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FINAL FINDINGS

EDP standard dialogue visit to Croatia

18-20 January 2017

Executive summary

Eurostat carried out an EDP dialogue visit to Croatia on 18-20 January 2017. The previous Eurostat EDP dialogue visit to Croatia had taken place on 26-27 February 2015.

The aim of this visit was to review the data sources used for the compilation of the EDP notification tables and to further clarify some issues raised in the context of the October 2016 EDP notification (e.g. the calculation and reporting of Gross Fixed Capital Formation (GFCF) for the government sector, the working balance of the social security sub-sector and the recording of payables for the health care). The accrual recording of taxes and the delimitation of general government sector were also discussed. Statistical discrepancies and specific government transactions related to EU flows, government guarantees, public-private partnerships (PPPs), energy performance contracts and military expenditure were also examined.

In particular, Eurostat reviewed the **institutional responsibilities** for the provision of EDP data. Eurostat discussed with the Croatian statistical authorities the developments since the latest EDP dialogue visit, which took place in February 2015. Eurostat welcomed the inclusion of a representative of the State Audit Office (SAO) in the national EDP working group. Eurostat took note of the planned inclusion in the Annual Implementation Plan of Statistical Activities of data requirements from units classified in the government sector which are currently not covered in any annual implementation plan.

Eurostat discussed extensively with the Croatian statistical authorities **the availability and use of data sources**, in particular concerning central government and social security funds.

Regarding the **revision policy** for national accounts, the Croatian statistical authorities informed Eurostat that the recommendations of the Peer Review would soon be published on the CBS's website.

Concerning the **EDP Inventory** of the methods, procedures and sources used to compile actual deficit and debt, Eurostat discussed with the Croatian statistical authorities possible updates to the existing version, including its annexes.

Eurostat welcomed the implementation of most action points of the EDP dialogue visit from February 2015, and of the June 2016 videoconference and followed-up on three action points.

As a **follow-up of the October 2016 EDP reporting**, the discussion focussed on the calculation of GFCF for the April and the October EDP notifications, the working balance of social security funds, the reporting of payables for health care and the reconciliation of the receivables and payables by sub-sectors.

The discussion on **methodological issues** focussed mainly on the delimitation of the government sector, the implementation of the accrual principle, as well as on the recording of specific government transactions.

Regarding the **delimitation of the general government sector**, Eurostat discussed the results reported in the questionnaire on government controlled entities classified to general government (in particular the analysis of some entities having results near or under the 50%

threshold of the market-non-market test), the issue of public units in liquidation, the sector delimitation of the Financial Agency (FINA) as well as of touristic boards.

Eurostat and the Croatian statistical authorities reviewed the **implementation of the accrual principle** for taxes and social contributions, interest and EU flows.

The recording of **specific government transactions** such as government guarantees, capital injections in public corporations, dividends, super dividends, privatisation, debt assumptions, public private partnerships, energy performance contracts and financial derivatives were also discussed.

In addition, the possible fiscal impact from the dispute over the law on the recent **conversion of Swiss franc loans into euro** was discussed.

Eurostat thanked for the timely information provided by the Croatian statistical authorities prior to the EDP dialogue visit as well as the cooperation during the visit and appreciated the transparent and constructive discussions.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Croatia on 18-20 January 2017.

Eurostat was headed by Ms Lena Frej Ohlsson (Head of Unit D2 "Excessive Deficit Procedure (EDP) 1"). Eurostat was also represented by Mr Philippe de Rougemont and Ms Cecilia Pop. A representative of the DG ECFIN participated in the meetings as an observer.

The Croatian statistical authorities were represented by the Central Bureau of Statistics (CBS/DZS), the Ministry of Finance (MoF), including the State Treasury and the Tax Administration, the Croatian National Bank (CNB/HNB) and the State Audit Office (SAO). In addition, representatives from the Ministry of Construction and Physical Planning, the Agency for Investments and Competitiveness, and the Ministry of Defence participated for some points of the agenda.

The previous Eurostat EDP dialogue visit to Croatia took place on 26-27 February 2015.

The aim of this visit was to review the data sources used for the compilation of the EDP notification tables and to further clarify some issues raised in the context of the October 2016 EDP notification. The recording of payables for the health care, the accrual recording of taxes and the delimitation of general government sector were also discussed. Statistical discrepancies and specific government transactions related to EU flows, government guarantees, public-private partnerships (PPPs), and military expenditure were also examined.

Regarding procedural arrangements, the Main conclusions and action points would be sent to the Croatian Statistical Authorities, within days, for their comments. Within weeks, the Provisional findings would be sent to Croatia for review. After this, Final Findings will be sent to Croatia and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the timely information provided by the Croatian statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Croatian statistical authorities for the cooperation during the visit and considered that the discussions were transparent and constructive.

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP and GFS data reporting

1.1.1. Institutional responsibilities and cooperation

Introduction

Prior to the visit, the CBS sent a note on the institutional arrangements related to the compilation and reporting of GFS and EDP data. The institutional responsibilities have not changed since the last Eurostat EDP visit, except for the inclusion of a representative of the State Audit Office in the EDP working group.

The final responsibility for EDP reporting is with the Croatian Bureau of Statistics which reports officially to Eurostat the EDP tables and the related questionnaires. However, the Croatian National Bank and the Ministry of Finance are involved in the compilation of the data.

Discussion

The Croatian statistical authorities pointed out that the methodological and classification issues are discussed by the national EDP working group comprising representatives from CBS, CNB, MoF and the SAO. The Agency for Investments and Competitiveness is also included in the national EDP working group since recently. The national EDP working group meets regularly, once or twice every quarter, as well as before or during the EDP notifications, whenever needed.

The latest version of Memorandum of Understanding (MoU) was signed in July 2013.

Eurostat was informed about the Croatian Bureau for Statistics plans to reorganise the National Accounts Department (currently the EDP reporting is integrated into the Sector Accounts and Supply and Use Tables), in order to improve the coordination of the work. Three units will become departments and one department dealing with methodology will be created.

Eurostat stressed that the methodological work should be closely linked to the production of GFS and EDP data.

CBS explained that, for the time being, the National Accounts Department, including the EDP team is understaffed. However, it is expected that the situation will improve in the future, as it is possible to hire more personnel.

Eurostat was informed that some technical updates had been done to the annex of the MoU and future updates were expected, including new deadlines for the delivery of data by the parties¹.

Findings and conclusions

Action point 1. CBS will send to Eurostat the detailed current organisational chart as well as the revised organisational chart expected to be adopted soon. *Deadline: end February 2017*²

Action point 2. Eurostat stressed the importance of ensuring sufficient EDP staffing, including EDP methodology at the CBS.

Action point 3. Eurostat welcomed the inclusion of the State Audit Office (SAO) in the national EDP working group and encourages early exchanges of information between the CBS/CNB and SAO. CBS will send to Eurostat the list of the members of the national EDP working group. *Deadline: end February 2017*³

Action point 4. CBS will send to Eurostat the revised Annexes of the existing Memorandum of Understanding (signed in July 2013). *Deadline: February 2017*⁴

1.1.2. Quality management framework

Introduction.

