary accountancy in Croatia is based on a modified accrual principle, i.e. revenues are recorded on a pure cash basis, whereas expenditure is recorded on an accrual basis. The Croatian statistical authorities explained that modified accrual principle implies, among others, that revenues are recorded in the reporting period in which they become available, provided that they are measurable, and the expenditures are recorded based on occurrence of transactions (obligations), independently of their payment.

The coverage of units for budgetary purposes is not identical to the coverage of the General Government sector according to the ESA 2010 methodology, for both Central Government and Local Government.

Prior to the EDP visit, the Croatian statistical authorities provided an overview of the data sources used for the compilation of EDP tables and Questionnaire tables.

Data from the Ministry of Finance are used for the compilation of the working balances in EDP Tables 2. The compilation of the working balance of the budgetary Central Government in the EDP reports is based on data from the budget execution (SAP IT system of the State Treasury). The working balance for Central Government is on a pure cash basis and does not include any financial transactions or any accrued element. For Local Government, the data on modified accrual principle from financial reports (FINA database) are used.

The working balance of EDP Table 2A corresponds to the budget execution, as published in the Croatian Official Journal.

Discussion

Eurostat thanked the Croatian statistical authorities for providing, in advance of the mission, very detailed information on the data sources used in the compilation of EDP Notification tables.

Representative from the CBS elaborated on the data sources used for the compilation of non-financial accounts. The main data sources are financial reports from FINA, while additional data sources are FINA reports P1/P2. Accrual interest data are calculated at the CNB and transmitted to the statistical office.. Analytical data concerning EU flows are received from the Ministry of Finance, both on payments to EU budget and on EU funds (National Fund). The Agency for public private partnership is the main data source on projects related to public-private partnerships. Furthermore, data on military equipment are received from the Ministry of Defense, which provides also an additional detailed breakdown in their financial statements on the items regarding gross fixed capital formation. Data on time adjusted cash for D.2 and D.5 is transmitted from the CBS to the CNB, which enables the CNB to compile the item related to F.8.

The main data source for non-financial transactions not included in working balance is the Ministry of Finance.

Representative from the CNB illustrated the main data sources used for the compilation of Maastricht debt figures in the EDP tables 1 and 3. The main source of data is the public debt management system, where information is available on a security-by-security basis. The other important data sources are Monetary and Financial Institutions System and the HBOR reporting system, together with the internal CNB statistical reporting system established for supervision purposes of financial institutions in Croatia. Furthermore, there are also external debt statistics, which are provided directly by the Ministry of Finance, both for loans and debt securities.

Regarding accrual data on interest, the CNB is using an internal Monetary and Financial Institutions System. The HBOR analytical system serves for collecting the data on accrual interest and on loans provided from HBOR to General Government units.

Other sources for financial accounts are data from the Zagreb stock exchange trading reports in order to calculate the stock of assets on shares and other equity, for the listed companies on the stock market. Transactions on shares and other equity have been provided by the MoF to the CNB for one set of units, while for the other units those data are provided from CERP (Restructuring and Sale Center) and DUUDI (State Administrative Office for State Property Management).

It was explained that, currently, the CNB is in process of establishing a new reporting system for equity stocks on the asset side of the government, which would be in the form of a special analytical survey on those data which are currently available on a more aggregated level in the FINA balance sheets.

The CNB is provided, on a monthly basis, with the data on guarantee calls from the MoF. This enables the CNB to detect whether and to whom the debt should be assumed in national accounts, and to calculate the capital transfers for those calls for which the third call did not yet take place.

The other main data source is FINA, with annual balance sheets, for budgetary users and Extra-budgetary funds. The coverage in FINA is almost the same as for the ESA 2010 sector delimitation, except for four units (Croatian Radio-Television, Croatian Railway Infrastructure Company, Croatian Motorways and Motorway Rijeka Zagreb). According to the new accounting law, which is on force since January 2015, coverage of units submitting the budgetary reports will be aligned with ESA 2010, meaning that the units mentioned above are obliged to send two types of the reports to FINA – according to the budgetary bookkeeping rules and according to the entrepreneurial bookkeeping rules. However, these reports will be available only in 2016 to the EDP compilers, for the year 2015 onwards.

The CNB receives, from the MoF, on an annual basis, the data on loans provided by central government. It was agreed recently by the two institutions to improve the format of the current analytical report, which is under preparation at the moment. The new reporting format would ease the process of performing the capital injection tests.

Statistical discrepancy

Eurostat raised a question about the statistical discrepancy which existed in the EDP tables, and thanked the Croatian statistical authorities for sending a note on the issue. In the October 2014 EDP Notification the statistical discrepancy was reduced due to the following reasons: update of

data sources for the public corporations Croatian Radio-Television and Railway Infrastructure Company, recording of debt instrument with discount in the year in which debt instrument is repaid, and a correct recording of the court decision against the MoF in favor of City of Zagreb at the level of Local Government.

Eurostat wondered why there had been an update of data sources for public corporations – Extra-budgetary funds (Croatian Radio-Television and Railway Infrastructure Company), for the previous years (e.g. for 2011), as these units were already included in the General Government sector before the implementation of new ESA 2010 rules. Representative from the CNB explained that some items from the balance sheet of these two units were not included in the item F.89. Net borrowing/net lending of other bodies not included in the working balance in EDP Table 2 was not changed, but the changes could be observed only in the EDP Table 3, since the increase in F.89 concerned only the financial accounts.

Moreover, the CNB informed Eurostat that during the investigation on statistical discrepancies, a difference was found between FINA and the CNB data base on AF.2, amounting to HRK 500 million. It was explained that the CNB reports had been used for the compilation of item AF.2 in the financial accounts (EDP Tables 3), as it seems that they provided a better coverage of units. In FINA, no report exists on the bank account used for pre-accession EU fund purposes. However, it was also important to mention that, despite the fact that a deposit of a special bank account for pre-accession EU funds was not tracked in FINA, revenues and expenditures related to movements on the bank account of EU flows were recorded in the financial reports in the line ministries classified in Central Government, which means that all the transactions regarding EU flows were captured in non-financial accounts (EDP Tables 2). Data from this account will be included in the Balance sheet of 31 December 2015.

The conclusion which was reached at the end of the discussion was that there was no impact on statistical discrepancy, as the revenues and expenditures associated with the bank account were always neutralized in the accounts. A stock of assets in the bank account opened exclusively for EU flow purposes still exists, which is planned to be used in the near future, but it will not impact B.9, and Eurostat expects that this would be recorded in the accounts as reduction in F.2 Currency and deposits.

Accounting reform

The recent accounting reform was also discussed during the meeting. Representative from the Ministry of Finance explained that last year, in cooperation with the CBS and the CNB, changes to the Chart of Accounts have been made in order to ensure a better quality of data for the compilation of EDP Notifications. The new Chart of Accounts is in force since January 2015, and the new improved version of the Chart should help in eliminating the problems in the consolidation processes, especially at the level of the Local Government budget.

Changes and improvements made to the Chart of Accounts in the chapter related to the EU flows are considered to be also very important. EU funds which are given from the State budget to the Local Government units cannot be recognized either as revenue or expenditures, until the Local Government units undertakes and provide information on the expenditure.

The deadlines for the submission of annual financial reports at all levels of the government - Central Government, Local Government, Extra-budgetary funds - were shortened because of the EDP Fiscal Notification, as the reporting deadlines for some entities were not in line with the EDP time schedule. This should allow the EDP compilers to receive the source data on time.

