



EUROPEAN COMMISSION
EUROSTAT
Directorate D Government Finance Statistics

Luxembourg, 22 November 2016

- FINAL FINDINGS -

EDP dialogue visit to Bulgaria

29 February – 1 March 2016

Executive summary

Eurostat undertook an EDP dialogue visit to Bulgaria on 29 February – 1 March 2016 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, review the implementation of ESA 2010 methodology, review the recording of specific government transactions and assure that provisions from the ESA 2010 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Bulgarian EDP tables and national accounts.

First, institutional responsibilities in the framework of the reporting of data under the EDP were reviewed. It was agreed that an updated version of the Memorandum of Understanding on EDP issues between the three institutions is to be provided to Eurostat as soon as becomes available.

Then, some outstanding issues from the October 2015 EDP notification were discussed in more detail. In particular, it was agreed that full consistency between ESA table 27 and EDP tables 3 should be ensured in the forthcoming EDP notifications.

As regards the delimitation of general government, a detailed discussion took place on government controlled entities classified outside general government. Eurostat asked the Bulgarian statistical authorities to re-classify some smaller units inside the general government sector. Then, several units were discussed in more detail, i.e. the Bulgarian Railways Holding, the Bulgarian Energy Holding and the Bulgarian Development Bank. Eurostat asked the Bulgarian statistical authorities to closely monitor the sector classification of the Bulgarian Railways Holding and the Bulgarian Energy Holding and to provide additional information on the Bulgarian Development Bank in order to decide on the correct sector classification of this unit in line with ESA 2010. Eurostat also asked for an analysis of the sector classification of the Corporate Commercial Bank in view of the upcoming provisions of the new MGDD regarding units in liquidation.

The discussion continued on the recording of taxes and social contributions, in particular on the method currently used. The system used in Bulgaria is aiming to calculate accruals by using estimations, which leads to sizeable revisions of tax revenues. Consequently, Eurostat asked for an analysis of the appropriateness of the method used for the recording of taxes, taking into account past revisions.

Further, the recording of EU flows was examined in detail. Eurostat concluded that, in principle, the recording of the EU funds seem to be correct. Nevertheless, as some amounts might not be properly allocated by years, Eurostat asked the Bulgarian statistical authorities to further reflect on the issue of the time of recording and on the implications of the method used to neutralise EU funds.

Concerning the Public Private Partnerships (PPP), the Bulgarian statistical authorities confirmed that currently there are no PPPs, but explained that a framework for PPPs exists.

Eurostat recalled also the revised guidelines regarding concessions in the new ESA 2010 MGDD, which came closer to the rules on PPPs. The Bulgarian statistical authorities agreed to provide the three largest contracts from different areas, including their national accounts analysis together with the description of the procedures ensuring the correct recording in national accounts.

Finally, some other issues were also discussed such as capital injections, guarantees, military equipment expenditure, debt assumptions, debt cancellations and debt write-offs. The recordings applied seemed to be in line with Eurostat rules.

Eurostat welcomed the transparent, well-structured and comprehensive approach by the Bulgarian statistical authorities to the EDP related work. Eurostat appreciated also the documentation provided by the Bulgarian statistical authorities prior to and during the EDP dialogue visit.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Bulgaria on 29 February – 1 March 2016.

The delegation of Eurostat was headed by Mr Luca Ascoli, Head of Unit D-1: Excessive deficit procedure and methodology ". The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Bulgaria was represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology, assure that rules of the ESA 2010 Eurostat Manual on Government Deficit and Debt are complied with and make sure that Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data. The main aims of the dialogue visit were: to review the implementation of ESA 2010 methodology, such as sectorization of units and the accrual principles (taxes and EU flows) and to review the recording of specific government transactions.

In relation to procedural arrangements, the *Main conclusions and action points* were sent to the Bulgarian statistical authorities for their comments. Then, within weeks, the *Provisional findings* will be sent to the Bulgarian statistical authorities in draft form for review. After possible changes (if any), the *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documentation provided by the Bulgarian statistical authorities prior and during the EDP dialogue visit. Eurostat also thanked the Bulgarian statistical authorities for their co-operation during the visit and considered that the discussions were transparent and constructive.

1. STATISTICAL ORGANISATIONAL ISSUES

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation: Data Sources. Revision policy

Introduction

Eurostat briefly reviewed the institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation.

An inter-institutional Memorandum of Understanding (MoU) exists between the three key partners in the GFS production: the National statistical institute (NSI), the Central Bank (BNB) and the Ministry of Finance (MoF). Regular meetings are organised between the three

institutions. Minutes of the existing working group are regularly produced and reflect the outcome of the methodological discussions.

The NSI is responsible for the compilation of quarterly and annual non-financial accounts, annual financial accounts and Maastricht debt. The BNB compiles quarterly financial accounts, while the MoF provides planned data in the EDP tables and is also responsible for the compilation of the quarterly Maastricht debt.

Discussion and methodological analysis

The Bulgarian statistical authorities (BSA) explained that there had been no changes in the institutional arrangements regarding the compilation and reporting of EDP data since the last EDP dialogue visit in 2014.

The BSA explained that the current MoU is in the process of being updated and it is expected to be signed in the coming months. The update does not make any substantial changes as it is mainly related to the introduction of ESA 2010.

Next, the calculation of debt was discussed. The BSA explained that, although the MoF calculates the Maastricht debt, it is the NSI that has a final decision on the implementation of methodology. The NSI confirmed to have full access to the Treasury information systems of the MoF for cash reports and balance sheets of first level spending units. In addition, the debt is regularly audited by the National Audit Office.

Regarding consolidation between the government sub-sectors, the NSI confirmed that the Central Register of Municipal debt is fully operational and is used for the compilation of Maastricht debt. Although data are of good quality, the register does not provide enough detailed information by debt instruments. While the register allows automatic consolidation of debt between the central government and the social security funds, this is not the case for the local government. Some small discrepancies of less than 0.01 % of GDP still exist for the local government sector.

Finally, the BSA explained that a MoU was signed in 2013 between the NSI and the National Audit Office (NAO). NAO agreed to cooperate with NSI and even agreed to perform special audits, if necessary. The audit results are available only for October notifications.

Findings and conclusions

Action point 1: The Bulgarian statistical authorities agreed to provide an updated version of the Memorandum of Understanding on EDP issues signed between the National statistical institute (NSI), Ministry of Finance (MoF) and the Central Bank (BNB), in English.

Deadline: as soon as available

Action point 2: The Bulgarian statistical authorities agreed to provide an updated consolidation matrix between government sub-sectors.

Deadline: by the April 2016 EDP notification¹

1.2. EDP inventory

Introduction

The first draft of the EDP Inventory, following ESA 2010 methodology, was provided to Eurostat in December 2015.

Discussion and methodological analysis

Eurostat welcomed the work done on the EDP inventory and made a few comments on further possible improvements. The BSA agreed to rewrite the draft by removing the questions and replace them with a self-standing text.

Findings and conclusions

Action point 3: The Bulgarian statistical authorities agreed to provide a revised version of the ESA 2010 EDP inventory, removing Eurostat questions and incorporating discussions held during the EDP dialogue visit, when applicable.

Deadline: end of April 2016 with the main aim to be published by the end of May 2016²

1.3. Compliance with Council Directive 2011/85

Introduction

National publication of data as required by the Council directive 2011/85/ of 8 November 2011 on requirements for budgetary frameworks of the Member States³, in particular Articles 3(2) and 14(3), were discussed under this point of the agenda.

The provisions of Directive 85/2011 imposed new statistical requirements on the Member States. According to Article 3(2), Member States shall publish:

- *cash-based fiscal data on monthly basis for central government, state government and social security sub-sectors and quarterly for the local government sub-sector;*
- *a detailed reconciliation table showing the methodology of transition between cash-based data and data based on the ESA standard.*

According to Article 14(3), Member States *shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the*

¹ The consolidation matrix was provided on 30 March 2016.