Under this item of the agenda, Eurostat and the Croatian statistical authorities discussed the steps undertaken since the last EDP dialogue visit for the formalisation of the process of production of the EDP statistics.

Discussion

Eurostat asked to be updated on possible changes related to the reporting obligations of upstream entities (e.g. ministries, agencies, extra-budgetary funds, public corporations

¹ The new Ordinance on financial reporting in budgetary accountancy entered into force 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 for year n were shortened by one month; they have now to be submitted until the end of February of year n+1 (for consolidated reports; non-consolidated reports have to be submitted earlier).

² The organisational chart was sent to Eurostat on 10 February 2017.

³ The list of the national EDP working group members was sent to Eurostat on 28 February 2017. The working group is composed of 12 members and includes besides, the DZS, CNB, MoF and SAO, also a representative of the Agency for Investment and Competitiveness, responsible for PPPs.

⁴ According to the note sent on 28 February 2017, the existing Annexes to the MoU could not be sent due to the process of setting of a new structure at the MoF. The annexes will be sent as soon as possible.

classified into the government sector) to provide the data to CBS for the compilation of EDP statistics.

The Croatian statistical authorities explained that the provision of the Croatian law on statistics which obliges upstream entities to provide the data to the CBS is respected by all units. The CBS receives, on request, data from all upstream entities reclassified from other sectors into the government sector, to be used for statistical purposes.

At the request of Eurostat, the Croatian statistical authorities explained that the collection of the data from all units by the Financial Agency 'FINA' is already established in the existing Annual Implementation Plan of Statistical Activities (GPP).

Eurostat enquired about the delays or any other problems with the delivery of data by public corporations, which were issues of concern in the past. The CBS confirmed that there are no problems of delivery of data from the upstream entities to the CBS, the response rate from upstream entities being high.

The CNB explained that in the past, for the April notifications, the problems were with the data from public corporations classified into the government sector, due to their legal obligation to provide the balance sheets data only on 30 April. Because this was too late to be used for the first EDP notification, the national EDP working group has created the template for collecting the data and formalised the earlier transmission.

Moreover, Eurostat was informed about the intentions to formalise the request of data needed for national accounts and EDP by all units classified into government sector and include this in the Annual Implementation Plan of Statistical Activities (which will be in force from 2018).

Findings and conclusions

Action point 5. CBS will send to Eurostat the existing Annual Implementation Plan of Statistical Activities of the Republic of Croatia. *Deadline: February 2017*⁵

Action point 6. Eurostat recommended that the Annual Implementation Plan of Statistical Activities is appropriately complemented to encompass data requirements from units classified in the government sector that are currently not covered in any annual implementation plan. *Deadline: February 2018.*

⁵ The Annual Implementation Plan was sent to Eurostat on 10 February 2017.

1.2 Data sources and revision policy; EDP inventory

1.2.1.1 Availability and use of data sources

Introduction

The discussions under this item of the agenda were based on the Croatian Inventory of sources and methods for EDP, as well as the clarifications during the videoconference between Eurostat and the Croatian statistical authorities held in June 2016.

Discussion

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 modified accrual data from financial reports (FINA database) is used.

The working balance of EDP Table 2A corresponds to the budget execution, as published in the Croatian Official Journal and contained the working balance of the 3 social security funds until the end of 2014 (from 2015 onwards, the working balance of HZZO is not contained anymore).

It was clarified that public accounting in Croatia is based on modified accrual principle: revenue is recorded in the reporting period when they become available (measurable) and the expenditure is recorded based on the occurrence of obligations, independently of their payment.

a) main unit (State budget) and other units of the central government sub-sector

The MoF clarified that the consolidated financial statement of the central government is composed of the consolidated financial statement of the State budget (composed by the sum of financial statements of budgetary users/units and the financial statement of the State budget) and the sum of financial statements of extra-budgetary users. It was also explained that the financial statement of the State budget represents level 13 of financial reporting, while level 12 represents consolidated data at Ministry level (e.g. consolidation of the Ministry of health with the subordinated agencies and hospitals, which represent level 11) as well as the ministry itself.

Budgetary users and extra-budgetary users

It was clarified that the central government sub-sector is composed of budgetary users/units and extra-budgetary users/units, as well as non-market public corporations (among others, the Croatian Railways Infrastructure, Croatian Radio Television, Croatian Motorways Ltd. and the Motorway Rijeka - Zagreb). The detail is available in the EDP Inventory, page 8.

Budgetary units (e.g. Ministry of Health, Ministry of Defence, CBS, Ministry of Justice, bodies and agencies accountable to the Parliament, law courts, hospitals and universities,

agencies accountable to ministries) as well as extra-budgetary units have all legal personality. They all submit separate financial reports to the Financial Agency "FINA".

A number of 630 government budgetary users (of which for local government 578 units: 20 counties, 128 cities and 430 municipalities, including the municipality of Zagreb) and 3500 extra-budgetary users existed in Croatia, at the level of central and local government sub-sectors.

Financial reporting of government units to FINA⁶ and budgetary reporting

All legal entities report their financial statements (profit and loss and balance sheet) to FINA. The profit and loss account of budgetary units (called "izvještaj o prihodima i rashodima, primicima i izdacima" – "PR-RAS", or for short "inflow and outflow statement") contains 996 items⁷ (since the beginning of 2015) and the balance sheet contains 298 items.

Eurostat enquired about the detail of the 357 additional items reported in the FINA 'inflow and outflow statement' and it was agreed that the Accounting Office will clarify them and send a note to Eurostat explaining their nature.

The inflow and outflow statement reported to FINA by budgets, budgetary and extra-budgetary users follow a "modified accrual principle" accounting:

- expenditure is on an accrual basis (with some exceptions), while revenue is on a cash basis
- expenditure comprises GFCF and not amortisation

The MoF clarified that since the budget is on a cash basis, the report on budget execution (collected by the SAP IT system of the State Treasury) provides an appropriate equivalent to a cash flow statement (which is absent in the FINA reporting).

On the other hand, in accordance with MoF's Ordinance on financial reporting in budgetary accounting, all government units should provide financial reports to FINA. As soon as classified in the government sector in ESA terms, a unit becomes an extra-budgetary user according to the Budget Act and should submit financial reports following the common template, in addition to financial accounting statements.

It was pointed out that ESA table 2 is compiled using the FINA financial statements, but that the EDP table 2A starts with the cash working balance derived from the budget execution⁸ of the State Treasury.

The MoF also pointed out that budgetary information (scope and codes) are the same in the budget and in the financial reports. As a result, in principle, accrual expenditure and cash

⁶ FINA reporting, FINA financial statements, FINA data should be read the financial reporting of the government units to the database kept by FINA for the Ministry of Finance.

⁷ It was clarified that of 996 items, 407 relate to revenue and expenditure (including for acquisition/disposal of non-financial assets), 232 are data on financial transactions and the rest 357 are other additional data, mainly for statistical purposes.