Table 1: Reporting deadlines for submission of annual financial reports

Reporting deadlines for annual reports			
User	Report	Old deadline	New deadline
CG budget users (<i>level 11</i>)	BS; Revenue&exp, assets&liabilities	15-Feb	31-Jan
CG consolidated (<i>level 12</i>)	BS; Revenue&exp, assets&liabilities	31-Mar	28-Feb
State budget (<i>level 13</i>)	BS; Revenue&exp, assets&liabilities ; Cash flow	31-Mar	28-Feb
LG budget users (<i>level 21</i>)	BS; Revenue&exp, assets&liabilities	15-Feb	31-Jan
LG budget (<i>level 22</i>)	BS; Revenue&exp, assets&liabilities ; Cash flow	28-Feb	15-Feb
LG budget consolidated (<i>level 23</i>)	BS; Revenue&exp, assets&liabilities	31-Mar	28-Feb
CG extra-budgetary fund users (<i>level 41</i>)	BS, Revenue&exp, assets&liabilities; Cash flow	28-Feb	15-Feb
LG extra-budgetary fund users (<i>level 42</i>)	BS; Revenue&exp, assets&liabilities	28-Feb	15-Feb

FINA will consolidate all these reports in one data base, on the 6th of March, which will be then redistributed to the CBS and the CNB. However, these changes would be available only from the April 2016 Notification onwards.

Furthermore, representative from the MoF provided information on the issues of consolidation between the Social Security funds subsector. From the 1st January 2015, the Croatian Health Insurance Institute (HZZO) has been separated from Central Government. Regarding the consolidation between HZZO and hospitals, additional analytical accounts were introduced in the new Chart of Accounts, which will allow the consolidation and the elimination of flows between governments owned hospitals and the Croatian Health Insurance Institute. It would be also possible to distinguish the government owned hospitals and the private hospitals in the process of the consolidation, as earlier the Croatian Health Insurance Institute was using the same accounts for recording transactions with the private hospitals and the government owned hospitals. This improvement helped to achieve a greater transparency and would ease the process of compilation of EDP Table 2D for the Croatian statistical authorities in the future.

Gross Fixed Capital Formation

The issue of the gross fixed capital formation was discussed extensively. In the past, there has been a problem concerning the significant revisions of GFCF between the April and October EDP Notification tables, as the investment data changed significantly between earlier and later data sources. Additionally, data on GFCF calculated by the CBS could be slightly overestimated. In advance of the visit, the Croatian statistical authorities sent a note on the reconciliation exercise between the CBS and the MoF on GFCF figures, as the difference in data on GFCF between different data sources is significant.

During the meeting, representative from the CBS explained in detail how the calculation of GFCF is done in practice. The main data source for GFCF is the Investment survey, but also other administrative sources are used, such as FINA reports and the Ministry of Finance data, in order to ensure that all the data regarding GFCF are included. The main problem the different data sources used is the different sector coverage of General Government according to ESA methodology.

Eurostat asked why there are differences between the three data sources, and especially why there is a significant on expenditures of gross fixed capital formation between the MoF data sources and the other data sources. In the MoF data source, the compilation of GFCF is done for the units within the coverage of budgetary and extra-budgetary users (differing to some extent from the sector coverage of General Government in ESA methodology). For State Budgetary users, cash data is used from the SAP system of the State Treasury, which does not include data on own and earmarked revenues and expenditures. For Extra-budgetary funds classified within the State Budget, which are part of other Central Government bodies, operational reports are used for the compilation of GFCF. These are mainly compiled according to the modified accrual principle. For the Local Government units and Local Government Extra-budgetary funds (County road authorities), reports from FINA are used, which are also based on the modified accrual principle. The coverage of units in the MoF is not complete for the statistical purposes of compilation of GFCF.

It seems that data on gross fixed capital formation compiled in the CBS are of better quality for statistical purposes than the MoF data, because of the better coverage according to ESA principles and better data exhaustiveness, therefore it was concluded during the meeting that the MoF data source should not be used in the EDP compilation process.

When calculating the GFCF for the April Notification, the CBS is using provisional FINA quarterly data (only three quarters available). Due to the fact that the data are not finalized yet at that stage, it is often the case that the amount of GFCF increases between April and October Notification. For the fourth quarter, the data from all the data sources on GFCF were used (FINA, the MoF, survey.). It is also the case that for the units with the largest GFCF figures (Extra- budgetary funds and public corporation - Croatian Motorways, Motorway Rijeka-Zagreb, Croatian Roads) data are not available in April, as according to the budgetary law restrictions those units are not able to provide their annual data before the official publication of their final financial reports, which is usually in June. However, there would be some improvement from the April 2015 Notification onwards, as it was agreed that those units will send the provisional annual data to the CBS exclusively for the purpose of the compilation of EDP tables. Eurostat encouraged the CBS to make additional effort in the estimation of GFCF in the absence of final accounts, which will resolve significant systematic upward revisions between April and October Notifications.

Eurostat advised the Croatian statistical authorities to reflect on how to make sure that this problem should be minimized in the context of the EDP Notification in April 2015 and in the future. In the absence of final accounts, it was recommended not only to use what is available from the data source at that moment, but also to make a proper estimation on what the final figure could be.

Findings and conclusions

Action Point 4: The Croatian statistical authorities will send a note to Eurostat specifying exactly which transaction between subsectors of government derogates from the general

accounting principle that revenue is recorded on a cash basis while expenditure is recorded on an accrual basis. Deadline: October 2015²

Action Point 5: The Croatian statistical authorities will send a note to Eurostat specifying how the problem of inconsistency of F.2 with B.9, resulting in a possible source of discrepancy in EDP Table 3, will be fully solved with the introduction of the new Chart of Accounts. Deadline: October 2015³

Action Point 6: Eurostat welcomes the recent change in law advancing the reporting deadlines for providing data to the Croatian Bureau of Statistics, which will allow avoiding previous situations where non-negligible revisions of data took place between the April and the October EDP Notifications.

Action Point 7: The Croatian statistical authorities will inform Eurostat on how the problem of estimation of gross fixed capital formation will be solved in the April 2015 EDP Notification and in future years, and whether the introduction of the new Chart of Accounts will allow to have a fully reliable data or whether problems will still subsist in this respect.

Particular attention will be devoted on how to obtain reliable information for the April 2015 Notification on gross fixed capital formation for public owned enterprises classified inside General Government, notably on Croatian Motorways, Motorways Rijeka-Zagreb and Croatian Roads. Deadline: April 2015⁴

3. Follow-up of the October 2014 EDP reporting – analysis of EDP tables

Introduction

Eurostat thanked the Croatian statistical authorities for completing and sending the EDP Notification tables together with the EDP Questionnaire tables within the deadlines. It was underlined that Eurostat very much appreciated the Explanatory notes which are sent together with the EDP Notification. The discussion centred on was also how the data reported in the EDP tables should be improved in future.

Discussion

Regarding EDP Table 2D, Eurostat understands that in April 2015 the working balance will not be zero as before, since up to now Social Security funds were classified within Central Government and their working balance was zero by definition. The Croatian statistical authorities confirmed that, due to the accounting reform and separation of Croatian Health Insurance Institute from Central Government, a working balance for SSF would be available, but

² The answer to this action point was provided by the Croatian statistical authorities on 15th July 2015. Eurostat takes note that the interest expenditure on public debt, kept and paid by MoF, is recorded on a cash basis and not according to ESA 2010 rules.

³ A note was sent by the Croatian statistical authorities on 15th July 2015, about which data source will be used for the compilation of AF.2.

⁴ Eurostat takes note that the answer to this action point was provided by the Croatian statistical authorities. However, no proposal was done in relation to how the problem of estimation of GFCF will be solved.

only from the April 2016 EDP Notification. For the planned figures in the EDP Notification tables, there will be a working balance available already in April 2015 EDP Notification.

The Croatian statistical authorities confirmed to Eurostat that in the EDP Table 2A there were no financial transactions included in the working balance, except one. This transaction is classified as Other financial transaction (payments to FNOI – compensation payments to the owners of expropriated property), which is included in AF.3_liabilities. Capital transfer to households is recorded at the time of the issuance of each Global Bond series.

Any further transaction related to bonds is recorded as a financial transaction and cancelled out from the working balance in EDP Table 2A.

In cases when there are loans granted, loans repayment or equity acquisitions, the representative from MoF explained how the Chart of Accounts was set in 2002, and that all financial transactions are recorded on a separate group of accounts and never appear in the working balance. Therefore in working balance of the Central Government no financial transactions are included (except for FNOI).