² The first version of the revised EDP inventory was provided to Eurostat on 22 April 2016 and it was published on the Eurostat website on 24 May 2016.

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>

participation of general government in the capital of private and public corporations in respect of economically significant amounts.

Discussion and methodological analysis

Eurostat took note that the Bulgarian statistical authorities implemented the provisions of the Directive and largely follow the guidelines of the Task Force on the implications of Council Directive 2011/85.

Regarding the implementation of Article 3(2), the monthly and quarterly cash-based fiscal data are published for all three sub-sectors on the NSI website. The reconciliation table between cash-based fiscal data and ESA based data is also published on the same website.

Concerning the implementation of Article 14(3), the data on non-performing loans, liabilities of public corporations and participation of government in the capital of corporations are all published on the NSI website, while data on government guarantees are published separately, on the MoF website.

The data on off-balance PPPs are not published nationally, as currently there are no such PPPs.

Findings and conclusions

Eurostat encouraged the Bulgarian statistical authorities to publish the data on off-balance PPPs nationally, i.e., to insert zeroes in order to confirm that there are no off-balance PPPs.

As the Task Force on the implications of Council Directive 85/2011 recommended the national publication of data to be published on one dedicated website, Eurostat encouraged the NSI to provide a link from their website to the data on guarantees published on the MoF website.

2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF 22-23 JANUARY 2014

Introduction

All action points (AP) from the 2014 EDP dialogue visit have been implemented by the BSA.

In the 2014 EDP visit, the progress of the implementation of the Upstream Dialogue Visit (UDV) action points⁴ from the 2011 UDV, was discussed. At that time it was agreed that no new action points would be set, but Eurostat underlined the need to complete the outstanding UDV action points.

Discussion and methodological analysis

⁴ See the Main conclusions and recommendations from EDP upstream dialogue visit to Bulgaria: <http://ec.europa.eu/eurostat/documents/1015035/3991227/Final-Findings-BG-SDV-UDV-2012.pdf/7209a9e5-ceb3-41d5-884e-8ba6cfcf0f78>

Regarding the AP 7⁵ from the 2014 EDP dialogue visit, Eurostat asked for a confirmation that short trade credits are not included in the Maastricht debt. The BSA confirmed that these are not included in the Maastricht debt. As short term trade credits of the budgetary units are recorded under *Other accounts payable*, the BSA confirmed that the footnote in the Eurostat note on stock of liabilities of trade credits and advances is still valid.

Eurostat observed that some documents related to the implementation of the Action Points 2, 3, 6, 8, 9, 10, 11 and 12 were still missing. The BSA agreed to provide all missing documentation related to those pending APs.

Findings and conclusions

Action point 4: In relation to the 2011 Upstream Dialogue Visit, the Bulgarian statistical authorities agreed to send to Eurostat a note on the follow-up of the Action Points 2, 3, 6, 8, 9, 10, 11 and 12, and to provide the missing documents, in order to close the outstanding Action Points.

Deadline: end of June 2016⁶

3. FOLLOW-UP OF THE LATEST EDP REPORTING – ANALYSIS OF EDP TABLES AND THE RELATED QUESTIONNAIRES

Introduction

Eurostat thanked the NSI for their timely and accurate transmission of EDP tables and the relating questionnaires.

The appropriate statistical classification of the Deposit Insurance Fund (DIF) was extensively discussed during the October 2015 EDP notification. As a result, the DIF was reclassified inside the general government from 2014 onwards. The follow-up discussion on this issue was covered under point 4.1.4 of the agenda.

Other issues earmarked for further discussions during the EDP dialogue visit which related to the recording of taxes and EU flows, were discussed under the relevant items of the agenda.

Under this point of the agenda the following outstanding issues from the October 2015 EDP notification were discussed in more detail:

- The inconsistency between the EDP tables and ESA table 27;
- The supplementary table for financial crisis;
- Table 13 on re-routing of the Questionnaire relating to the EDP notification tables.

⁵ Action point 7: The Bulgarian authorities will provide by end-May 2014 a note on the accounting of short term trade credits by budgetary units, the possible current inclusion of certain trade credits in Maastricht debt, and a broad reconciliation of data reported for trade credit/advances stocks in EDP notification table 4 with the changes in Other accounts payable reported in EDP Questionnaire table 4.

⁶ The documents were provided on 15 June 2016.

Discussion and methodological analysis

Inconsistency between the EDP tables and ESA Table 27

Eurostat noted a discrepancy of about 0.01 to 0.1 % of GDP between EDP tables and ESA table 27 in *Currency and deposits* and *Other accounts receivable and payable*. Eurostat encouraged the BSA to undertake efforts to ensure the full consistency between these two tables in the future.

The BSA explained that a meeting had already been held between the BNB (responsible for the ESA table 27) and the NSI (responsible for the EDP tables) on this issue. The comparison and verification process by instrument between the two datasets had already started.

Supplementary table for financial crisis

In the October 2015 EDP Notification, the NSI did not report the intervention of DIF in the Supplementary table for financial crises. The main argument for this was that the intervention was not undertaken in the context of the financial crisis but due to bad management in the Corporate Commercial Bank.

Eurostat stressed that the scope of the reporting in this table would be enlarged in the April 2016 and would cover all government interventions to support financial institutions. The revised templates and instructions are planned to be sent to the Member States together with the EDP Package at the beginning of February 2016. The NSI agreed to report this intervention in the context of the April 2016 EDP notification.

Furthermore, Eurostat stressed that payments from financial institutions to Deposits Guarantee Funds (DGF) and compensations paid from its reserves to depositors should not be recorded in this table, in line with the new guidelines. However, exceptional payments by government to the DGF, made with an intention to cover the lack of funds in its reserves, should be reported, regardless of whether DGF is classified in the government sector or not. Such interventions are viewed as support of the government towards the financial system as a whole. Such exceptional interventions by government are considered to be for the benefit of the financial institutions themselves and not of the depositors. This recording should be applied to the interventions of DIF.

In the context of the above, the government intervention in 2014 in DIF, should be reported in the Supplementary table in the April 2016 EDP Notification as follows:

- In part 1 of the Table, the payments by DIF to financial institutions which were funded by Government, over and above the amount held in DIF reserves (recorded as capital transfer).
- In part 2, the indirect (dedicated) liabilities arising from direct results of DIF payments recorded in Part 1 (i.e. only the amount covered by government).

The NSI took note of these explanations and agreed to implement it in the April 2016 EDP notification.

Table 13 on rerouting of the Questionnaire relating to the EDP notification tables

Eurostat informed the NSI that the table 13 on re-routing would become obligatory in the April 2016 EDP notification. Eurostat also explained that the new version of the MGDD provides some examples on re-routing. The NSI explained that they were not aware of any operations that would need to be re-routed via government accounts, but agreed to investigate whether some operations might have been undertaken by a public corporation on behalf of government.

Findings and conclusions

Action point 5: The Bulgarian statistical authorities will send to Eurostat a progress report on the steps taken to ensure the full consistency (by instruments) between ESA table 27 and EDP tables 3 and report to Eurostat.

Deadline: end of August 2016⁷

Action point 6: The Bulgarian statistical authorities will analyse whether there were any operations undertaken on behalf of government, which should be rerouted in line with the MGDD, and report them in the Table 13 of the Questionnaire relating to EDP notification tables.

Deadline: by the October 2016 EDP notification⁸

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government

4.1.1. Application of the market/non-market test, in particular calculation of the net interest charge

Introduction

The application of the sector classification rules was discussed under this point of the agenda. Prior to the meeting, the Bulgarian statistical authorities provided to Eurostat a list of units classified in the general government sector, by sub-sectors, accompanied by the note on the calculation of the market / non market test (50 % test).