⁸ For EDP tables 2C and 2D, see the EDP Inventory pages 36 and 42.

expenditure can be directly compared (the difference being a F.8 flow). This allows statistical authorities to monitor the transition from the working balance to B.9 in EDP table 2A.

The chart of accounts of financial reports (profit and loss), as well as the budget of budgetary users, provides information at four-digit level and additional breakdown at five-digit level. This fifth digit level provides information relevant for ESA. It was clarified that the main part of the profit and loss account, in FINA reports, is at four-digit level. FINA reports have nine "levels", i.e. reports (PR-RAS, Balance sheet) with specific coverage of units and consolidation principle. The form PR-RAS, requires the reporting of revenue and inflows, expenditure and outlays report, rather than "profit and loss account".

The statistical authorities confirmed that, except for 2015, there are no financial transactions which should be excluded from the working balance in EDP table 2A.

FINA provides the inflow and outflow statement data to CBS not later than T+70 days.

For the 630 units mentioned above, the SAP system gives aggregated budget (cash) reports, not detailed data. The codes of the chart of accounts in the FINA database are the same as in the SAP system. SAP contains FINA debit/credit data which is sent by the MoF to CBS and CNB, on an annual basis, in Excel format.

Accrual based expenditure

The key data for the calculation of B.9 for S.1311 in ESA accounts are the data from FINA financial reports: inflow and outflow statements which are on modified accrual basis/mixed basis, and balance sheets. The revenue data are on a cash basis. Expenditure are on an accrual basis, except for interest expenditure and, until the end of 2014, capital and current transfers and subsidies.

Since January 2015, capital transfers, current transfers and subsidies are on an accrual basis, too, based on the provisions of the new Ordinance on budgetary accounting and on the chart of accounts. However, not all capital transfers are on an accrual basis: capital transfers to public enterprises classified outside the government sector are indeed recorded on an accrual basis, however those within the sub-sector are on a cash basis: for example, code 36327 (expenditure) and 633 (revenue cash)⁹.

Eurostat enquired how the expenditure from the State budget to HZZO is recorded, cash or accrual. The MoF confirmed that, according to Art 52 of the Budget act, it is cash; in principle, they are outflows benefitting budget and extra-budgetary users, which are recorded on a cash basis.

b) local government sub-sector

FINA financial reports (inflow and outflow statement) for all units are the main data sources for the compilation of non-financial accounts for the local government subsector.

⁹ There is a multitude of accounts in the Chart of Accounts foreseen for various combinations of units in transfers.

c) social security funds

At the previous request of Eurostat, the sub-sector social security funds had been artificially separated from central government to include three units: The Croatian Pension Insurance Administration (HZMO), the Croatian Institute for Health Insurance (HZZO) and the Croatian Employment Service (HZZ). These three units were extra-budgetary users (level 41) until the end of 2014. From 2015, only HZMO and HZZ remain extra-budgetary users.

Consolidation

It was clarified that not all capital transfers are on an accrual basis: capital transfers to public enterprises classified outside the government sector are indeed recorded on an accrual basis, however those within the sub-sector are on a cash basis: for example, code 36 (expenditure – outflows benefitting budget and extra-budgetary users) and 636 (revenue)¹⁰.

The MoF indicated that it also compiles a consolidated FINA inflow and outflow and balance sheet statements of all budgetary and extra-budgetary users. Eurostat confirmed that this is close to consolidation in ESA terms. The public corporations classified in the government sector (in national accounts) are not consolidated with the mentioned financial statement.

Accounting reform

The Croatian statistical authorities explained that the new Chart of Accounts is in force since January 2015, and that 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.

The deadlines for the submission of annual financial reports at all levels of the government have been shortened.

Eurostat enquired about any changes since the April 2016 notification, concerning the deadlines for submission of annual financial reports, which are included in the database kept by FINA for the MoF and provided by the Ministry of Finance to the CBS and the CNB, at the beginning of March every year and wondered why the EDP tables are not compiled using the FINA data, for flows and stocks, since, for example, loans granted and acquisitions of equity are available in the FINA database.

The Croatian statistical authorities confirmed that there are no changes; the data are available according to the table in the final findings of the EDP visit of February 2015¹¹.

The CNB explained that the reason why the data are not used for the compilation of the EDP table is the non-availability of details on stocks of deposits for level 12. Nevertheless,

¹⁰ It was clarified that there is a multitude of accounts in the Chart of Accounts foreseen for various combinations of units in transfers.

¹¹ See page 11 of the Final findings on Eurostat's website:
<http://ec.europa.eu/eurostat/documents/1015035/6940197/Final-findings-EDP-dialogue-visit-HR-26-27-Feb-2015.pdf/c65d22e0-25fe-41e6-9b6a-68993d93ebd2>

the CNB explained that, while all the reports are collected in a multidimensional database, the stocks of deposits (AF.2) are too aggregated and contain many mistakes. The extra-budgetary units of the central government report to FINA their accounts in June year T for the year T-1 and the data were not of good quality.¹² Moreover, the capital injection test can't be performed using the data reported to FINA. For the social security funds, for example, HZMO and HZZ are consolidated in FINA database within the report of the Ministry of Labour, level 12, while the CBS needs to use the level 11. The CNB is introducing some checks between the reports collected by FINA and the equivalent data available in monetary reporting. On this, the CNB introduced a new reporting, which was tested for the time being with two units, a unit selling shares and a unit selling non-financial and financial assets.

Eurostat stressed that the direct data from accounting can't be neglected and advised the Croatia statistical authorities to check unit by unit (at least for the biggest units) that all inflows equal outflows, or inflows minus outflows equal the change in deposits (F.2). In this way, it might be possible to find the reasons of statistical discrepancies between B.9 and B.9f. In MoF's view, this was not necessarily the case and committed itself to check it and inform Eurostat about their findings.

Findings and conclusions

Action point 8. The Accounting Office will clarify the nature of the 357 additional items reported in the FINA 'inflow and outflow statement', as discussed in the meeting. *Deadline: end of May 2017*

Action point 9. The Accounting Office will examine, in cooperation with the CBS and CNB how the FINA 'inflow and outflow statement' can be complemented in order to obtain a closed system. In the meantime, the national EDP working group will examine how the current inflow and outflow statement and balance sheet information in FINA database can be used to approximate a closed system. On this basis, a compilation of a "gap" (discrepancy in accounting terms) will be calculated. *Deadline: end August 2017*¹³

Action point 10. The CNB will reflect on exploiting existing FINA data on the financial side, comparing them with, having all system parameters in mind, the accurate and trustable unit by unit data on AF/F2_A and AF/F.4_L from Monetary and Banking statistical and supervisory system which also includes HBOR and CNB as reporting units. Observed differences have to be explained in cooperation with MoF, and where necessary, financial accounts and balance sheet positions should be corrected. *Deadline: 15 September 2017*

¹² Additional clarification provided by the Ministry of Finance in October 2017: since 2015 the deadline for submitting those reports has been shortened to 15 February, by the Ordinance on financial reporting in budgetary accountancy.