In EDP Table 2C, when it comes to Other accounts payable, Eurostat asked why there was "M-not available" for the whole time series in the October 2014 EDP Notification, while in the April 2014 EDP Notification some amounts were reported under the same line for the year 2013. It was explained by the CBS that the payables are on an accrual basis, while receivables are on a cash basis. Sometimes it could happen that the Ministry of Finance data for expenditure from direct budget reporting (which is accrual - based) are different from the FINA data which have been used for the compilation of deficit figures. The fact that the MoF uses for the working balance consolidated reports of local units (budgets), and the CBS uses the individual reports of local budget users, where all their revenues as well as expenditures are recorded – has resulted in differences between the different data sources. Therefore the CBS recorded the differences between these data sources under other accounts payable. The CBS asked for an advice about under which line this difference should be recorded in the EDP Tables. Eurostat explained that it is possible to show these differences under other adjustments as "discrepancies", or as "miscellaneous", but certainly not under other accounts payable.

Furthermore, the EDP Questionnaire Tables were discussed. Questionnaire Table 4 was complete for other accounts receivable in October 2014. But in April 2014 there was only one line filled in. Therefore, Eurostat requested a confirmation that in the April 2015 Notification the table would be filled in thoroughly.

Eurostat noted that Questionnaire Table 5 on transactions and stocks of receivables and payables for taxes and social contributions is empty for most of its items, and no payables are reported. As explained by the CBS, there is no reliable data source for filling in this table. Eurostat advised the Croatian statistical authorities that the flows on payables could be used from Questionnaire Table 4 - payables for taxes and social contributions - for the compilation of this table too. Stocks, as the time adjusted cash basis is used, represent the absolute amount of the month for which the time adjusted cash method is used (with a delay of one month).

Questionnaire Table 6 has not been thoroughly filled in so far. There are still many items missing, e.g. the stocks of receivables of EU flow, whereas the stocks of payables have been reported. Eurostat strongly encouraged the Croatian statistical authorities to start reporting the figures on EU flows in this table from the April 2015 EDP Notification.

Regarding the line 3 of Questionnaire Table 9.1, the CNB informed Eurostat that they will receive in future more detailed data on an ESA basis in order to distinguish whether the new guarantees are issued to units classified inside General Government or to public companies, and to compile correctly the amounts of new guarantees provided. At that stage, it would be also possible to complete the line 3a.

Under the lines 19 and 20 of Questionnaire Table 9.1, stocks of debt under call/repeated call not yet assumed in ESA 2010 accounts should be reported. As Croatia follows closely calls on guarantees, it would be possible to fill in also these lines. Line 19 concerns cases when there is one call or two calls, but total debt is not yet assumed by government. Line 20 is when there is a third call but for some reason total debt has not been assumed by government. The Croatian statistical authorities explained that this line in Croatia is equal to zero.

Eurostat took note that Questionnaire Table 9.2 is currently not filled in by the Croatian statistical authorities. It seems that this table is difficult to be filled in because of the data sources which are not adjusted for this purpose. The debt assumptions are not recorded at the same time in the statistical reports which follows the MGDD and in the reporting system of the banks or of the MoF. Data for the external assumed debt exist, but for data on internal debt CNB plans to make a survey across banks to reconcile their data base with the data received from banks.

It was concluded that the table should be filled in at least with the data on external debt, while data on internal debt could also be provided as a later step and included in this table, depending on the results of the survey.

Findings and conclusions

Action Point 8: The Croatian statistical authorities will fill the EDP Table 2D from the April 2016 EDP Notification onwards, in order to report the data of Croatian Health Insurance Institute (HZZO).

Action Point 9: The Croatian statistical authorities will fill in Questionnaire Table 5 and Questionnaire Table 6 from the April 2015 EDP Notification.⁵

Action Point 10: The Croatian statistical authorities will correct Questionnaire Table 9.1 to exclude guarantees provided to other General Government units and guarantees provided by government but not activated by banks, as well as fill in line 15 and 19 in the April 2015 EDP Notification.⁶

Action Point 11: The Croatian statistical authorities will fill in Questionnaire Table 9.2, at least for the part on external debt, and possibly also for internal debt, depending on the results of the planned survey across the banks. Deadline: April 2015⁷

⁵ Action point partially accomplished. Further progress is expected in filling in Questionnaire Table 5.

⁶ Action point accomplished.

⁷ Action point accomplished.

Action Point 12: The Croatian statistical authorities will correct Questionnaire Table 10.2, to include the amounts related to the capital injection into the company *Petrokemija*. Deadline: April 2015⁸

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector

– Review of changes after ESA 2010

Introduction

The introduction of ESA 2010 has resulted in revisions to Croatian government deficit and especially debt figures.

The change in the sector classification rules triggered by the introduction of ESA 2010 had a debt increasing effect by +8.3pp /+8.6pp /+8.9pp /+9.0pp of GDP for 2010-2013. The main contribution came from the reclassification inside General Government of public corporations Croatian Motorways and Motorways Rijeka-Zagreb. Croatia was one of the Member States that had the largest revision of debt. The main reason for the reclassification of those two companies into the General Government sector was the application of the “qualitative criteria” and the application of “50% criterion” (addition of net interest). These are two government controlled entities for which the concession granted by government was the only activity.

Compared to the significant revisions of debt related to ESA 2010 in October 2014, the revisions in the deficit were less significant (+0.2pp of GDP for 2010, -0.7pp of GDP for 2012 and -0.3pp of GDP for 2013) and were mainly due to other reasons than the introduction of ESA 2010. The reasons for those revisions were mainly the update of data sources on guarantees for Central Government, the update of data sources on gross fixed capital formation and the methodological adjustments relating to the recording of FISIM and taxes.

Generally, it seems that the control criteria under ESA 2010 have been implemented accordingly, except in the case of DAB (State Agency for Deposit Insurance and Bank Rehabilitation), which was discussed during the October 2014 EDP Notification.

Discussion

The proper implementation of ESA 2010 rules in Croatia was discussed extensively. Eurostat explained that, due to the application of new rules from September 2014 on qualitative criteria, (especially on captive financial institutions and the distinctions between head offices and holding companies) there have been cases of reclassifications of units in many Member States.

Eurostat pointed out that there have been also cases in some Member States where there were units in which government had less than 50% of shares, but nevertheless the units were reclassified to government, since the government controlled the unit through various means, which are listed in ESA 2010 and in the Manual on government deficit and debt. The Croatian statistical authorities mentioned in the "Questionnaire on the implementation and impacts of ESA 2010 General Government delimitation" that there were units with less than 50%

⁸ Action point accomplished.

government voting interest, which were nevertheless considered as government controlled (e.g. Končar - Elektroindustrija). In the Questionnaire it was also mentioned that in Croatia there are non-profit institution controlled by the government, such as Croatian Waters. This unit was however already classified in the General Government sector before the introduction of ESA 2010.

The following issue raised by Eurostat concerned the implementation of the ESA 2010 qualitative criteria. Apart from Croatian Motorways and Motorway Rijeka-Zagreb, no other public units were identified as a dedicated provider of ancillary services to government.

Except for the biggest units which fulfilled the qualitative criteria under ESA 2010, a more detailed analysis of other possible cases that fall under these criteria was not performed due to lack of time. Eurostat advised that Croatian statistical authorities should perform this exercise, especially for the units classified at the local government level.

Regarding the head offices and holding companies, it seems that they exist in Croatia, but none of them is public. It was also confirmed by the Croatian statistical authorities that public defeasance structures do not exist in Croatia.

The implementation of the rules on captive financial institutions was discussed under the agenda point on HBOR.

Findings and conclusions

Action Point 13: The Croatian statistical authorities will perform the qualitative test for public units at local government level. Deadline: October 2015 EDP Notification⁹.

– Register of government controlled entities not classified in general government

Introduction

The official register of General Government units is managed by the Croatian Bureau of Statistics.

The Croatian Bureau of Statistics is responsible for performing the 50% market/non-market test, by using the business accounts (financial statements) of the companies. It seems that the test is performed once per year, and the set of indicators for performing the market/non-market test is available usually in June.