According to the *Accountancy Act* and the *National Statistical Programme*, all companies registered under the Commercial Law are obliged to submit an Annual report. Part of this report relates to revenues and expenditures, and provides the necessary information for the calculation of the market /non-market test.

⁷ The report was provided at the end of September 2016. Nevertheless, some inconsistencies still exist, which are to be solved by the time of the April 2017 EDP notification.

⁸ This was done for the October 2016 EDP notification.

The 50 % test is implemented on an annual basis for all public corporations controlled by central and local government (except hospitals), taking into account the last 3 years.

Discussion and methodological analysis

At first Eurostat enquired about the sector classification of units in liquidation and explained that this issue is clarified in detail in the new edition of the MGDD. Any public unit, in order to be classified outside the government sector, must fulfil the 50 % test, even if it is in a liquidation process. Compliance with the 50% test is to be considered as a necessary condition for any public unit to be classified outside government, regardless of circumstances. The NSI explained that a unit *Montagi – Sofia* is currently in the process of being liquidated. The unit has been removed from the list of government units as it had no activity. The NSI confirmed that this unit had no debt. Eurostat emphasised that the new rules is applicable from October 2016 onwards.

Then, the application of the 50 % test was discussed in more detail. The NSI presented the formula used, comparing sales and production costs. The definition of sales and production costs were in line with the MGDD definitions.

Eurostat in particularly enquired about the calculation of the net interest charge, defined in ESA 2010, as interest payable less interest receivable. The NSI confirmed that the net interest charge is calculated in line with the ESA 2010 and it applies to deposits, securities loans and other accounts receivable. Expenditure on interest consists of interests on loans and other financial instruments, expenditures associated with related enterprises and negative differences from operations with financial assets. Revenue from interests consists of other interests and financial revenues, revenue associated with related enterprises, positive differences from operations with financial assets and positive differences from exchange rates. In cases when the net interest charge becomes negative, it is replaced by zero in the calculation of the 50 % test, from 2015 onwards.

Findings and conclusions

Eurostat took note of the explanations.

4.1.2 Government controlled entities classified outside general government (public corporations)

Introduction

The Bulgarian statistical authorities provided an updated Questionnaire on public corporations, which reflected the changes in the sector classification due to the ESA2010.

Discussion and methodological analysis

Eurostat, together with the Bulgarian statistical authorities, reviewed the list of government controlled entities and asked some additional questions about specific cases.

Eurostat noted that the market / non-market test for the unit *Terem – Han Krum* fell below the 50 % threshold in 2014. The 50 % threshold was also decreasing in the last years for the units *Stolichen Avtotransport* and *Glavno upravlenie stroitelstvo i vazstanonyavane..* Eurostat recommended to closely follow-up the sector classification of these units. Furthermore, Eurostat noted that the company *Proektna Kompaniya Neftoprovod Burgas* did not comply with the market / non market test for the last three years. The NSI explained that this unit is engaged in the building of a gas pipeline and as it made huge investments in the last years, the market / non market test fell under 50 %. In line with this information, the NSI proposed to closely monitor this unit in order to verify whether it will comply with the 50 % test in the following years. Eurostat agreed with the NSI to closely monitor this unit and underlined that if it would fail to comply with the 50 % in the future, it will have to be re-classified in the government sector.

Then, Eurostat asked about the sector classification of the entity *Profesionalen futbolen klub*, currently classified in the sector *Non financial corporations (S.11)*, controlled by the central government. The NSI explained that it is not an institutional unit, but an auxiliary unit of another public corporation *Tets Maritsa Iztok 2*. This unit was further discussed under the item 4.1.3 (Bulgarian Energy Holding). Eurostat explained that entities which are not institutional units should not be included in the “Questionnaire on government controlled units classified outside general government”, but consolidated with the controlling entity. Accordingly, Eurostat asked the NSI to consolidate the unit *Profesionalen futbolen klub* with the unit *Tets Maritsa Iztok 2* and re-calculate the 50 % test.

Next, the sector classification of some small medical centres was discussed. The NSI explained that although they do not comply with the 50 % test, they are not classified in their controlling sub-sector, i.e. local government, as they are very small and have no impact on government deficit and debt. Eurostat underlined that there are no special rules allowing any exceptions to the market/non market test for small entities and that all public entities should be re-classified inside the general government if they do not comply with the 50 % rule.

Eurostat also asked about three government controlled units classified in the sector *Non-profit institutions serving households (S.15)*, in particular if they are complying with the 50 % test. The NSI explained that no 50 % test was performed for these units as government does not interfere in their activities and they are funded by donations. Eurostat recognised that these units might have autonomy of decision, but according to ESA 2010, control is defined by the ownership. If they are owned by government it means that they are also controlled by government. Eurostat recalled that ESA 2010 paragraph 20.13 says that "*Non-profit institutions (NPIs) that are not market producers and are controlled by government units are units of the general government*". In line with this ESA 2010 paragraph, Eurostat said that if those three NPIs are non-market producers, they should be re-classified in the general government sector.

Next, the sector classification of units engaged in financial activities was discussed. The sector classification of the Bulgarian development bank was discussed in detail under the point 4.1.3. Eurostat enquired about the eight public units, which are currently classified in

the sector of *Financial corporations* (S.12). The NSI explained that those units were "some kind of guarantee funds for insurance" and are not managed by government. The liabilities of these units were negligible. Eurostat recalled the MGDD rules on units engaged in financial activities, i.e. protection funds, and stressed that the analysis should be made in order to check whether these funds could have the features of captive financial institutions.

Findings and conclusions

Action point 19: It was agreed that entities which are not institutional units should not be included in the "Questionnaire on government controlled units classified outside general government", but consolidated with the controlling entity.

Deadline: end of December 2016

Action point 20: Eurostat recalled that there are no special rules allowing any exceptions to the market/non market test for small entities. It was agreed that all public entities should be re-classified in government if not complying with the 50 % rule.

Deadline: April 2016 EDP notification⁹

Action point 21: According to ESA 2010 rules, the 3 NPIs which are non-market producers and which are controlled by government should be re-classified inside government.

Deadline: April 2016 EDP notification¹⁰

Action point 22: The Bulgarian statistical authorities will examine the cases of some Protection funds presently included in S.12 in order to check whether they could have the features of captive financial institutions.

Deadline: mid-September 2016¹¹

4.1.3. Sector classification of specific units: the Bulgarian Railways Holding, the Bulgarian Energy Holding and the Bulgarian Development Bank

The discussion focused on the sector classification of the Bulgarian Railways Holding, the Bulgarian Energy Holding and the Bulgarian Development Bank in the light of ESA 2010.

The Bulgarian Railways Holding

Introduction

In 2011, the Bulgarian Railways Holding (BDZ) underwent a major restructuring, through which BDZ Holding transferred its assets to its subsidiaries – BDZ Passengers and BDZ

⁹ This was implemented in the April 2016 EDP notification.

¹⁰ This was implemented in the April 2016 EDP notification.

¹¹ The analysis of the Protection funds was provided on 16 September 2016.

Cargo. The Holding only kept some non-operational assets as well as its financial function of raising debt, which is mainly serviced by its subsidiaries.

BDZ Holding, as an independent unit, carries out activities related to management and sale of non-operating assets (buildings and train stations) while BDZ Passenger Services and BDZ Cargo carry out the transport activities.

In 2012, BDZ Passenger Services was reclassified in the general government as it did not comply with the 50% test while BDZ Holding and BDZ Cargo remained classified outside the general government.

Discussion and methodological analysis

An agreement between BDZ Holding and BDZ Passengers in years 2012-2013 settled the transfer of ownership of operational assets (locomotives and passenger cars) and of the loan for the acquisition of those assets. The impact of this operation on government deficit and debt was already reflected in the EDP notification tables. Also, an agreement between BDZ Holding and BDZ Cargo was made in order to settle the transfer of "operational assets" ownership on the balance sheets.