¹³ It was agreed that the deadline is postponed by 2 months until the end of October 2017

Action point 11. The statistical authorities will send to Eurostat the result of the analysis of discrepancy between B.9 and B.9f for big units. *Deadline: April 2017 EDP notification*¹⁴

1.2.1.2 Revision policy

Introduction

The revision policy is explained in the Croatian EDP Inventory and the issue has also been discussed during the EDP visit in February 2015.

Discussion

CBS explained that there is a draft document of the revision policy related to the EDP data describing regular/benchmark/ad-hoc revisions of the EDP data and the underlying ESA 2010 government accounts, which was already explained in the EDP Inventory published in April 2016.

Eurostat asked if there has been any recent change concerning the revisions policy, since the update of the EDP Inventory.

The Croatian statistical authorities explained that for the time being there were no changes. However, a number of action points have been set under the recent Peer Review, which will be made public soon on CBS's website.

Findings and conclusions

Eurostat took note that the revision policy will be published soon on CBS's website.

1.2.2 Compliance with Council Directive 2011/85

Introduction

Under this item of the agenda, Eurostat and the Croatian statistical authorities discussed the arrangements for the audit and internal control and the collection and publication of data on contingent liabilities.

Discussion

1.2.2.1. Audit and internal control arrangements

The Croatian statistical authorities explained that the SAO, which is responsible for the audit of the bodies classified in general government and for the companies and other legal

¹⁴ On 31 March 2017, the Croatian statistical authorities informed Eurostat on the state of play concerning their analysis of discrepancies between non-financial and financial accounts for a number of big units and the planned statistical survey on big units, which will be incorporated in the coming Annual Implementation Plan of Statistical Activities.

entities in which the Republic of Croatia holds the majority of shares, is also responsible for the audit of the use of EU funds and other funds granted by the other international organisations. The audits are performed according to the SAO's annual plan.

Moreover, special audits are based on the performed risk assessment, the financial significance of the entities and the results of previous audit to units classified in the public sector (e.g. Croatian Railway Infrastructure Company, Croatian Radio-Television).

The findings of the audits are available on the website of SAO (www.revizija.hr).

Eurostat mentioned the improved cooperation between the NSI and the SAO in a Member State where a Memorandum of Understanding was signed allowing the access of the NSI to the SAO reports (including at regional level) as soon as finalised in order to implement the related findings in GFS and EDP, without waiting until the reports are available to the public at large.

On the internal control arrangements, the Croatian statistical authorities confirmed that internal audit services are established at the level of ministries, in charge also to audit all the units under their responsibility. A rulebook (act on internal control) establishes the criteria for the central and local government bodies at the second level (for the audit of all the units under the responsibility of each ministry) and financial control units are established at the level of each lower level.

Also, an internal unit is assessing the statistical processes at the level of CBS issuing recommendations. In 2014, the internal control unit has undertaken an analysis of the process of calculating Gross Fixed Capital Formation (GFCF) and issuing a report containing recommendations to improve the statistical production process in this area. Eurostat asked to receive the mentioned report.

Findings and conclusions

Action point 7. CBS will send to Eurostat a copy of the internal audit report containing recommendations for the improvement of the process of calculation of GFCF. *Deadline: February 2017*¹⁵

1.2.2.2 Contingent liabilities

The discussions were based on the transmission of the questionnaire on contingent liabilities, sent by CBS to Eurostat on 22 December 2016.

The CBS explained that data for 2015 have improved with the inclusion of one-off guarantees for local government, which were not provided in the past transmissions.

The discussions focussed on standardised guarantees (F.66). It was explained that the MoF has not issued any standardised guarantees. However, the CNB is checking with HAMAG and HBOR which may have issued such guarantees and would establish special reporting

¹⁵ The report was sent to Eurostat on 28 February 2017.

for non-financial and financial accounts regarding F.66. The CNB will check if other banks have issued standardised guarantees. For the time being, the Croatian statistical authorities could not commit for the transmission of these data to Eurostat.

Eurostat enquired about the publication of data on CBS's website for the last year, as currently only the years 2013 and 2014 are published. CBS committed itself to publish the data in line with Eurostat's press release which is scheduled for 30 January 2017.

The CBS informed Eurostat that the data on participation of government in the capital of public corporations will be also completed and published by the end of January 2017.

In addition, the CBS will complete the missing information in the metadata file and correct it, where necessary, as requested by Eurostat prior to the visit.

Findings and conclusions

Action point 12. In the context of the Directive 2011/85, the Croatian statistical authorities will investigate the existence of standardised guarantees provided by some government units and report on their findings to Eurostat: *Deadline: April 2017 EDP notification*¹⁶

Action point 13. Eurostat took note that CBS will publish nationally the data collected in the context of the Directive 2011/85, at the end of January 2017¹⁷.

Action point 14. In the context of data requirements of the Directive 2011/85, CBS will take steps to publish the government participation in the capital of public corporation. *Deadline: April 2017 EDP notification*¹⁸

1.2.3 EDP Inventory

Introduction

The EDP Inventory for Croatia was published on 21 April 2016 on the website of the CBS, as well as on Eurostat's website. Annex 1 of the EDP Inventory was last time updated in December 2015 and has not been updated since then. The CBS has informed Eurostat that the list of units is anyway published on its website¹⁹. Prior to the visit, the CBS sent an updated Annex 1 of the EDP Inventory, including the newly reclassified units.

¹⁶ On 31 March 2017, the Croatian statistical authorities informed Eurostat that after discussing possible issuances of standardised guarantees with a number of units, it has been concluded that there are no standardised guarantees issued by the government sector units in Croatia.

¹⁷ The data collected in the context of the Directive 2011/85 were published on CBS website at the end of January 2017.

¹⁸ The government participation in the capital of public corporations was published by CBS on its website at the end of January 2017.

¹⁹ <http://www.dzs.hr/>

Discussion

Eurostat thanked the Croatian statistical authorities for the updated Annex 1 of the EDP Inventory, containing the list of government units, sent prior to the visit. It was pointed out that the only change compared to the previous list is the inclusion of HAKOM – Croatian Regulatory Authority for Network Industries, classified in the government sector from 2008, the year of its establishment.

Eurostat stated that the sector classification of all statistical units in Croatia is published on the CBS website. However, it was pointed out that it was difficult to find this information on the CBS website, as there is only one general address (no specific address for each domain of the statistical information). This creates some difficulties to find the information about the sector classification of units for national accounts and EDP purposes. Moreover, the link to the website is not given in the EDP inventory on page 51.

Eurostat pointed out that the EDP inventory is to be updated regularly, in case of changes in the methods, procedures and sources adopted by the country to compile its statistical data. The updated EDP inventory, including the updated Annex 1 should be provided to Eurostat as soon as possible.

The two missing non-publishable annexes, on interest and on EU flows, have not been provided yet. The Croatian statistical authorities were asked to compile and send them to Eurostat, as soon as possible.