Discussion

Representative from the CNB explained the process of delimitation of General Government sector in Croatia. A Working group on sector classification has been established, consisting of representatives from all the institutions involved in the compilation of EDP Notifications. The meetings are held on a regular basis. Recently, the Working group made the decision to reclassify seven units from the non-financial and the financial sector to General Government sector. One of the units which will be reclassified to General Government is DAB (State Agency for Deposit Insurance and Bank Rehabilitation). The main reason for this reclassification, as explained by Croatian statistical authorities, was due to the Eurostat guidelines on the reclassification of these units. Also, it was concluded by the Working group that DAB does not

⁹ This action point was partially completed during the October 2015 EDP notification.

have all the elements to be an institutional unit. The other units which will be reclassified to the General Government are engaged in redistribution of income and wealth, which is a primary function of government.

Eurostat thanked the Croatian statistical authorities on completing the Questionnaire on government controlled entities not classified in General Government. The Questionnaire was reviewed in detail during the meeting.

By examining the cases of units in liquidation listed in the Questionnaire, Eurostat explained that, currently, there is an on-going process of reaching a decision about how these units will be treated, whether they will be staying outside government or not. Eurostat mentioned the rules for the entities with NACE code 6420, which refer to public holding or head offices. If the entity is a public holding controlled by government, it should be classified inside General Government. It seems that no government controlled holding companies and head offices exist in Croatia.

The Croatian statistical authorities raised the attention of Eurostat to the fact that controlling subsector for HBOR is S.125, and not S.122, as it is indicated in the Questionnaire. Eurostat took note that this issue will be corrected in the Questionnaire shortly after the meeting.

Eurostat also took note that, in the Questionnaire, the column "Liabilities – of which owed to government" is empty, due to the fact that, currently, the CBS does not have this information. It was discussed how the information could be obtained in the future, e.g. by introducing a survey. This information could possibly be found in the balance sheets of the entities, in the explanatory notes, which are not saved in FINA in an electronic format. It was agreed that at least for the ten biggest units which have liabilities over HRK 500 million, this information should be investigated and provided to Eurostat in the Questionnaire.

The part of the Questionnaire regarding the market/non-market test was discussed on a case by case basis. A significant number of companies which are in the process of liquidation, usually characterized by small number of employees and low market/non-market test, were identified. The company *Adriachem d.d.* was identified as a company with a small number of employees and a very low market/non-market test. Eurostat was informed by the CBS that *Adriachem d.d.* is in liquidation. The company *IPK Osijek* has 1 employee and the market/non-market test is zero for the last two years. According to the information from the CBS, this company is also in liquidation. For the company *Plinara d.o.o.* Eurostat took note that a technical mistake occurred for the year 2011 for the market/non-market test, which should be corrected in the Questionnaire.

It was stated by the Croatian statistical authorities that the company *Nacionalna Veletržnica d.d.* is not in liquidation, although the market/non-market test is also very low and it has only 3 employees. It was not clear what the current status of this company is. The company *DUKOM d.d.* did not comply with the market/non-market test for the last two years. Eurostat explained that it would be important to know before the April 2015 EDP Notification for these two companies, whether for the third year in a row they will not comply with the market/non-market test.

Findings and conclusions

Action Point 14: The Croatian statistical authorities will analyse the classification of units *DUKOM* and *Nacionalna Veletrznica* before the next April 2015 EDP Notification.¹⁰

Action Point 15: The Croatian statistical authorities will inform Eurostat of the proportion of liabilities towards government of the ten companies with liabilities above HRK 500 million. Deadline: December 2015

Action Point 16: The Croatian statistical authorities will correct the sub-sector classification of the unit HBOR in the Questionnaire on government controlled entities classified outside General Government, as well as perform the market/non-market test of the unit *Plinara d.o.o.* Deadline: September 2015¹¹

– State Agency for Deposit Insurance and Bank Rehabilitation (DAB)

Introduction

The Agency is, pursuant to Article 18 of the State Agency for Deposit Insurance and Bank Rehabilitation Act, a non-profit organization. It is engaged in bank rehabilitation and provides deposit insurance and is 100% owned by the government.

DAB does not receive any government grants. The Agency's funds consist of insurance premiums paid by credit institutions for the purpose of compulsory deposit insurance, and of other resources earned by the Agency through its daily activity. DAB is running a surplus, has no debt, and its assets are mainly composed of claims on premiums.

The agency is run by the Management Board of the Agency appointed by the Government of the Republic of Croatia, and its members are:

1. The Minister of Finance, automatically appointed as the President of the Management Board,
2. The President of the Croatian Parliament Finance and Central Budget Committee, appointed as a Member of the Board,
3. The President of the Croatian Parliament Committee on the Economy, a Member of the Board.

Currently, DAB is classified in the sector of "Other financial auxiliary" (S.12601) under ESA 2010, while deposit insurance premiums collected from the banks by DAB are rerouted via government accounts. As raised during the October 2014 EDP Notification, the current classification of the unit does not comply with ESA 2010 rules – MGDD, Chapter I.5 - Units engaged in financial activities, Protection funds, para 13. According to the rules, DAB should be reclassified into General Government sector. The main argument for the reclassification should be in fact that the minister himself is the chairman of DAB, and the other members of the boards are also members of government, which indicates that DAB cannot take decisions independently

¹⁰ The action point was partially completed. DUKOM complies with the market / non market test while Nacionalna veletrznica did not comply with the market non-market test for years 2011-2013. It is expected to be classified inside government in the April 2016 EDP notification.

¹¹ The market/non-market test of the unit Plinara is above 50 % for years 2011-2013. The classification of the unit HBOR will be corrected in the December 2015 transmission of the Questionnaire on government controlled entities classified outside General Government.

from government. This was communicated to the Croatian statistical authorities, who explained that the Working group on sector classification will discuss the issue of classification of DAB under ESA 2010 rules, taking into account Eurostat's recommendation, and provide a feedback to Eurostat after the meeting. No conclusion from the meeting has reached Eurostat before the visit.

Discussion

The Croatian statistical authorities explained that there was a plan to reclassify DAB in General Government during the October 2015 EDP Notification. It was also mentioned that, at present, all transactions regarding DAB are rerouted through government accounts.

Eurostat explained that, at present, the classifications of all similar units in other Member States have been reviewed and that most of the deposit guarantee funds have been already reclassified inside government. Due to the principle of equal treatment among the all Member States it was agreed that DAB will be reclassified in General Government in April 2015.

Findings and conclusions

Action Point 17: Eurostat and the Croatian statistical authorities agreed that DAB will be reclassified inside General Government in the context of the April 2015 EDP Notification.¹²

– HBOR and Croatian Financial Services Supervisory Agency

Introduction

Croatian Bank for Reconstruction and Development (HBOR)

The Croatian Bank for Reconstruction and Development (HBOR) was established in 1992 and operates in accordance with the Act on the Croatian Bank for Reconstruction and Development. The main goal of HBOR is to promote development and support exports in Croatia. The activities of the bank include granting loans for the reconstruction and development of the Croatian economy and infrastructure, supporting SMEs, promoting environment protection, providing export insurance against non-market risks to the private sector, financing agriculture projects, etc. The bank operates directly or indirectly through other banks and legal entities and provides loans at a rate below the market rate.

The bank has an independent legal status and keeps a complete set of accounts. It can enter into contracts and incur liabilities, own assets and dispose of them. It can take economic decisions and be engaged in economic activities for which can be held responsible. However, central government defines the areas of engagements. HBOR is largely financed by government. It receives budget transfers from government and can act on behalf of government, if needed.

HBOR's debt was HRK 17.3 billion at end-2013 (5.2% of GDP).

At the moment, there is a new legislation on HBOR in preparation, since May 2014. According to the available draft version of HBOR act, there are significant changes in relation to previous HBOR act, e.g. transfer of the control from the Croatian National Bank to the government,

¹² Action point accomplished.

stronger control by government over dividend policy and government approval of all the loans over HRK 100 million. HBOR is still classified in sector S.125 and the main argument of the Croatian statistical authorities for keeping HBOR in S.125 is that the new HBOR act has not yet been adopted.

Discussion

Entities which are similar to HBOR have been already discussed in other Member States, and Eurostat is currently in the process of examining a certain number of those entities.