The NSI confirmed that both BDZ Holding and BDZ Cargo comply with the market / non market test. Eurostat enquired whether the BDZ Holding was analysed in line with ESA 2010 rules. The NSI confirmed that this was the case and underlined that they are closely monitoring the sector classification of this unit. Almost all market revenue comes from renting activity. They confirmed that the sale of assets is not included in the calculation of the 50 %.

Government did not provide any subsidies or capital injections neither to BDZ Holding nor to BDZ Cargo.

Findings and conclusions

Eurostat took note of the explanations and asked the NSI to closely monitor the sector classification of BDZ Holding and report back to Eurostat, if any changes arise.

Bulgarian Energy Holding (BEH)

Introduction

BEH is a fully government-owned holding company created in 2008. Its main activities include the acquisition, management, assessment and sale of participations in companies active in the Bulgarian energy sector. The BEH comprises eleven subsidiaries. Each subsidiary is responsible for its own fixed assets.

No subsidies had been paid by government to BEH. BEH has always operated as a market entity as most of its revenues come from dividends. By Order of the Council of Ministers,

BEH pays a dividend to government, amounting to a minimum of 60 % of its profit. For example, in 2014 BEH paid 70 % of its profit to the state budget.

The government, as a shareholder, can influence strategic investment decisions of the company, especially in international projects, but does not intervene in the operational management of the company. If a subsidiary was to be sold, the sale would be carried out through the Privatisation Agency in a compliance with the Privatisation Law. The proceeds from the sale would go to BEH and not to government.

BEH's permission is required if one of the subsidiaries would like to acquire another body. Similarly, the Minister of Economy's permission is required for any new acquisitions made by BEH.

The holding and its subsidiaries were assessed by the NSI as market units and are currently classified in *Non - financial corporations* (S.11).

Discussion and methodological analysis

Firstly, the sector classification of the BEH in the light of the ESA2010 rules was discussed. The NSI underlined that BEH is considered as a Head Office according to the ESA 2010. The BEH exercises managerial control over its subsidiaries, for which the subsidiaries are paying a fee to BEH. This is actually the main source of its financing. As according to ESA 2010, the head office should be classified "to the dominant non-financial sector of their subsidiaries", BEH is classified in the *Non – financial corporations* (S.11).

Three members of the Board are nominated by the MoF, which cannot be government officials, according to the law.

Furthermore, the NSI confirmed that the market / non market test was applied to all subsidiaries, except for the new subsidiary *Independent Bulgarian Energy Exchange*, which was created only in 2014. This unit acquired a license for operating as a power exchange for electricity in Bulgaria, and signed a cooperation agreement with Nord Pool Spot, Europe's leading power market company.

The NSI provided, prior the meeting, the results of the 50 % test for all subsidiaries for the last four years. Eurostat observed that the subsidiary *Profesionalen futbolen klub*, currently classified in the sector *Non financial corporations* (S.11) does not have any market revenue. The NSI explained that it is not an institutional unit, but only an auxiliary unit of another BEH subsidiary *Tets Maritsa Iztok 2*. Eurostat pointed out that entities, which are not institutional units, should be consolidated with the controlling entity. Eurostat asked the NSI to consolidate the subsidiary *Profesionalen futbolen klub* with *Tets Maritsa Iztok 2*¹².

¹² See Action point 19 under 4.1.1.

Eurostat further enquired about the update on the project *South Stream* pipeline. The NSI explained that, at this stage, no official decision has been taken on the termination of the contract. NSI agreed to follow-up on this issue.

Finally, Eurostat enquired about the repayments of the Steam Power Station Sofia (SPSS) liabilities towards BEH. The NSI confirmed that the SPSS is regularly paying its debt, although with some delays.

Findings and conclusions

Eurostat took note of the explanations and asked the NSI to closely follow up the sector classification of the BEH and its subsidiaries and the ongoing projects.

The Bulgarian Development Bank

Introduction

The Bulgarian Development Bank (BDB) is a financial institution, 99.9% owned by the State. It is the successor of the Encouragement Bank established in 1999. Its focus is to support small and medium-sized enterprises. It is the only Bulgarian bank to provide financing via other credit institutions as well as direct financing.

In pursuing the government policy on encouragement of small and medium-sized enterprises, the Council of Ministers may, in accordance with the national strategy for encouragement of small and medium-sized enterprises, approve the strategic goals and tasks of the bank.

The Council of Ministers shall, following a proposal from the Minister of Finance and the Minister of Economy, Energy and Tourism, approve a three-year strategy for the bank's activity in accordance with the national economic policy.

The BDB has a licence for banking activity under which it may carry out all banking operations permitted by the law, which are not restricted by government. The BDB is a legal entity which is engaged in the business of publicly accepting deposits or other repayable funds and extending loans and other financing for its own account and at its own risk.

The government may only influence the BDB's general business strategy, and may not participate in the daily running of the bank.

Discussion and methodological analysis

Eurostat thanked the NSI for providing a note on BDB, but stressed that it should be also analysed whether it could be a captive financial institution, i.e. to analyse whether constraints on assets and liability side might exist.

Regarding constraints on the liability side, the NSI explained that only a small part of the debt is guaranteed by government. The BDB does not receive any direct financing from government and does not need a government permission to borrow.

Then, the constraints on the assets side were discussed in more detail. The NSI explained that the Ministers can be members of the Supervisory board, while civil servants cannot be members of the management board.

The Supervisory Board may not take any part in the day-to-day running of the BDB and has the following powers:

- approves operations amounting to more than 10 percent of the BDB equity;
- approves decisions of financing/refinancing of companies having liabilities classified as ‘Nonperforming loans’ or ‘Loss’;
- co-ordinates decisions of the Management Board for assumption of credit risk.

In order to be able to analyse whether there are constraints on the assets side, the split of the operations of BDB (in both the number of operations and principal amounts), for which an ex-ante authorisation of the Supervisory Board are needed, would have to be analysed. The same information would be necessary also for the non-performing loans. The NSI agreed to perform such analysis and provide it to Eurostat.

Furthermore, Eurostat asked the NSI whether BDB performs any activities on behalf of government. The NSI explained that there was only one case in the past when the BDB was acting on behalf of the MoF. It related to a loan from a German bank, which was correctly recorded in the government accounts. Eurostat asked the NSI to closely follow-up on whether any operations might be performed on behalf of government.

Findings and conclusions

Action point 23: Regarding the sector classification of the Bulgarian Development Bank, the Bulgarian statistical authorities will inform Eurostat on:

- a. whether the members of the Supervisory Board of bank are at present government officials, civil servants or member of government;
- b. the % in total size of loans granted by BDB, which require the approval of the Supervisory board, broken down by the “10 % cap” and “loans to entities having liabilities classified as nonperforming or loss” for the last 5 years;
- c. whether any operations conducted by the bank could be considered as undertaken on behalf of government. This issue will have to be monitored on a continuous basis.

Deadline: by the October 2016 EDP notification¹³

4.1.4 Follow-up on the sector classification of the Deposit Insurance Fund and Corporate Commercial Bank

Deposit Insurance Fund

¹³ The requested information was provided to Eurostat on 30 September 2016.