Findings and conclusions

Action point 15. CBS will update the EDP Inventory and Annex 1, in line with the discussions during the visit. *Deadline: April 2017 EDP notification*²⁰

Action point 16. CBS will send to Eurostat the two missing surveys to complement the EDP Inventory (on EU flows and on Interest). *Deadline: April 2017 EDP notification*²⁰

2. Follow-up of the previous EDP dialogue visits to Croatia (February 2015) and the videoconference of June 2016

Introduction

All but three action points of the previous EDP dialogue visits and the videoconference in June 2016 were implemented, however in some cases with some delays and sometimes there was a need for a follow-up. The discussions under this point of the agenda focussed on the implementation of Action Point 29 of the EDP dialogue visit of February 2015. The implementation of Action Point 25 of the EDP dialogue visit of February 2015 and Action

²⁰ The updated EDP Inventory, taking into account the discussions during the EDP visit, was published on Eurostat's website in April 2017. The annex on interest was provided according to the deadline.

Point 6 of the videoconference of June 2016 was discussed in the context of overall discussion under items 3.1 and 4.2.4 of the agenda below.

Discussions

Eurostat stated that the implementation of the action points according to the deadline set is very important. Some delays can be accepted in justified cases, but Eurostat should be informed in advance.

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 2015.*

It was recalled that the Croatian statistical authorities answered to the action point on 15th July 2015; however, further clarifications were requested. Eurostat requested a concrete proposal on how to make sure that the payments concerning financial leasing operations are recorded as financial transactions (loans) and that interest are also recorded. The action point was followed-up and finally an explanation was provided by the Croatian statistical authorities during the October 2016 EDP notification.

The Croatian statistical authorities explained that the information on the leasing operations of government is reported in the financial reports of each unit (for the financial leasing the information is in the balance sheets and for the operating leasing in the profit and loss account).

The CBS confirmed that the investment expenditure is recorded in the accounts. According to the CNB, the leasing operation shown on the asset side of the leasing companies, corresponding to the liabilities of government is about 80 million HRK, a rather small amount of the total Maastricht debt.

The MoF pointed out that there is a distinction between operating and financial leasing in the accounts. For the financial leasing, the loan entering the debt definition is recorded on an accrual basis in account 2 (more concretely, in the new account 26223), while the interest paid yearly in the account 3.

Eurostat stressed that the financial leasing should be included in the Maastricht debt and that the interest should also be calculated. The Croatian statistical authorities confirmed that in the financial reports in FINA, interest on loans is reported on an accrual basis, spread over the time of the loan.

Concerning the treatment of financial leasing in the working balance, the Croatian statistical authorities explained that according to the budgetary accounting, the acquisition of non-financial assets (which is part of gross fixed capital formation) enters the working balance. The repayments of tranches of financial leasing are in budgetary accounting treated as financial transactions, and therefore they are not included in the working balance. However, there is substantial difference between sub-sectors of government in the method of reporting working balance. For central government, for which the working balance is the cash-based

State Budget execution (available in the SAP system of the State Treasury, consequently not based on the modified accrual principle of the budgetary accounting), the acquisition of non-financial assets is recorded gradually and corresponds to the amount of tranche repayment, (with the counterpart in currency and deposits). For the local government sub-sector, for which the financial statements (based on the modified accrual principle of budgetary accounting) are used as the basis of the working balance, the full amount of acquisition of non-financial assets is reported when the asset is received.

Findings and conclusions

Action point 17. In relation to financial leasing, Eurostat takes note that the public accounting guidelines prescribe a differentiated treatment for operating and financial leasing, similar to the statistical treatment. CNB will consider the new account 26223 for its elaboration of the Maastricht debt figures and the related accrued interest. *Deadline: June 2017*²¹

3. Actual data - the October 2016 EDP notification

3.1 Examination of the EDP tables in relation with the Questionnaire related to the EDP tables

Introduction

The discussions under this point of the agenda were based on the most recent EDP notification tables, the EDP Questionnaire tables and the Explanatory notes sent together with the EDP notification. The discussions on the revision of GFCF between the April and the October notifications and the recording of health care "sanation" were also based on the conclusions of the videoconference of June 2016.

Discussion

The calculation and the revision of GFCF between April and October EDP notifications

Eurostat recalled the previous bilateral discussions about the estimation of the GFCF for the EDP notifications in April and October²², focussing on the data reported in April 2016 and the revisions in October 2016, especially for the years 2014 and 2015.

The CBS explained that the data used to compile the accounts for the April notifications come from FINA database, which contains only budgetary users. Public units estimate the

²¹ Action point implemented according to the deadline.

²² The issue of revisions between April and October notifications has been extensively discussed in the past (see Final findings of the EDP dialogue visit of February 2015, pages 11-13) and some improvements were expected to take place.

investment expenditure, based on the funds allocated to them and not on the effective investment and report the data to CBS using a special form. For the October notification, the data from public units is collected via INV-P statistical survey²³ and can significantly differ from the data estimated for the April notification (this happened for the reporting between April and October 2016). Moreover, in October, the CBS makes its own calculations to complete the coverage of units. The CBS also explained that the estimates done for missing units are based on the investment of the previous years.

The CBS explained that since 2015, quarterly financial reports are collected by FINA for budgetary units. The quarterly data for public corporations are, however, still estimated based on the previous year's investment.

It was explained that for the final figures on GFCF, the commodity flow method is used for checking the data reported in the INV-P survey, which showed distorted figures in the past, especially for some local government units. It was pointed out that the differences between INV-P and the final GFCF figures are recently less significant, as the quality of FINA is improving. The difference between commodity flow and final figures reported in GFS and the EDP table 1 are given by additional adjustments like research and development, military equipment, software produced on own account and some corrections of some data in the INV-P reported by local government (e.g. for 2014 selling of roads by local government, etc.).

Moreover, the CBS pointed out that in FINA database there is no distinction between completion and time of recording and valuation of output on own account, which INV-p survey does consider.

Eurostat was wondering why in October 2016, the data reported in the GFS tables for the year 2014 (11.8 bn HRK) differed by 1.2 bn HRK from the data showed during the EDP assessment as coming from the application of the commodity flow method. Eurostat recommended that CBS compares the investment at the level of unit, between FINA reporting, INV-P data and other sources to identify the units with the biggest differences and explain these differences. Eurostat advised that the table should cover a sufficient number of years to find out if there was or not an impact on B.9 from the estimation of GFCF.

Eurostat suggested that the information in INV-P should contain links to the chart of accounts, to allow to better analyse and match the data on investment.

²³ INV-P is a statistical survey on investment, covering the whole universe of general government units.