In the case of HBOR, Eurostat pointed at two issues which needed to be discussed during the meeting; the current sector classification of the HBOR has to be examined in order to understand whether HBOR was correctly classified, and it was important to understand what could be the impact of the new draft HBOR act on the classification of this entity.

Eurostat provided a short summary of the new ESA 2010 rules on captive financial institutions. Those could be institutions previously classified in the Financial corporations sector (S.12), and which could, for instance, provide loans in the context of specific government policy, which could mean that they could have a pre-determined field of intervention. At the same time, there could be control by government on the assets side and on the liabilities side.

When it comes to the control of liabilities, Eurostat looks at either whether company can borrow on the market only with the government permission, or it is directly financed by government, or whether all the borrowing of the bank is explicitly guaranteed by the government. In the case of HBOR there was a guarantee of government on all the borrowing of the bank.

Concerning the control on the assets side, it meant that the unit could not change its statute, could not enlarge its scope of activities without government approval or had to have the ex-ante authorization of government to grant loans. In such cases it could be concluded that was control by government on the asset side.

The Croatian statistical authorities mentioned in the note provided in advance to the visit that all the liabilities of HBOR are unconditionally guaranteed by government. This indicates control by government on the liabilities side.

In addition to that, the company acts in a narrow limit which is defined by government, and government does not expect the company to behave like a normal market entity which could endeavour to obtain a market rate of return.

Furthermore, Eurostat explained that if the management board of the unit is completely represented directly by the government officials, it is evident that the unit is under direct control of the government.

Representative from the CBS confirmed that HBOR is currently classified as Other financial intermediary in sector S.125, and that the Working group on sector classification has planned to put this issue on its agenda for the next discussion. Feedback on the HBOR act which was still in its draft version could not be provided, although according to this new act it seems that the unit would probably be a part of the General Government sector. Representative from the CNB explained that a preliminary analysis of HBOR was done, however they indicated that they would prefer to postpone the full analysis of HBOR until they receive a more advanced version of the proposed text of the new HBOR act. Giving the sensitivity of the issue and the significant potential impact that the reclassification of the unit could have, it wouldn't be wise to express any preliminary view until a full analysis would be accomplished.

Since the HBOR's debt was HRK 17.3 billion at the end of 2013 (5.2% of GDP), and taking into account the significant potential impact on government debt, Eurostat pleaded for immediate discussion, first at the Croatian level and then, later on, enlarging the discussion with Eurostat.

Also DG ECFIN expressed its view on the current situation on HBOR; it was pointed out that there should be clarity on this issue as soon as possible, as this issue has potentially substantial impact, notably on the debt side. If it would be decided to leave HBOR outside General Government sector, solid arguments for justifying this decision would have to be found.

At the end of the discussion, it was concluded that the Croatian Bureau of Statistics would urgently ask to discuss the issues at the national level and provide to Eurostat a detailed document on the conclusions reached.

HANFA and HAKOM

The other issue which was raised under this point of agenda was the classification of the Croatian Regulatory Agency for Network Industries (HAKOM) and the Croatian Financial Supervisory Agency (HANFA).

Eurostat opened the discussion by saying that HANFA is a supervisory authority, which supervise financial markets, financial services, pension insurance companies and supervised entities providing those services. In ESA 2010, there are specific provisions on this issue. They are separate institutional units with a high degree of independence and they are to be classified in the sector of financial auxiliary (S.126). When analysing these bodies, it is important to understand whether they can take decisions independently from government, analyse what kind of budget they have and focus attention on the membership of the board.

The Croatian statistical authorities explained that HANFA supervises the whole financial sector in Croatia except credit institutions. HANFA is governed by the Board, which members are appointed and discharged by the Croatian parliament on the proposal of the Government of the Republic of Croatia. Board members of HANFA are not government officials. HANFA does not need the approval of the government for taking decisions. It seems that HANFA is mostly financed by fees and not from the state budget. Following all the information provided, Eurostat concluded that HANFA is correctly classified in the sector of financial auxiliary S.126.

HAKOM is another regulatory market body, which is the independent regulator of the electronic communication market, as well as of postal services and railway services markets in Croatia. Regarding the classification of HAKOM, it is currently classified in S.11. It was agreed that the Croatian statistical authorities will further investigate the case of classification of HAKOM.

Findings and conclusions

Action Point 18: The Croatian statistical authorities will provide to Eurostat a note concerning the classification of HBOR as soon as possible and in any case before 20th March 2015.¹³

Action Point 19: The Croatian statistical authorities will investigate the reason why HAKOM is at present classified outside the General Government sector. Furthermore, it was confirmed that

¹³ Action point accomplished. The result of the analysis has shown that HBOR should be classified inside General Government sector.

HANFA is at present correctly classified outside General Government sector. Deadline: September 2015¹⁴

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

The Croatian Bureau of Statistics is using the time-adjusted cash method for recording taxes. Currently, the CBS applies a one month time adjustment to VAT cash taxes. A one month and four months' time-adjustment is applied to personal income taxes and corporate income taxes, respectively. Both time-adjustments are based on legal and administrative provisions on the payment of personal and corporate taxes. As regards corporate income taxes, in the April notification for the year n-1, CBS provides estimates, which are later revised in the October notification, when cash data for February, March and April are available.

The coverage of taxes reported in National Tax List has been extended due to the inclusion of new taxes in the categories D.214A excise taxes were introduced in 2013 – TAC method, and D.214F (Taxes on lotteries, gambling and betting).

The current problem concerning data sources is the difference in revenue of approximately HRK 800 million, of which approx. 450 million refers to the court case of City of Zagreb and to the recording of the personal income tax revenues of the City of Zagreb. This was a one-off transaction, in which the tax revenue was recorded in the financial reports of City of Zagreb, based on court decision, without the cash having been received.

The problem however remains with the rest of the unexplained difference of HRK 400 million. This was discussed during the meeting.

Discussion

The representatives from the Tax authority explained the definition of tax debt reprogramming. Rescheduling of tax debts means that the Tax administration allows different groups of tax payers to reschedule their debts for a certain number of months, with a favourable interest rate.

Taxes in Croatia are recorded on a time-adjusted cash method and on a cash basis. Eurostat recalled that even though some taxes are reprogrammed, this should not affect their recording.

The representative from the CBS explained that the main data sources for compilation of taxes are P1/P2 reports from FINA, which are reported on a cash basis. Those reports do not include reprogrammed tax debt for VAT. However, the other data source on taxes, called the PR_RAS report, contains that information, even though for the purpose of the fiscal notification it is not detailed enough and data are reported on annual basis. The problem arises since the data sources used for compilation of EDP tables are P1/P2 reports, which do not include the amounts of reprogrammed tax debt which occurred in the year 2013. Due to this, it seems that deficit of 2013 could have been overestimated by HRK 347 million.

¹⁴ This action point was partially accomplished.

A similar problem occurred also with the personal income tax, the difference arising because of the refunds based on annual tax declarations. This fact also led to an overestimation of the deficit for HRK 431 million.

In this context it would be important to understand which institution is precisely responsible for P1/P2 reports, as it seems that it was very difficult for the CBS to get clarifications on the data contained in the reports. Ministry of Finance is the owner of the database, and according to the MoF, the PR_RAS report is of a much better quality than the P1/P2 ones. This is because the PR_RAS contains not only the cash data, but also the tax revenue which is not paid in cash, but e.g. paid with non-financial assets (building). It could be also paid by financial assets (shares or equity). For the purpose of statistical recording, financial assets are equivalent to cash, and are to be recorded as tax revenue. It was also explained by the Croatian statistical authorities that revenue in foreign currency can also be included. It was explained by Eurostat that if the part of the unexplained difference is indeed explained by the use of foreign currency, it has to be corrected and considered as tax revenue.

Since the P1/P2 reports do not contain sufficient information on taxes, and the PR_RAS report is also not correct, as it can include non-financial assets, a possible solution would be to make monthly reconciliations between the P1/P2 reports and the general ledger of the MoF (State Accounting Department).