Introduction

In the April 2015 EDP Notification, Eurostat expressed a reservation on the quality of the data reported by Bulgaria in relation to the sector classification of the Deposit Insurance Fund (DIF) and the impact on the government deficit of the fund's repayment of the guaranteed deposits (3.7 billion BGN, 4.5% GDP) in the Corporate Commercial Bank (CCB). At that time, the NSI classified DIF outside general government, in the financial corporations sector. However, Eurostat considered that DIF should be reclassified inside general government in the context of the ESA 2010 implementation and further elaborations thereof in the MGDD. In the following months, the issue was investigated and discussed between the NSI and Eurostat. Eurostat explained its view in the *'Note on the sector classification of the Bulgarian Deposit Insurance Fund'* sent to the NSI on the 18th of September 2015. As a consequence, the NSI reclassified DIF inside general government in the October 2015 EDP notification. The relevant impact on deficit and debt figures for 2014 had been introduced in the reported figures for 2014 (with an increase in deficit of 2.6 billion BGN (3.5% GDP) and a decrease in debt by 0.13 billion BGN), which resulted in a withdrawal of the Eurostat reservation. Regardless of the undertaken reclassification, the NSI expressed some outstanding concerns and questions in the note transmitted to Eurostat during the October 2015 EDP notification.

Discussion and methodological analysis

Eurostat informed the Bulgarian statistical authorities that it had carefully analysed the additional information presented by the NSI, but that nevertheless it maintained its view about the classification of the DIF inside general government as presented in detail in the Eurostat note of the 18th of September 2015. Furthermore, Eurostat thanked the NSI for the good cooperation on this issue and welcomed the reclassification of the DIF for the reporting year 2014. However, Eurostat emphasised that the reclassification of the DIF should be retrapolated and reflected in the data for at least four years for the April 2015 EDP Notification.

Concerning the technical aspects, Eurostat re-emphasised its previously expressed opinion that the amount reflecting the expected proceeds from the liquidation of the Corporate Commercial Bank (estimated at 855 million BGN) should be reported as a transaction in *Equity* (F.5) and not as *Other accounts receivable* (F.8) as originally proposed by the NSI. Eurostat stressed that the statistical analysis should be based on the economic reality and prevail over the underlying legal arrangements. Eurostat regards it as a DIF claim on the liquidation's proceeds from CCB in excess of any remaining senior liabilities and, thus, DIF should be treated as an owner of net assets of the CCB and the claim of 855 million BGN has an equity nature.

In addition, Eurostat stressed that any future recoveries from the liquidation of the Corporate Commercial Bank should be recorded in the financial accounts, whereas the excess between actual and expected recoveries should enter the revaluation accounts.

Findings and conclusions

Action point 24: It was agreed that Deposit Insurance Fund (DIF) will be re-classified inside government at least for the 4 years of the April 2016 EDP notification and that the compulsory contributions paid by banks to DIF will be classified as tax, D.29.

Deadline: April 2016 EDP notification¹⁴

Corporate Commercial Bank

The CCB's banking license was withdrawn by the Bulgarian National Bank on the 6th of November 2014 and on the 22nd April 2015 the Court announced the CCB's bankruptcy. Before the withdrawal of the license, since the 20 June 2014, the Bulgarian National Bank put the CCB under a special supervision regime, in accordance with the provisions of article 115 of the Credit Institutions Act, and appointed conservators for management and supervision.

During the October 2015 EDP Notification, the sector classification of the Corporate Commercial Bank was raised. Eurostat enquired if the NSI analysed the unit in the context of the MGDD guidance related to financial defeasance and its potential classification in the general government subsector. The NSI answered that, in its view, the government did not have any involvement with supporting or rescuing the CCB in the context of MGDD guidance related to financial defeasance. In reply, Eurostat emphasized that the relevant criteria for sector classification are implicit ownership and associated risks and rewards related to an entity under liquidation and that, in the view of Eurostat, DIF owns the right to the liquidation process of the CCB. The issue was assigned for further consideration, whereas for the October 2015 EDP Notification, the Corporate Commercial Bank was classified outside general government.

Discussion and methodological analysis

Re-visiting the issue of the appropriate sector classification of CCB, Eurostat pointed to the new guidance related to the units in liquidation to be published in the 2016 version of the MGDD. According to its section I.2.4.4 *Public units in liquidation*, the units in liquidation controlled by government should be classified in general government. In particular, it specifies that a 'liquidator' cannot be considered as exerting control on the unit, in the sense of the ESA 2010 definition, i.e. the ability to determine general policy, as his function is simply to compensate the creditors of the unit in liquidation by realising the value of the assets. What only matters is that the unit was considered as public before the entry into liquidation.

Following the reclassification of DIF inside general government and its intervention in the CCB in 2014, there seem to be strong indications that the CCB was publicly controlled before putting it into liquidation. In this context, Eurostat strongly encouraged the NSI to re-visit the classification of CCB in the light of the upcoming provisions of the MGDD.

Findings and conclusions

¹⁴ This was implemented in the context of the April 2016 EDP notification.

Action point 25: The Bulgarian statistical authorities will analyse the sector classification of the Corporate Commercial Bank in view of the upcoming provisions of the new MGDD regarding units in liquidation.

Deadline: end of September 2016¹⁵

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

The Bulgarian statistical authorities apply the time adjusted cash method (TAC) to VAT, excise taxes, corporate income taxes (CIT) and personal income taxes (PIT).

For VAT, PIT and CIT, each type of tax is broken down by components – cash amounts, tax refunds, receipts from tax audits, etc. This method has been used from 2008 onwards.

The following leading principles are set out in the established compilation procedures:

- using as much as possible direct information sources;
- using data with monthly or at least quarterly frequency;
- using detailed information by elements of total cash receipts/payments in order to apply relevant periods for time adjustment;
- applying the method for the whole time series since 1995 – ensuring the consistent time series of NA indicators;
- ensuring consistency between quarterly and annual data.

The National Revenue Agency (NRA) provides data for all taxes while the estimated time adjusted cash data for excise duties are based on the tax declarations collected by the Custom agency.

Final data is available for VAT, PIT and CIT at T+12, for actual social contributions at T+9 and for excise duties at T+3. For April notifications about 20 % of total tax revenue is based on forecasts.

Discussion and methodological analysis

The Bulgarian statistical authorities provided, prior to the meeting, an updated note on taxes and social contributions.

¹⁵ The analysis was provided on 30 September 2016.

Firstly, Eurostat enquired about the estimations used and underlined that it is not usual to use estimations when a TAC method is used.

Concerning VAT, the information is delivered by the NRA on a regular monthly basis at T+25 days after the tax period. The deadline for the tax payers to pay the VAT corresponding to the current month is the 14th day of the next month.

A time-adjusted cash method of 1 month is usually used for VAT. The applied time adjustment procedure follows as much as possible the conditions regarding tax payments and tax refunds from the Law. In April notifications, an estimation is made for VAT actually paid for the previous period and for VAT revenue from tax audits from previous years. The refunds can be deducted from the tax, within 2 months after the declaration. If it is not fully deducted within 2 months, the remainder is due 30 days after the last VAT declaration. The actual data is used only for refunds deducted from revenue for two months while estimations are used for the rest of the refunds. The estimations are done by the NRA.

The total monthly VAT cash receipts are derived as a relation between the following elements:

- (+) VAT actually paid, including payments for previous years
- (-) VAT refunds, separated by periods for refunding
- (+) VAT revenues from tax audit, including amounts for previous years
- (+) VAT on Import
- (=) Total VAT cash receipts

Regarding Excise taxes, the NSI explained that the estimated time adjusted cash data for excise taxes are based on the tax declarations collected by the Custom agency. The time lag used corresponds to one month. As the time adjustment is done directly by the Custom agency, the NSI could not confirm whether some elements are estimated, but most probably this is the case for refunds.

As regards Corporate income taxes (CIT), the NSI confirmed that the TAC includes also the estimation component. The advance contribution for each year (X) is declared with the annual tax declaration for the previous year (X-1). A one year time adjustment is applied.

Some amounts of tax payments concern the current year and some amounts concern previous years. In order to classify properly the taxes, the following cash amounts are reclassified to previous year (t-1):

- tax amounts coming from tax audits;
- tax for the past year;
- tax for refunding.