Finding and conclusions

Action point 18. Based on a template to be proposed by Eurostat, the CBS will provide a transition table between FINA and GFS (through INV-P) for GFCF, including the details discussed during the meeting. *Deadline: end February 2017*²⁴

Action point 19. Based on this transition table, the CNB will create the necessary payables/receivables stemming from the GFCF time of recording impact, originated by the rebalancing, in a manner to reduce the statistical discrepancy currently observed. *Deadline: EDP notification April 2017*²⁵

Action point 20. CBS will reflect on the possibility to improve the reliability of the GFCF estimates for the April notifications (1st estimate). CBS will send to Eurostat a note describing the improvements. *Deadline: June 2017*

Action point 21. CBS will compare the data in FINA and in INV-P at the level of unit, identifying the units with the biggest differences and provide its analysis to Eurostat. *Deadline: end February 2017*²⁴

Action point 22. CBS will investigate the possibility of obtaining regular quarterly information on GFCF from the 5 biggest investment units outside the budgetary/extra-budgetary reporting. *Deadline: quarterly, starting for the April 2017 EDP notification*

Working balance of social security funds sub-sector

Eurostat recalled the discussions during the videoconference in June 2016, when it has been agreed that the three social security units (HZZO, HZMO and HZZ) should be shown in EDP table 2D with a working balance (the top line in EDP table 2D) different from zero. This should be the case even if it would not reflect an audited accounting reporting and would be de facto a statistical construction (in the past it was considered that as all the transactions of the HZMO and HZZ and HZZO are included in the State Treasury until 2014²⁶, the working balance in table 2D was zero, by convention, until that year).

Eurostat stressed that the working balance of the three social security units should be equal to F.2 (also observed in EDP table 3E) – given that no or few financial transactions were reported, and that there is a need to be able to control the data for these units.

As the budget reporting of budgetary and extra-budgetary users (SAP) system provides cash expenditure, while the FINA system provides the cash revenue, it was finally agreed that the

²⁴ These action points were partially implemented according to the deadline (the table was incomplete and no explanations on the differences were provided). On 31 March, the table was resent and the issue discussed during the assessment of EDP data of April 2017.

²⁵ Eurostat was informed on 31 March that the figures from FINA database are getting closer to those in INV-P.

²⁶ From 1 January 2015, HZZO operates outside of the State budget, as an extra-budgetary user of central government, while HZMO and HZZ remain within the State budget.

most appropriate working balance would be a construction combining the two systems: cash revenue from FINA and cash expenditure from SAP.

The reporting of cash balance for S1314 has been implemented already for the EDP notification of October 2016. At the same time, the corresponding amounts have been shown, with opposite sign, in EDP table 2A, in line "working balance of entities not part of central government".

However, it was agreed to make clear in EDP table 2D, by inserting a comment, that the working balance is a statistical construction using the cash revenue from the FINA system and the cash expenditure from the SAP system.

Payables for health care sanitation

This issue has been discussed extensively during the year 2016, including at the videoconference in June 2016. The complexity of the issue is mainly due to the scheme through which the amounts are transferred from the budget to HZZO (which was included in the budget until 2014) and from HZZO to hospitals and other health institutions classified either in the central government or local government sub-sectors, on one hand, and from HZZO to the suppliers of medical goods (e.g. pharmacies), on the other hand.

The statistical authorities confirmed that expenditure and associated payables of HZZO are included in the profit and loss account and in the balance sheet of HZZO, in FINA database. Payables of HZZO (balance sheet items) relate to hospitals (central and local government) and the own supplies (e.g. pharmacies).

The MoF pointed out that the stock (and the payment) of arrears related only to liabilities for the provision of drugs, expensive medicines, etc. to suppliers, and not to hospitals. It was also pointed out that, according to the chart of accounts, the expenditure for medical goods should be on an accrual basis (but if this is really done in practice should be investigated at the level of the accountants, who are compiling the accounts for HZZO).

According to the chart of accounts, the payments of HZZO to hospitals are shown on an accrual basis (account 37), and recorded in national accounts as D.73. The hospitals record revenue on a cash basis: code 673 for the contractual amounts, code 652 for additional reimbursed services, and code 6712 for additional transfers. Therefore, there is a difference in time of recording. It was however clarified that the time lag is in practice very short for the transfers to hospitals (D.73). The time lag in payables, including those in arrears, concern flows to third parties.

Eurostat recalled that the issue of payment of arrears in 2013 and 2014 had already been discussed several times, including during the assessment of data in April and October 2016. It has been confirmed by the CBS that the amounts of the payments of the arrears have been included in the working balance of the central government sector. However, Eurostat pointed out that it has not been satisfactorily clarified in which line of the EDP tables (working balance, adjustments lines in EDP tables 2A, 2D, 3B and 3E, with "+" and/or "-" signs) the corresponding amounts have been neutralized, in a way that the impact on B.9 is zero. It was Eurostat's understanding that, in national accounts terms, the expenditure related

to the payment of the arrears have already been recorded in past years as government expenditure.

It was therefore agreed that the statistical authorities will clarify this in a table showing the payments for medical goods and other expenditure, separating transactions in "arrears" (settlement and new ones) from transactions in other payables. The table is shown below:

Prihodi od sanacije/ Revenues from sanation in milion HRK		2012.	2013.	2014.
prihodi HZZO-a od sanacije za podmirenje obveza HZZO-a (lijekovi, ortopedska pomagala...)** / revenues of CHIF from sanation for settlement of arrears of CHIP (remedies, ortopedic equipment...)**	1)	0	1.938.554.008	1.055.195.917
prihodi bolnica i drugih ustanova u zdravstvu od sanacije (za podmirenje njihovih obveza) / revenues of hospitals and other health institutions from sanation (for settlement of their arrears)	2) = 2a+2b+2c	465.423.246	1.362.058.859	2.144.804.083
1) + 2)		465.423.246	3.300.612.867	3.200.000.000
Distribution of "line 2)" according to recording in the HZZO's BS and PR-RAS on:	2) = 2d+2e	465.423.246	1.362.058.859	2.144.804.083
1. Part of payments (line 2) that HZZO recorded as decrease in liabilities (i.e. were included in the stock of HZZO's liabilities)	2d	0	650.458.074	193.435.984
Hospitals classified in S1311	2d1	0	650.458.074	14.683.159
Hospitals classified in S1313	2d2	0	0	178.752.825
2. Part of payments (line 2) that haven't led to decrease of HZZO liabilities (i.e. that part was not included in stocks of HZZO's liabilities) but HZZO recorded it as expenditure in PR-RAS.	2e	465.423.246	711.600.785	1.951.368.099
Hospitals classified in S1311	2e1	277.985.016	711.600.785	776.243.661
Hospitals classified in S1313	2e2	187.438.230	0	1.175.124.438

It was agreed that the amounts of 0.71 bn HRK for the year 2013 and 0.46 bn HRK for 2012 should not be neutralised in the EDP tables.

Eurostat required that the amounts shown in the table above are correctly inserted in EDP tables 2A and 2D for the coming EDP notification. After the Croatian statistical authorities are providing revised EDP tables and Eurostat agrees with the reporting, Action Point 6 of the videoconference of June 2016²⁷ can be considered closed.

Findings and conclusions

Action point 23. Eurostat and the statistical authorities will finalise, in writing, the review of how health sanation (and similar) flows are recorded in EDP tables. *Deadline: April 2017 EDP notification*²⁸

Action point 24. As a matter of transparency, CBS will indicate the compilation method of the working balances for the social security sub-sector in the corresponding line in EDP table 2D ("revenue cash from FINA database minus expenditure cash from the Budget reporting of budgetary and extra-budgetary users"). *Deadline: April 2017 EDP notification*²⁹

Reconciliation of receivables and payables by sub-sectors

²⁷ Action point 6. *The recording of the payments of health care "arrears", in the working balance and in the adjustments for payables will be clarified in relation to EDP tables 2A, 2D, 3B and 3E. EDP tables 2A, 2D, 3B and 3E will be sent to Eurostat showing exactly the figures. Deadline: 15 August 2016).*

²⁸ This action point was implemented during the assessment of EDP data in April 2017.