Corporate income tax is four-month time adjusted, which means that, for the April EDP Notifications, the figures are estimated. Eurostat asked in what way the CBS undertakes the estimation of corporate income tax, on which basis and what parameters are taken into account. It was agreed that the CBS will send a note providing details on the estimations undertaken for the April Notifications.

It was concluded that the Croatian statistical authorities would have to undertake a non-negligible amount of work in order to record the figures on tax revenue correctly.

Findings and conclusions

Action Point 20: The Ministry of Finance will clarify to the Croatian Bureau of Statistics who is exactly responsible for the data on the P1/P2 reports. Deadline: September 2015¹⁵

Action Point 21: The Ministry of Finance will clarify the exact differences between the P1/P2 reports and the PR_RAS reports concerning government tax receipts. Deadline: September 2015

Eurostat will provide to the Ministry of Finance a table to be filled in this respect.¹⁶

Action Point 22: The Croatian statistical authorities will send revised tax receipts data for the year 2013, following the investigation mentioned under Action point 21. Deadline: April 2015¹⁷

¹⁵ Action point accomplished.

¹⁶ Eurostat provided the table to the CBS shortly after the dialogue visit. The Croatian statistical authorities sent note on the reconciliation exercise between P1/P2 reports and PR_RAS reports on 15th July 2015. The filled in Eurostat table is still to be provided to Eurostat by the end of November 2015.

¹⁷ Action point accomplished.

Action Point 23: The Ministry of Finance will send to the Croatian Bureau of Statistics, from now on, monthly data on the adjustments to be undertaken to make sure that the P1/P2 reports include all time-adjusted cash revenue (including payments under other financial assets). Deadline: September 2015¹⁸

Action Point 24: The Croatian statistical authorities will send to Eurostat a note concerning the details of the estimation of corporate income tax in the context of the April EDP Notifications. Deadline: September 2015¹⁹

4.2.2. Interest

Introduction

In advance of the dialogue visit, the Croatian authorities have submitted tables *Annex D.41* on interest data, together with the explanations for the differences observed during the October 2014 EDP Notification in the calculations of interest data between the CBS and the CNB, in particular for the Croatian Motorways and the Motorway Rijeka-Zagreb.

Discussion

As there were substantial differences observed on the data on interest between Croatian Motorways and Motorways Rijeka-Zagreb during the October 2014 EDP Notification, Eurostat asked the Croatian Authorities to elaborate more on the data sources that have been used for the calculations. It seems that, for accrued interest data, only the CNB data source was used for the compilation of the EDP Tables 2 and 3. Discounts and premiums were considered as interest and linearly distributed over the life time of the interest. Each quarter, at the level of sub-sector, accrued interest data are sent to the CBS.

In the non-financial accounts, for the calculation of the deficit of the Croatian Motorways and Motorway Rijeka Zagreb, the CBS was using the data on interest from the financial reports of the units, which are accrual-based. In the case of the unit Motorway Rijeka-Zagreb a difference on B.9 of these individual units calculated by the CBS occurred because the source data for the calculation of total interest in the CNB was different than the individual interest data of the unit published on its website and calculated by the CBS.

It was clarified during the meeting that no statistical discrepancy arose from this issue and that the total level of accrued interest was not changed. The problem existed only in the October 2014 EDP Notification and the existing problems with the data sources for the calculation of the interests for these two units were solved at the national level between the compilers of EDP tables.

Annex D.41 tables were also discussed during the meeting. Eurostat noted that, in 2013, for all units in General Government, there was a difference in the total amount for the cash data on interest reported in the EDP Table 2A (HRK 9.3 billion) and the EDP Table 3B (HRK 10.7 billion). Moreover, Eurostat pointed out that cash data on interest reported in EDP Table 2A are not available for each financial instrument, which means that the working balance of EDP Table

¹⁸ Action point accomplished.

¹⁹ Action point accomplished.

2A contains a single line on interest data only. The CNB explained to Eurostat that the differences on total amount of cash data on interest probably relate to the different sector coverage between EDP Tables 2A and 3B, as in EDP Table 3B two big units are included, Croatian Motorways and Motorways Rijeka Zagreb.

Findings and conclusions

No action points were identified.

4.3. Recording of specific government transactions

4.3.1. EU flows

Discussion

Eurostat pointed out that EU flows are an important source of revenues and that there are considerable amounts involved. The chapter in the MGDD explains the rules on how the EU flows have to be neutralized. Eurostat invited the Croatian statistical authorities to present how the system of EU funds works in Croatia.

Representative from the CNB explained the existing sources of the EU Pre-accession funds. These are held on a separate bank account, and this bank account is set exclusively for this purpose. Only aggregated information on the transactions by programme for the EU Pre-accession funds is available to the EDP compilers. No information on the beneficiaries is available, and therefore no distinction for the sector classification of the counterpart can be made. However, for the EU funds, it is still possible to distinguish the final beneficiaries, as there is a data source exclusively set up for this purpose, which is at the level of each beneficiary. Information is available on the amount of EU funds entering into the bank account held in the CNB and on how much of the funds are transferred to beneficiaries outside General Government. This information is useful for the application of the MGDD rules on neutralization of EU flows to the net lending/net borrowing figure. When the beneficiary is inside General Government, revenues and accrual expenditures are matched together.

In financial accounts, at the moment of an increase in deposit from the EU budget, an increase in financial liabilities is recorded, to ensure that the impact on B.9 is zero. When the beneficiary is inside General Government, a decrease in financial liabilities is recorded, also ensuring that the impact on B.9f is zero. The same set of data is sent then to the CBS, who records the same amounts in non-financial accounts.

The representative from the MoF (National Fund) explained that the information on the beneficiaries for EU Pre-accession funds and EU funds can be obtained from the State Budget information system, at the moment when the expenditure is paid to final users - private sector, Local Government or Central Government. The only difference between EU Pre-accession funds and EU funds, relates to the changes in recording of receivables and payables, which are introduced in the new Chart of Accounts. At the moment of the transfer of funds from the accounts of the National Fund to the final beneficiary, an expenditure is recognized. It is now considered that the system, which is being put in place, together with the new Chart of Accounts from 2105 onwards, is fully operational and allows the implementation of Eurostat rules of recording of EU flows.

For EU Pre-accession funds, the prepayments from the EU budget received on the separate bank account held in the commercial bank were not recognized in the State Budget. Revenues and

expenditures were recognized only at the time of the executed payments to the beneficiaries. At the same time, in the financial accounts, an increase in cash on the bank account was recognized. This information is sent to the CNB from the National Fund, which then records the increase in cash received from the EU budget. Later, when the expenditure is made to the beneficiary classified outside General Government, the CNB records a financial transaction, recording the reduction in deposits and liabilities, without an impact on B.9. If the EU flows are transferred within General Government, then a financial transaction is recorded as a decrease in deposit and liabilities for Central Government, and an increase in cash in the General Government sub-sector, while the increase in the accrued liability could have happen before the cash transfer. There is the possibility that F.2 is therefore not consistent with B.9. Therefore, this time lag of recording of financial and non-financial transactions between the two years could potentially be the source of the statistical discrepancy.

Eurostat asked for further explanation on the figures related to the EU flows in EDP Table 2A and Questionnaire Table 6, and on the coherence between the two tables. It seems that at the end of the year, stock of receivables from EU is equal to zero. It was agreed that the line 33, in the Questionnaire Table 6 should be corrected, and should include the correct figure of stocks at the end of the year.

Findings and conclusions

Action Point 25: The Croatian statistical authorities will send a note to Eurostat specifying how the present problem concerning the lack of neutralization of EU flows in the same year will be fully solved with the introduction of the new Chart of Accounts. Deadline: September 2015²⁰

4.3.2. Military equipment

Introduction

Usually, military equipment expenditure involves a time lag between cash payments and deliveries as well as potentially large amounts. There may be cases, for example, where the delivery took place in December of the year n, but the payment was only made in January of the following year. In such cases, cash recording would not be an appropriate basis for the recording of military expenditures. In previous visits, the Croatian authorities had confirmed that the payments for deliveries of military equipment in Croatia are always made within the same year. No adjustments are made to the cash paid, as the whole amount has to be paid within 60 days. Apparently, there had been no cases where the delivery took place at the end of the year.