As concerns Personal income taxes, the NSI explained that the TAC is calculated in the same way as corporate income taxes, including estimations.

A detailed description on the method used, per tax, is available in the EDP inventory, publicly available on Eurostat website¹⁶. The NSI agreed to provide an updated table on cash and time adjusted cash and tax refunds, by tax, presented during the meeting.

On the basis of the discussion, Eurostat concluded that the situation seem to be the same for all taxes as the estimation component is used for all taxes, mainly related to tax refunds and payments from previous years. Eurostat therefore expressed doubts on whether the method currently used could be called TAC as estimations are being used in order to calculate accruals. The current method used leads to sizeable revisions of tax revenues.

Eurostat remarked that three possible methods could be used:

1. use TAC for all components of taxes, including refunds;
2. mix TAC with accruals for refunds. With this method one part of taxes would be recorded on accrual basis. This method does not lead into revisions;
3. make estimations for some components of taxes, such as refunds. This method leads to revisions.

In order to avoid often and sizeable revisions, many Member States moved from the third method to method 1 or 2.

As estimations are calculated directly by the Tax authorities (NRA), Eurostat asked the NSI to provide a note explaining the method used and the estimations made by the NRA for tax revenues. In addition, Eurostat recommended to the NSI to investigate whether data received from the NRA, in particular the calculation of estimations, is close to reality and whether the estimations are correct from the accounting point of view. In order to decide on the appropriateness of the method used for taxes, Eurostat also asked the NSI to prepare an analysis on the method used and of the revisions.

Next, the NSI explained that taxes collected at the level of the local governments are recorded on a cash basis. These are mainly taxes on property income, cars, inheritance tax, tourist taxes, patent taxes, etc. These taxes amount to around 1 % of GDP. Eurostat confirmed that cash could be used if it is considered a good proxy to accruals.

Eurostat also enquired about social contributions, which are currently recorded on a cash basis. The NSI explained that there is no time lag used for the payments of social contributions. However, in 2013, a Law changed payment days for social security contributions. In accordance with the new legislation, the social security contributions for the relevant month have to be declared and paid during the next month (the deadline for declaration and payment is the 25th day of the next month). The previous legal provisions (before 2013), required payments for social security contributions to be done simultaneously with payments for wages and salaries.

¹⁶ <http://ec.europa.eu/eurostat/documents/1015035/7110762/BG-EDP-Inventory-201512.pdf>

Eurostat asked the NSI, due to the change of legislation, to record social contributions with a one month time lag and not simply on a cash basis.

Findings and conclusions

Action point 12: The Bulgarian statistical authorities will send a note to Eurostat explaining the elements of the estimations made by the Tax authorities for tax revenues and provide the parameters and the exact formula used in the calculations.

Deadline: by end of August 2016¹⁷

Action point 13: The Bulgarian statistical authorities will send to Eurostat an analysis of the appropriateness of the method used for recording of taxes, taking into account the analysis of the revisions observed in the last 5 years.

Deadline: by mid-September 2016¹⁸

Action point 14: Relating to taxes, the Bulgarian statistical authorities will provide to Eurostat the update tables on cash and time adjusted cash and tax refunds, by tax.

Deadline: by the April 2016 EDP notification¹⁹

Action point 15: The Bulgarian statistical authorities will provide a note to Eurostat, explaining the sudden sizeable increase of payments of taxes from previous years, for years 2013-2015 and also inform Eurostat whether this could originate any change in the cash time adjusted lag.

Deadline: end of August 2016²⁰

Action point 16: Eurostat considers that social security contributions should be recorded with a one month time lag and not simply on a cash basis.

Deadline: by the April 2016 EDP notification²¹

4.2.2. Accrued interest

Introduction

The Bulgarian statistical authorities calculate data on cash and accrued interest expenditure automatically from the debt register, kept at the MoF, on an instrument-by-instrument basis.

Before the visit, the NSI provided a table showing the recording of interest expenditure in EDP tables 2A and 3B for each individual instrument.

¹⁷ The note was provided on 31 August 2016.

¹⁸ The note was provided on 15 September 2016.

¹⁹ The updated tables were provided on 31 March 2016.

²⁰ The note was provided on 31 August 2016.

²¹ This was implemented in the context of the April 2016 EDP notification.

Discussion and methodological analysis

Eurostat observed that the table provided before the meeting is consistent with the EDP tables.

The NSI confirmed that the calculation of accrued interest for securities is done on a security-by-security approach. In addition, the NSI confirmed that data on accrual interest is available for units which were re-classified inside government sector.

Findings and conclusions

Eurostat took note of the explanations.

4.2.3. EU flows

Introduction

EU flows are distributed through two central government bodies, the National Fund in the Ministry of Finance and the Agricultural Fund – Payment Agency, both classified in the central government sub-sector. The beneficiaries of EU funds provide additional information. The MoF is the main source of data for EU funds.

Generally, no amounts of EU funds are shown in the WB, with the exception of Schengen facilities. All EU funds are shown in the line Net lending (+) or net borrowing (-) of other central/ local government bodies of central and local government sectors.

The accrual adjustment in EDP tables 2 is done via the line in the *Other adjustments - EU flows corrections*. The adjustments are made only for EU-financing, while national co-financing is recorded as expenditure.

Before the visit, the BSA provided a note on the recording of EU flows.

Discussion and methodological analysis

The Bulgarian statistical authorities (MoF) described in detail the recording of EU flows, accompanied with the table on amounts on different steps of adjustments made for the compilation of the EDP.

In 2011, a new method of calculation of EU flows adjustments was introduced, based on the available data on a more detailed level. This approach was built on the basis of the ESA principles and MGDD guidelines, in order to ensure a neutral impact on government deficit.

This was accomplished by:

- recording all transactions between EU and managing agencies (National Fund and Agricultural Fund) as Other accounts receivable /payable;
- recording all expenditure (subsidies, capital transfers) to non-budgetary units as Other accounts receivable /payable;

- for all other expenditure of units classified in the general government sector, a corrective recording is based on the proportion of EU / national part co-financing.

The following steps are followed when calculating adjustments related to EU funds:

1. The initial payment from the EU is recorded, in national accounts, as a financial advance, with no impact on government deficit.
2. Identification of cash expenditures of government beneficiaries; a part of them is attributable to EU co-financing (recorded as a cash revenue from EU).
3. The government bodies responsible for managing and distribution of EU flows (National Fund and the Agriculture Fund) transfer funds to non-government beneficiaries. National co-financing is recorded, in accordance with the national methodology, as expenditure (current or capital transfer) while the EU part of co-financing is recorded in Other accounts receivable/payable in line with ESA 2010.
4. The same approach is used for the beneficiaries in the local government with the exception that this adjustment does not change the stocks and flows of Other Accounts receivable/payable at the level of the general government level, but only re-allocate them between the government sub-sectors.
5. An adjustment for the national part of co-financing of EU funds recorded through the budget (e.g. JEREMIE and JESSICA) is necessary (in order to impact government deficit) as according to the national methodology, these payments are recorded as a financial transaction.
6. If necessary, an additional adjustment is made for the claims of government beneficiaries to/from suppliers related to EU financed projects.

The above mentioned accrual adjustments are included in the EDP tables under Other adjustments. No adjustments related to EU flows are necessary for the Agriculture funds as they are already recorded, in line with the national methodology, as a financial transaction.

In the approach used by the MoF, the proportion of the EU financing is estimated and the rest of financing is then considered as national financing (recorded as expenditure with an impact on government deficit). The MoF explained that they do not distinguish between national and EU co-financing as there is no separate account for national and EU co-financing. The managing agencies provide necessary information on the proportion of EU financing.