²⁹ This action point was implemented on 31 March 2017.

Eurostat thanked the Croatian statistical authorities for providing the table on the reconciliation of transactions in F.8 in EDP tables 2 and 3, by sub-sectors, sent prior to the EDP visit.

Eurostat remarked unexplained differences between the data reported in the table sent prior to the visit and the corresponding receivable data reported in EDP table 3B, seemingly due to some missing data on EU flows in the reconciliation table. The discussions on the recording and reporting of EU flows are shown under item 4.2.4 of the agenda ("EU flows").

Related to GFS tables, Eurostat enquired about the asset impact in EDP tables 3 from the transfer of funds from the second to the first pillar and the consistency with the data reported on the liability side of GFS table 27 and stressed that the transactions in shares should be available in the FINA database. The CNB committed itself to check the data information and send a short note to Eurostat.

Eurostat remarked that pension funds have shares in companies and was wondering if the statistical discrepancies, especially for 2014 could not be explained by the fact that transactions in financial assets of the social security funds look inconsistent with the stock of assets and advised the CNB to investigate the issue.

Findings and conclusions

Action point 30. For social security funds, the Croatian statistical authorities will investigate the asset impact of the transfer of pensions from second to first pillar consistently with the liability side in ESA table 27. The CNB will also provide the list of shares in the companies owned by each of the Social Security Funds. *Deadline: end February 2017*³⁰

Action point 31. CNB will investigate the existence of transactions in financial assets of the social security funds, ensuring consistency with the stock of assets, in order to possibly eliminate the statistical discrepancy, which is notably significant in 2014. *Deadline: April 2017 EDP notification*³¹

3.2. Statistical discrepancies

Introduction

Prior to the visit, the Croatian statistical authorities provided a note on the status of the work undertaken to reduce statistical discrepancies.

³⁰ The list was provided on 28 February 2017. However, the action point is followed up by the Croatian statistical authorities.

³¹ On 31 March 2017, the Croatian statistical authorities sent a note to Eurostat informing on the state of play and future work on this issue.

Discussion

Eurostat recalled that this is an issue that has been followed up during each assessment of the recent EDP notifications and asked clarifications about the results of the analysis of B.9 and B.9f undertaken for large units.

The CBS explained that together with the CNB plans comparing sources used for all transactions (non-financial and corresponding financial) to reconcile financial with non-financial accounts, as part of a big project for the improvement of the quality of the reported data. The analysis would be undertaken for individual units comparing the sources (levels of FINA reports) for all significant and budgetary central government units.

An exercise was already done to reconcile property income using data on assets and liabilities and comparing them with the corresponding transactions. As alternative information, ad hoc information from SAO might be used in the future to adjust the data from the regular sources.

Findings and conclusions

Eurostat took note that the process of analysing the discrepancies between B.9 and B.9f is ongoing.

3.3. Tables on government intervention to support financial institutions

Introduction

Prior to the visit, the Croatian statistical authorities sent a note describing current and foreseen government operations to support financial institutions.

Discussion

The CNB explained that in May 2016 the bankruptcy procedure started on the Bank Splitsko-Dalmatinska. The Bank has been reclassified from S.12202 into S.12502 as of May 2016. The payments from deposit insurance funds (managed by DAB, all classified in S.1311) were activated starting from June 2016. The payments are expected to be around 361 million HRK. At the same time, DAB's claims from bankruptcy procedure are around 379 million HRK, of which about 120 million HRK revenue was expected to be realised by the end of 2016.

The CNB also confirmed that there was no activation of the Resolution fund.

The Croatian statistical authorities confirmed that they were not aware on any other foreseen government intervention to support financial institutions.

Findings and conclusions

Eurostat took note of the explanations provided by the Croatian statistical authorities on the reporting of government interventions to support financial institutions.

Action point 42. The statistical authorities will record a capital transfer in the year 2016, for the quarters 2 and/or 3 for the deposit redemption for the Bank Splitsko Dalmatinska d.d. through activation of the Deposit Insurance Fund held by DAB rescue operation, for an amount to be determined after an analysis is performed. *Deadline: April 2017 EDP notification*³²

4. Methodological issues

4.1. Delimitation of general government sector, application of 50% rule in national accounts

Prior to the EDP visit, the Croatian statistical authorities provided, besides the questionnaire on government controlled units classified outside general government, notes on sector classification of FINA and of tourist offices collecting sojourn taxes as well as a list of public units in liquidation.

Questionnaire on government controlled entities not classified to general government

Introduction

CBS is responsible for performing the 50% market/non-market test. The test is performed once a year and is based on the business accounts (financial statements) of the companies.

The CBS submitted the “Questionnaire on government controlled units classified outside general government” for the year 2015 on December 2016. The questionnaire was reviewed in detail during the discussions.

The analysis of the data for the year 2015 showed that the liabilities of public corporations classified outside general government in Croatia amounted to about 10.80% of GDP.

Discussion

CBS explained the formula used for the calculation of the 50% test. According to the formula shown in a table sent prior to the visit, the output includes income from grants, state aid and subsidies (code 251), income from operating leases (code 252), besides revenue from sales (code 112) and excludes the cost of goods sold (code 118). The discussion focussed on the inclusion of income from grants, state aid and subsidies. The Croatian statistical authorities explained that normally code 251 items are not considered in the calculation. For borderline cases, the individual units are contacted to find out if the subsidies are subsidies on products or on production.

CNB also explained that interest revenue is capped at zero.

³² In a note sent on 31 March 2017, the Croatian statistical authorities informed Eurostat that additional rescue operations occurred during the last days of 2016; all rescue operations are reported by DAB and recorded as capital transfers in 2016, impacting the B.9.

Eurostat enquired about the inclusion of the changes in inventories in the sales. The Croatian statistical authorities explained that for the time being the changes on inventories are not included in the sales, however they plan to include them in the future.

The Croatian statistical authorities also mentioned that from last year the test is performed for all public units and committed to revise the EDP Inventory on this aspect.

At the request of Eurostat, the Croatian statistical authorities explained that the qualitative test is also applied for the sector/sub-sector classification of units, (e.g. if the government is a predominant buyer of the good or service provided) and gave the example of Croatia Motorways, which is not an institutional unit, the government is the only client and the unit is classified in the central government sub-sector.

It was explained that the sector classification of the units, including the 50% test, is discussed within the EDP working group sub-committee (composed by the CBS, the CNB and the MoF). However, the calculation is performed by the CBS. The statistical business register contains the information on the sector for each unit and the data from FINA database is of sufficient quality to allow the correct sector classification.