Discussion

According to the rules, expenditure for military equipment must be recorded at the time of delivery. In Croatia it has been observed that delivery is always equal to cash. Eurostat understood that Croatia is not involved in any collaborative military project with other countries, requiring some technological research to develop new military equipment, where government is obliged to pay in advance for research and development or manufacturing. Still, it is unusual, when comparing to the other Member States, to have always deliveries equal to cash. It is often

²⁰ The Croatian authorities provided a note to this action point. The issue of simultaneous recording of revenue in Central Government and expenditures in Local Government would have no B.9 impact, but could possibly be an issue of statistical discrepancy.

the case that the supplier at the time of the order would ask for some advance payment. In Croatia, government normally pays within 60 days. That would mean that deliveries are not done at the end of the year.

The representatives from the Ministry of Defence explained that, in Croatia, there are usually not many deliveries of military equipment, therefore all the procurement occurs during the first part of the year, so the deliveries could be finalized by the end of the year. The budget appropriations which are planned for the period of one year are made according to the schedule of purchasing and payments of the equipment within the same year.

In the cases of significant upgrading of military material, this is reported as maintenance of military equipment in the MoD. The payment for the maintenance of the equipment is done at the time when delivery occurs. Eurostat explained that normally, in national accounts, this has to be considered as gross fixed capital formation and not as maintenance. It was concluded that it would be important to understand whether the maintenance is recorded as GFCF in national accounts.

Findings and conclusions

Action Point 26: The Croatian statistical authorities will inform Eurostat whether cases of significant improvement of military material are included in the Table 7 of the EDP Questionnaire.

Furthermore, the Croatian statistical authorities confirmed that delivery and payments always take place within the same accounting year. Deadline: September 2015²¹

4.3.3. Guarantees

Introduction

During the October 2014 EDP Notification, there was a significant downward revision made to the item “Capital transfers to public corporations – guarantees called less repayments” in EDP Table 2A, especially for the year 2011. The revision was explained by the Croatian National Bank, as the result in the calculation of the data on guarantees. Previously, the calculation was done by the Ministry of Finance, which provided the final figure to the CBS. The MoF was doing the calculation according to the budgetary bookkeeping of the guarantees called, resulting in a time–schedule of debt assumption differing from that of ESA national accounts. At present, the MoF only provides the source data to the CNB, which is then performing the calculations of guarantee calls and debt assumptions.

Discussion

The CNB explained the process of calculation of data on guarantees. The CBS receives on a monthly basis data from the MoF on guarantee calls for Central Government, and a consolidated version of guarantee payments is now kept. Eurostat reviewed the approach presented by the CNB and confirmed that the approach applied in the calculation of guarantee calls and debt assumption is correct.

²¹ Action point accomplished.

The next issue raised by Eurostat concerns the list of outstanding government guarantees (which had been provided in advance of the visit), where significant amount of guarantees given to small private companies, whose debt is guaranteed by the government could be identified. The CNB explained that those guarantees are provided by Central Government, mainly by the MoF and HAMAG (Croatian Agency for SMEs, Innovation and Investment, which is classified inside the General Government sector). The total amount of guarantees issued by HAMAG is rather low (HRK 500 million). It also seems that those guarantees issued do not comply with the definition of standardized guarantees.

Eurostat asked whether standardized guarantees have been identified in Croatia. A representative from the CNB explained that, regarding financial accounts, there are derogations on standardized guarantees until 2016. Nevertheless, it seems that standardized guarantees still do not exist in Croatia.

Findings and conclusions

No action points were identified.

4.3.4. Debt assumptions, debt cancellations and debt write-offs

Introduction

In the note sent prior to the mission, the Croatian statistical authorities explained that, at the moment, the only existing write-offs concern government loans granted to demobilized soldiers of the Croatian Army. One part of these write-offs is treated as debt cancellations – capital transfers extended to the beneficiaries of the loans, provided the beneficiaries are still alive.

Discussion

Eurostat confirmed that accuracy of the approach for the debt write-offs made by the Croatian statistical authorities.

The Croatian statistical authorities raised a question about the issuance of new guarantees and related debt assumptions for the company HŽ Cargo which debt has already been assumed in the past according to the third call rule. Eurostat explained that if there were three calls, this represented the proof that the company's own debts could not be reimbursed by the company itself, so the whole guaranteed debt should be assumed by government. If debt was later guaranteed by government, the logical consequence was that the new guaranteed debt should also be considered as debt of government. If after the debt assumption, the company started repaying some of the debt that was assumed, such repayments could be recorded as revenue for government. If on the contrary the situation of the company had been fundamentally changed and the company was viable and making profit, then the newly issued guarantees should not influence the government debt. But if the company was in the same economic situation as before, then the new guarantee issued by government should be treated as capital expenditure. It was pointed out that it is always important to look for the substance of the each specific case.

Furthermore, Eurostat mentioned that, in the media, there was information on the debt cancellation measures of the Croatian government for debts of distressed households. The Croatian statistical authorities explained that this measure will take place in 2015. Eurostat asked about the details of this measure. The CBS replied that it had just started investigating this issue, and entered into the contact with the Ministry for Social Policy and Youth, responsible for the implementation of measure related to the debt cancellations. Eurostat pointed out that it would be

important to understand who will bear the loss of these transactions; therefore it was agreed that the CBS will have to look at the issue during 2015.

Findings and conclusions

Action point 27: Eurostat confirms that the approach used by the Croatian National Bank concerning the calculation of debt assumption of HŽ Cargo was correct; as the company has not undergone a fundamental restructuring, new guarantees issued by the government after the debt has been already assumed by the government (after three repeated guarantee calls) had to be treated as capital expenditure with a debt increase impact in national accounts.

4.3.5. Capital injections in public corporations

Introduction

Prior to the visit, the Croatian statistical authorities provided the list of equity acquisitions by Central Government for the years 2012-2014.

Discussion

Eurostat asked for an explanation regarding the amount of equity purchases, identified as financial transactions, for the year 2013 (HRK 247.7 million). It seems that those amounts could not be reconciled with the figure reported in the Questionnaire Table 10.2, line Transactions in equity (HRK 204.7 million), for the part related to the financial transaction in the case of company Petrokemija (HRK 42.9 million). This amount should be imputed in Table 10.2 for the year 2013. The action point related to this required action by the CSA is mentioned under the part **3. Follow-up of the October 2014 EDP reporting – analysis of EDP tables.**

Findings and conclusions

No action points were identified.

4.3.6. Dividends, super dividends

Discussion

Eurostat reviewed the list of dividends paid by public corporations to government in 2014 and concluded that there were no issues which should be raised.

Findings and conclusions

No action points were identified.

4.3.7. Financial derivatives

Discussion

It was confirmed that data on foreign currency debt and foreign currency swaps are managed by the CNB. The CNB has a complete overview on the situation of swaps in the General Government sector. Local authorities don't have any swap arrangements. It was confirmed that net swap transactions are not included anymore in the deficit figure.

Findings and conclusions

No action points were identified.

4.3.8. PPPs

Introduction

The legal act on PPPs is in force since 2009 in Croatia, under which all public entities are obliged to notify the Agency for public - private partnership in Croatia about PPP projects. A working group on EDP has been established at national level, which includes also participants from the Agency for PPPs. Within this group the statistical treatment of concessions and PPP in Croatia is also discussed.

Currently, there is one PPP project which is classified on balance sheet since April 2014, called "Sports and business complex Lora-Split". Eurostat was interested to have more information on the Zagreb International Airport concession, to a value of HRK 1.650 million, which is mentioned in Questionnaire Table 11.

Discussion

The representative from the Agency for PPPs explained that, according to Croatian law, Zagreb Airport is not a pure concession contract. There could be three types of concession contracts: concession contracts for public works, for public services and for licences. Concession contracts for public works and public services could be seen as PPP projects. The project on Zagreb Airport is recognized as a concession project for public works, but it also has all the necessary characteristics of PPP project. The representative from the Agency for PPPs explained that the Agency, together with the CBS, consider this project as classified on-balance sheet amongst other, because of its termination clauses which show that, in case of termination triggered by the government, it will have to assume all outstanding debt of the private partner. It was also pointed out that one part of the construction risk is also on the side of government; in case there would not be enough funds for construction, approximately 15% of the construction cost should be covered by the government.