Expenditure is recorded at the time when the money is spent, i.e. when expenditure incurs. National co-financing is therefore recorded as government expenditure while EU co-financing is recorded as a financial transaction. The time of expenditure is used to neutralise EU expenditures. Every year the proportion of EU co-financing changes, according to the Programme. The MoF considered that available data sources are of good quality as the system distinguishes between EU and national co-financing.

Eurostat asked the MoF to further investigate whether there might be some issues related to structural funds, in particular at the end of the programme. It might be that, in the last year of

the programme, national contributions are overestimated while, on the contrary, the first years are underestimated.

Furthermore, Eurostat enquired whether the MoF has the necessary information on the proportion of EU and national co-financing whenever the beneficiary is local government. The MoF admitted that they do not have this information. The only possible problem might occur only in the case when municipalities might spend money in another year. Eurostat agreed that the total for EU funds seem to be correctly recorded. Nevertheless, the small amounts at the level of the local government might not be precise from year to year, although it would balance at the end.

Eurostat concluded that, in principle, the recording of the EU funds seem to be correct. Nevertheless some amounts might not be properly allocated in the correct year. Therefore, Eurostat asked the MoF to further reflect on the time of recording issue and on the implications of the method currently used to neutralise EU funds.

Findings and conclusions

Action point 17: Relating to EU funds, Eurostat asked the Bulgarian statistical authorities to provide the tables presented in the meeting, including the amounts on different steps of adjustments made for the compilation of the EDP tables, in English.

*Deadline: by the April 2016 EDP notification*²²

Action point 18: The Bulgarian statistical authorities will reflect on the issue of the time of recording and on the implications of the method that it is used to neutralise EU funds and report back to Eurostat

Deadline: end of December 2016

4.2.4. Military equipment expenditure

Introduction

The NSI records expenditure for the acquisition of military equipment at the time of delivery, which in Bulgaria equals to cash. Leasing operations for the acquisition of military weapon systems are treated as a financial leasing. The source data used are the balance sheets of the Ministry of Defence.

Financial leasing is treated, in public accounts, as a cash transaction (acquisition of an asset). Whenever there is a financial leasing for the acquisition of military weapons/systems, the impact on government deficit is already included in the working balance. The NSI only makes the necessary adjustment for the impact on government debt.

²² The table was provided on 31 March 2016.

Discussion and methodological analysis

Eurostat asked for a clarification as regards the recording of military equipment expenditure. The NSI clarified that expenditure for the acquisition of military equipment is recorded on a delivery basis. The NSI confirmed that all military equipment is captured and underlined that amounts involved are very small. The cooperation between NSI and MoF is very good.

As cash data equals delivery for all years, Eurostat enquired about the recording of military equipment received in December of the year N and paid only in January N+1. The NSI said that such situation have not occurred so far.

Eurostat invited the NSI to closely monitor Programmes of modernisation as there could be cases of advances paid.

Findings and conclusions

Eurostat took note of explanations.

4.3 Recording of specific government transactions

4.3.1 Guarantees

Introduction

The government provides guarantees to public corporations' loans from international financial institutions and to students' borrowings from private banks. The energy sector accounts for most of the stock of government guarantees, followed by transport. There are very strict procedures in place to grant government guarantees. Each year the budget foresees a specific amount for guarantee calls.

The Bulgarian statistical authorities provided a list of outstanding guarantees repayments by individual companies for years 2011-2014.

Discussion and methodological analysis

The NSI confirmed that guarantee calls are recorded in public accounts. They also confirmed that the 'three calls rule' is being applied, i.e. repeated calls on a guarantee over three successive years lead in the third year to the entirety of the remaining guarantee being treated as if called. However there have been no such calls in the past years.

The NSI explained that, for some companies with operational losses, almost all debt is guaranteed by government, but does not expect any guarantees to be called. Eurostat recommended to closely monitor these companies and in particular if they have received any government subsidies.

Then, the issue of standardised guarantees was discussed in more detail. Eurostat noted that Bulgaria reports in the table 9.4 of the Questionnaire relating to the EDP tables, the stock of

assets covered by standardised guarantees in relation to the student loans. However, no related liability (AF.66) is recorded in the EDP and GFS tables.

Eurostat recalled that when government provides standardised guarantees, a liability (AF.66) equal to the present value of expected calls (net of any recoveries that could be received) is recorded in government accounts. If government charges fees, there will be an entry in financial accounts equal to the fees received less the calls of existing guarantees. If government charges no fees, a capital transfer from government is recorded instead of a financial transaction. Eurostat advised the BSA that, in case those provisions are recorded, these can be taken as a liability (F.6) and, if not, then estimates have to be made.

The NSI agreed to look at the issue of the standardised guarantees on student loans in order to estimate the liabilities.

Findings and conclusions

Action point 7: The Bulgarian statistical authorities will closely monitor the units which have a significant part of debt guaranteed by government in order to check whether they received any regular government subsidies allowing them to repay their debt.

*Deadline: by the October 2016 EDP notification*²³

Action point 8: The Bulgarian statistical authorities will look at the issue of the standardised guarantees on student loans in order to estimate the liabilities (F.66) and report them both in ESA and EDP tables.

*Deadline: by the October 2016 EDP notification*²⁴

4.3.2. Government claims; debt assumptions, debt cancellations and debt write-offs

Introduction

Debt cancellations are recorded in public accounts only after the official decision of the Council of Ministers. Claims are cancelled after a bilateral agreement is signed between Bulgaria and the country which debt is being cancelled. NSI receives the information on debt cancellations from the MoF.

Debt write-offs are recorded in public accounts when the claim can no longer be collected because of bankruptcy of the debtor and there is no bilateral agreement on debt cancellation.

The participants of the meeting reviewed the data on government claims and debt assumptions by government for the years 2011-2014 submitted by the Bulgarian statistical authorities before the visit.

²³ This was checked for the October 2016 EDP notification.

²⁴ This was implemented in the context of the October 2016 EDP notification.

Discussion and methodological analysis

NSI receives direct data from the annual balance sheets of units. Information on debt cancellations, stocks and accrued interest revenue is available for all government sub-sectors. The amount of debt cancellation includes also interest accrued. The NSI confirmed that debt cancellation is always based on a government decision.

The last debt assumption incurred in 2012-2013 and it was related to the Bulgarian Railways Holding (BDZ), which was however reclassified in 2012 in the government sector.

Eurostat enquired about the loan given to Pro Credit bank as it seems that the bank has not been repaying the loan in the last years. The BSA explained that this was due to the existence of a grace period.

The Bulgarian statistical authorities confirmed that there had been no new cases of debt cancellations and debt write-offs.

Findings and conclusions

Eurostat took note of the explanations

4.3.3 Capital injections in public corporations, dividends, privatization

Introduction

Prior the meeting, the NSI provided a list of capital injections for the period 2011-2015 by beneficiary and treatment in national accounts, by sub-sectors, along with a list of dividends paid to government in 2011-2015 by individual company and its profit.

Discussion and methodological analysis

The Bulgarian statistical authorities confirmed that there had been no bank recapitalisations in Bulgaria in the last years. They also confirmed that all capital injections are analysed according to the rules established in the MGDD (as financial or non-financial). While most of the capitals injections in the central government sub-sector are recorded as a financial transaction, they are mainly recorded as a capital transfer in the local government sector. There are no capital injections in S.1314. So far no capital injections in kind were identified.

The NSI also explained that funds provided from the Bulgarian State to Multilateral Development Banks had not been used for the provision of concessional loans below the market rates.

Following this, the dividend policy was discussed in more detail. The main data sources on dividends received by the government are the consolidated fiscal program and annual financial statements of public corporations. NSI receives, from NRA, detailed information on paid dividends per company. All dividends paid by public companies to government are analysed by the NSI. The difference between the dividend paid and the operating profit of the previous year are recorded as a reduction of *Shares and equity* (F.5) in the EDP table 3B and as a negative adjustment to the surplus in the EDP table 2A in order to neutralise the impact on government deficit. The NSI confirmed that, whenever the dividend paid to government exceeded the profit of the company, it was recorded as a financial transaction. The NSI further confirmed that exceptional sales of assets and revaluation effects are not included in the profit, when performing the super dividend test.