The representative from the Agency on PPPs mentioned that the Agency closely cooperates with the EIB, and that Eurostat webpage is regularly followed in order ensure that the rules on PPP projects are followed.

Eurostat took note that register of all PPP projects in Croatia is published on the webpage of the Agency on PPPs, showing a total value of EUR 300 million for capital projects. All other PPP projects are classified off-balance sheet, with the exception of Zagreb Airport and Sports and business complex Lora-Split.

Findings and conclusions

Action Point 28: The Croatian statistical authorities confirmed that the PPP project on Zagreb Airport is recorded on balance sheet of government and that imputed debt related to gross fixed capital formation into 2014 will be included in government debt in the next April 2015 EDP Notification.²²

²² Action point accomplished.

4.3.9. Leasing and trade credits

Discussion

Eurostat asked the Croatian statistical authorities whether they have any problem in receiving the basic information for leasing operation, and the way in which the distinction between financial leasing and operational leasing is made.

Representative from the CNB explained that the amount of financial leasing in total EDP debt is rather small (HRK 80 million for the total General Government sector, at the end of 2013). This represents the only part which is missing from the EDP stock of debt, due to the fact that there is no reporting system which allows the gathering of information on these transactions. In the CNB there is at present a process of implementation of a new reporting system for the financial leasing data, which will facilitate the process of receiving data. This, however, will take some time, and progress could be expected only by the end of 2015.

Currently, the information on the leasing operations in which government is involved could be found in the financial reports of the units (in the balance sheets for financial leasing and in the profit & loss accounts for operating leasing). Financial leasing institutions are making the distinction between operating and financial leasing by themselves, according to the Croatian law. The representative from the CNB explained that the rules applied by the financial leasing institutions are consistent with the rules of national accounts methodology.

Eurostat identified three main areas of possible issues regarding leasing operations: firstly, it seemed that the Croatian statistical authorities do not check whether the financial and operating leasing are correctly defined as such, and whether the national accounts methodology rules are correctly applied. Secondly, it seems that the Croatian statistical authorities do not receive the basic data for leasing operations. Thirdly, there is an issue of identification of operation of operating leasing undertaken by government.

The CBS confirmed that for operating leasing, the payments undertaken by government are included in the non-financial accounts of government. But the problem arises with the payments which government undertakes in the context of financial leasing, as they seem not to be recorded in the non-financial accounts. For financial leasing the assets should be reclassified on-government balance sheet, as government assets at the moment of the signature of the contract.

It is also possible that all the payments in the context of financial leasing enter the government deficit, which should not be the case. There is a possibility that they are considered as government expenditure in another part of the system and not neutralized, since the CBS does not have the information on this.

In financial leasing, the acquisition of an asset should be recorded as expenditure straight away, and at the same moment a debt should be imputed for the amount of the acquisition. All regular payments which are undertaken afterwards represent the repayment of the debt, which should be treated as a financial transaction, with the exception of imputed interest. It was agreed that the Croatian authorities would check if financial leasing operations are correctly recorded in government accounts.

Furthermore, Eurostat's decision of 31 July 2012 on the reclassification as government debt of some specific operations relating to factoring and restructuring of trade credits seems to be applied in Croatia. There is no restructuring of trade credits. Concerning factoring operations without recourse, all performed with domestic credit institutions have been included in EDP debt.

Findings and conclusions

Action Point 29: The Croatian statistical authorities will write a note to Eurostat on the implementation of ESA rules on financial leasing and a concrete proposal on how to make sure that payments concerning financial leasing operations are recorded as financial transaction and interest, and not as government expenditure. Deadline: September 2015²³

4.3.10. Sale of assets to public units, claw-back clauses

This issue was not discussed due to lack of time.

Findings and conclusions

No action points were identified.

4.3.11. Others: emission trading permits, privatization, sale and leaseback, securitisation

Introduction

Sales and leaseback operations as well as securitisation operations are not undertaken in Croatia.

The Privatization of Croatia Insurance Company (Croatia Osiguranje d.d.) occurred in 2014. Government sold 39% of ownership rights to a private company, for an amount of HRK 905 million.

Discussion

Eurostat asked for an update on the situation in Croatia regarding the ongoing privatization processes. A representative from the Ministry of Finance informed Eurostat that there are no major privatization processes in the pipeline for the year 2015. In 2014, there was a plan for the privatization of HPB (Croatian Postal Bank) and Croatia Osiguranje d.d. (Croatia Insurance Company). While the privatisation of Croatia Osiguranje d.d. has been finalized in 2014, the privatization of HPB has been suspended by the government.

Regarding the privatization of Croatia Airlines, even if the decision would be taken to privatize this company, the privatization process will not be concluded before the end of this year. The privatization of the shipyards has been finalized in 2013, and all the major shipyards are now privatized.

In 2014 government distributed emission permits for free to the big Croatian producers of CO₂, and these companies were obliged to submit reports on CO₂ emission by the end of March 2015. The first auction of emission trading permits is expected to happen in 2015, so for the previous years no recording of other taxes on production (D.29) took place, as, according to the MGDD rules, the tax has to be recorded at the moment when the permits would be surrendered.

²³ The Croatian statistical authorities answered to the action point on 15th July 2015; however, further clarifications are still needed. A concrete proposal on how to make sure that the payments concerning financial leasing operations are recorded as financial transaction and interest is to be provided to Eurostat by the end of January 2016.

Findings and conclusions

No action points were identified.

5. Other issues

5.1. Transfer of pensions funds from 2nd pension pillar to 1st pension pillar

Introduction

In 2014 there were changes in the pension system in Croatia, which lead to the transfer of some special pension savings from the 2nd pension funded pillar to the government unfunded social security fund. The changes referred only to a certain number of beneficiaries whose pension would be paid out from the 1st pension pillar, as specified by a special law, since in the past the funds were paid into their individual accounts in the second pension pillar. The categories of those beneficiaries are: active military personnel, police officers, authorized officials, war veterans, sailor, etc., whose pensions are typically paid out at a younger age than standard pensions, creating a disproportionate burden for the budget. According to the explanations provided by the Croatian government, this transfer should correct a financial imbalance within the pension system, as, previously, the imbalance was accounted for by transferring money from the 2nd pillar fund into the 1st pillar at the moment of retirement of the beneficiaries. Under the new regime, privileged pensioners pay a larger portion of their contributions into the 1st pension pillar from the start; the budget transfer of 0.9% of GDP in 2014 serves to correct for the past “excess” payments into the 2nd pension pillar. A second (and final) transfer of the assets of about 0.7% GDP is planned for 2015.

Discussion

The Croatian authorities explained how this transaction would be treated in national accounts. Under ESA 2010 rules, the transfer of pension funds from the 2nd funded pillar to the government unfunded social security fund would be recorded as the transfer of a lump sum and treated as a financial transaction in 2014, with both impact on revenue and expenditure (no impact on B.9) being spread over time in accordance with the pensions to be paid out. The CBS explained that the first part of the transfer would be recorded in the second quarter of 2014 and that the transaction of HRK 3 billion would be also recorded as a balanced transaction in financial accounts, as an increase in liabilities and at the same as an increase in cash, without a direct impact on deficit and debt figures. The depreciation period would be set at 30 years and revenues would be linearly distributed over time, at HRK 25 million per each quarter. This decision was already implemented for QFAGG and non-financial accounts quarterly data for 2014.

For the second part of the transfer, which is planned for the year 2015, there is still no information on whether and when it will occur.

Eurostat agreed with the recording of the transactions undertaken by the Croatian statistical authorities, which fully complies with the ESA 2010 rules.

Findings and conclusions

No action points were identified.

5.2. ESA 2010 Transmission Programme

This issue was not discussed due to lack of time.

However, after the dialogue visit, a note was sent to the Croatian statistical authorities.

Findings and conclusions

No action points were identified.

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