Then, dividends paid by the Central Bank (BNB) to government were discussed. The Central bank pays about 75 % of its profit to government.

Finally, the Bulgarian statistical authorities confirmed that, from 2014 onwards, privatisation proceeds are no longer included in the working balance.

Findings and conclusions

Eurostat took note of the explanations.

4.3.4 Others: Public Private Partnerships, Financial derivatives, Sale and leaseback operations, UMTS, Emission permits

Introduction

Eurostat enquired on Public Private Partnerships, Financial derivatives, Sale and leaseback operations, UMTS and Emission permits.

Discussion and methodological analysis

As regards Public Private Partnerships, the NSI confirmed that currently there are no PPPs. However, a framework for PPPs exists. In 2013, the Public-Private Partnership Act entered into force. Under this Act, a PPP is defined as a long-term (between 5 and 35 years) contract between public partner(s) and private partner(s) with the main aim to implement projects of public interest by obtaining better value from public resources and allocation of risks between the partners. The project can be financed wholly or partially by the private partner. The private partner should always bear the construction risk and at least one of the two other risks, availability risk and/or demand risk. The private partner gets a rate of return, which is guaranteed by the public partner through availability payments made by government.

The NSI explained that they would be consulted only ex-post about the existence of a PPP. The law distinguishes between a PPP and a concession.

On the other hand, there are about 700 concessions in the central government sub-sector and more than 1000 in the local government sub-sector. The biggest concessions relate to water.

A frequently observed feature of concession contracts is the provision of a guarantee by a concessionaire to government, at the inception of the concession contract, to fulfil their obligations under the concession contract.

The concession contracts are approved by the Council of Ministers. A register of all concessions exist, which is also publicly available. The NSI has the access to all contracts.

Eurostat recalled about the revised guidelines regarding concession in the new ESA 2010 MGDD. The new provisions of the MGDD are to implemented in the context of the October 2016 EDP notification. The rules on concessions became close to the rules on PPPs.

The biggest concessions are analysed by the NSI (about 15-20 contracts) according to two criteria; the year in which the concession was granted and revenue. Revenue from concessions is recorded as rent (D.45). In some cases, a private partner pays a lump sum to government, which is recorded in national accounts as an advance payment and is spread over the period of the contract.

Eurostat further enquired about the recording when the grace period is granted to the concessionaire and underlined that, in such a case, the revenue would need to be imputed already from Year 1 although there would be no cash flows. The NSI explained that they receive accrual data from the MoF (from the balance sheet) and no additional adjustments is made to this data.

Eurostat enquired whether a concession could be granted to a public corporation. The NSI did not recall having such a case as all existing concession contracts were always signed with a private partner.

Eurostat asked the NSI to provide to Eurostat copies of the three largest contracts from three different areas, including their national accounts analysis.

Regarding Energy performing contracts, Eurostat recalled that energy performing contracts have the characteristics of PPPs. By definition, all GFCF related to such contracts should be recorded as government expenditure with an impact on government deficit and debt, which should be increased via imputed loans (F.4). The NSI explained that such contracts are currently treated as long-term trade credits. Eurostat stressed that, according to the MGDD, they should be recorded as an imputed loan and not as long term trade credit (although the impact on government debt is the same).

Then, the NSI confirmed that there have been no occurrences of sale and leaseback operations and securitisations.

Regarding Emission permits, it was explained that Bulgaria participates in the two main trading systems of emission permits – the Kyoto Protocol and the EU trading scheme. In 2012, the government sold Assigned Amount Units for 34.8 million BGN and emission permits for 43.3 million BGN, which will be used in the period 2013-2020. The amount of 43.3 million BGN was recorded as *Other accounts payable* for government. The NSI ensured that the revenues for the emission permits would be recorded as taxes - *Other taxes on production* (D.29), in the year of surrender of the permits. The sale of Assigned Amount Units was recorded as a sale of non-produced non-financial assets at the time when the sale took place.

Eurostat further enquired whether any 3G and 4G UMTS licences have been recently granted by government. The NSI said that they were not aware of any recent auctions of UMTS licences and agreed to check it.

Regarding financial derivatives, the NSI explained that there is no obligation to use a currency swap when debt is not in euro. Consequently, currency swaps are not used.

Findings and conclusions

Action point 9: In relation to concessions, the Bulgarian statistical authorities will provide to Eurostat copies of the three largest contracts from 3 different areas, including their national accounts analysis and the description of the procedures ensuring the correct recording in national accounts.

*Deadline: mid-September 2016*²⁵

Action point 10: The Bulgarian statistical authorities agreed to reclassify Trade credits in the context of the Energy Performance contracts as loans (F.4)

*Deadline: April 2016 EDP notification*²⁶

Action point 11: The Bulgarian statistical authorities will check whether 3G and 4G UMTS licences have been recently granted and if yes, exactly when, and how they were recorded in national accounts. A table will be provided in this respect.

*Deadline: by end of March 2016*²⁷

5. Other issues

No issues

²⁵ This was provided mid-September 2016.

²⁶ So far no Energy performance contracts have been signed.

²⁷ This was checked by 31 March 2016.

EDP dialogue visit to Bulgaria, 29 February – 1 March 2016

Draft Agenda

1. Statistical organisational issues

- 1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation; Data Sources, Revision policy
- 1.2. EDP inventory
- 1.3. Compliance with Council Directive 2011/85

2. Follow-up of the EDP dialogue visit of 22-23 January 2014

3. Follow-up of the latest EDP reporting – analysis of EDP tables and the related questionnaires

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government

- 4.1.1. Application of the market/non-market test, in particular calculation of the net interest charge
- 4.1.2. Government controlled entities classified outside general government (public corporations)
- 4.1.3. Sector classification of specific units: Bulgarian Railways Holding, Bulgarian Energy Holding and Bulgarian Development Bank
- 4.1.4. Follow-up on the sector classification of the Deposit Insurance Fund and Corporate Commercial Bank

4.2. Implementation of accrual principle

- 4.2.1. Accrual taxes and social contributions
- 4.2.2. Accrued interest
- 4.2.3. EU flows
- 4.2.4. Military expenditure

4.3. Recording of specific government transactions

- 4.3.1. Guarantees
- 4.3.2. Government claims; debt assumptions, debt cancellations and debt write-offs
- 4.3.3. Capital injections in public corporations, dividends, privatization
- 4.3.4. Others: Public Private Partnerships, Financial derivatives, Sale and leaseback operations, UMTS, Emission permits

5. Other issues

- 5.1.1. Any other business

EDP dialogue visit to Bulgaria, 29 February – 1 March 2016

List of participants

Eurostat

Luca Ascoli – Head of Unit

Lena Frej Ohlsson – Head of Unit

Denis Besnard

Malgorzata Szczesna

Simona Frank

DG ECFIN

Zoltan Gyenes

ECB

Patrick Grussenmeyer

The Bulgarian statistical authorities:

National statistical institute

Elka Atanasova – Director

Antoniya Pacheva – Head of Division

Milada Dimcheva

Peter Kamenov

Kornelia Lazarova

Elza Barbova

Milen Kolev - Head of Division

Elena Bakalova

Liubomira Zhivkova

Ministry of Finance

Svetla Kostova - Director

Pavel Kyuchukov – Head of division

Tzvetanka Chipeva – Head of division

Nikola Pavlov

Vanya Vatcheva – Head of division

Dimitar Popov

Pavel Banov

The Bank of Bulgaria

Mihail Andreev - Head of Division

Vanya Koleva