Eurostat together with the Croatian statistical authorities discussed the sector/sub-sector classification of a number of units in the questionnaire. In particular, some units with zero employees, with a market/non-market test below 50% at least for one year and those with a market/non-market test above, but close to 50%. Special attention was paid to a unit which was non-market for two years, then market for the last year (however very close to 50%). It was agreed that if the unit will be non-market in 2016, it will be classified to the central government from the first year when it was non-market (2013).

Another unit discussed was a newly created unit (Imunoloski) having zero employees and was classified in the central government sector from its creation. For the old unit which had been closed, a debt assumption and an asset assumption has been recorded in October 2015.

It was also agreed that all the units for which the market/non-market test is close to 50% will be closely monitored in order to decide on the correct sector/sub-sector classification.

Public units in liquidation

Introduction

Prior to the visit, the Croatian statistical authorities sent the result of the market-non-market test for the year 2015, for 18 units in liquidation, out of which, one unit is already reclassified in the government sector.

Discussion

Examining the cases of units in liquidation listed in the Questionnaire, Eurostat explained that the 16 units which are in liquidation and did not pass the 50% test should be classified in the general government sector. The Croatian statistical authorities agreed in principle, however explained that in some cases there are difficulties in obtaining the data. Eurostat advised the Croatian statistical authorities to estimate the preliminary data for the April

notification and revise them in October, when the data from FINA database will be available.

Eurostat also pointed out that Annex 1 of the EDP Inventory should be updated soon after the EDP notification of April, so that the updated list of government units is published on Eurostat's website.

Sector classification of FINA

Introduction

Prior to the visit, the Croatian statistical authorities sent a description of the Financial Agency, FINA, as well as information on the composition of its revenue for the period 2012 to 2014.

Discussion

The Croatian statistical authorities explained that FINA is an institutional unit established to offer services to corporate clients, banks and households and to the government. Most of the income is earned on the market (around 65%), the transaction with the State representing between 33% and 37%. The biggest part of the income comes from banks and households, for the services that could be obtained by the banks and households from other tenders. FINA provides services where other financial institutions do not have any branches.

FINA is a market producer and it is classified in the S.12601 sub-sector, according to the yearly quantitative market-non-market test for the period from 2011 to 2015.

Based on the information provided and the discussions with the Croatian statistical authorities, Eurostat agreed with the classification of FINA outside the general government sector.

Sector classification of touristic boards (agencies)

Introduction

The revenue from sojourn tax collected by the touristic agencies are rerouted to the government accounts and the subsidies are imputed as expenditure from the government to the agencies, in the EDP tables. Prior to the visit, the Croatian statistical authorities sent a note explaining the legal basis, the aim, the financing and the composition of the boards. Currently there are 294 touristic boards which are classified inside the public non-financial corporation sector S.11001.

Discussion

The CNB explained that a tourist board cannot hold shares and other equity and may borrow funds, but the overall value of the debt may not exceed 50% of the income envisaged in the financial plan. The tourist boards have full autonomy of decision in the daily business.

The CNB explained that the president of the board is the head of the local administration and has the same powers as the other members. The other members of the board are appointed based on a formula, according to the level of the sojourn tax. However, the touristic boards are supervised by a special unit set up inside the Croatian National Tourist Board (NTB) and the competent Ministry. The Croatian statistical authorities stressed that the boards are not controlled by the government.

Eurostat enquired about the meaning of supervision by the Ministry. The Croatian statistical authorities explained that according to the law, the Ministry ensures a professional supervision and controls only the Croatian National Touristic Board.

At the request of Eurostat, the Croatian statistical authorities explained that the National Touristic Board does not provide any subsidies to the lower levels and therefore there are no flows of money between the NTB and the lower levels.

Based on the control criteria, the Croatian statistical authorities would keep the present sector classification of the touristic boards outside general government sector.

Eurostat took note of the discussions and advised the Croatian statistical authorities to reflect further on the sector classification of these boards, also taking into account the discussions on the issue of sector classification of non-profit institutions in the Eurostat task force in May 2017.

Findings and conclusions

Action point 25. CBS will monitor the units with the market/non-market test close to 50% in order to ensure their correct sector classification, notably in the light of the current use of amortisation from business accounts as a proxy for the consumption of capital. *Deadline: Continuous*

Action point 26. Eurostat took note that, given the nature of the data sources, the Croatian statistical authorities apply a prudent approach in relation to subsidies, excluding all subsidies from sales when calculating the 50 % test. CBS will include the changes in inventories in the sales, when calculating the 50% test. *Deadline: continuous, starting for the April 2017 EDP notification*³³

Action point 27. CBS will classify into general government sector all public units in liquidation, from the first year of a market/non-market test below 50%, starting from the year 2015. *Deadline: April 2017 EDP notification for the year 2015 and October EDP notifications for the following years*³⁴

³³ CBS informed Eurostat on 31 March that the changes in inventories were included in the numerator (sales) of the calculation of 50% test, using business accounting data and reviewed the units needing to be reclassified into the government sector.

³⁴ Action point implemented for the year 2015 in the April 2017 EDP notification.

Action point 28. Based on the discussions in the meeting, Eurostat agreed that FINA remains classified outside the government sector.

Action point 29. The Croatian statistical authorities and Eurostat will reflect further on the sector classification of touristic agencies (boards), also in the light of the forthcoming discussions in the MGDD task force on methodological issues ("Specific NPIs created by government"). *Deadline: October 2017 EDP notification*

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

Introduction

Prior to the EDP visit, CBS sent an updated Part 2 of the Questionnaire on taxes and social contributions, describing the methods used for the compilation on an accrual basis.

CBS applies the time-adjusted cash method for recording taxes. One-month time adjustment is applied for VAT taxes and one month and four months' time-adjustment is applied for 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. For corporate income taxes, in the April notifications, CBS provides estimates based on some indicators, for the year n-1, which are later revised in the October notification, when cash data for March and April of year n are available³⁵.

Discussion

The representative of the CBS explained that the main data sources for compilation of taxes are P1/P2 reports kept by FINA for the MoF, which are monthly cash basis reports and include all taxes, also at the level of local government. FINA provides analytical data to the Tax administration and synthetic data to the Accounting Department of the Ministry of Finance.

The Croatian statistical authorities explained that the corporate income tax is four-month time adjusted, which means that, for the April EDP Notifications, the figures are estimated.

Eurostat recalled that, at the beginning of 2016, it was agreed that, besides the real data for January and February of year n, the CBS would find a solution, either to estimate better the missing data for March and April of year n, or to take into account also real data for March in order to reduce the revisions in October. This was in particular important for the CIT. Eurostat was wondering if the CBS would be able to obtain real data for March within the first two weeks of April and compare them with their own estimations based on indicators.

³⁵ In the past, the estimations were done for February, March and April of year n; since the April 2016 EDP notification, the data for February of year n being available before the end of March when the data were compiled, real data were used for February n instead of estimations.

It was agreed that the CBS will do so for the first time for the April 2017 EDP notification and in case the comparison shows significant differences, the data transmitted already to Eurostat could be revised within the April notification. This should be applied from now on for each April EDP notification, in this way, reducing the revisions of the data between April and October.

Eurostat requested the completion of the Questionnaire on taxes and social contributions sent prior to the visit, to show the list of national taxes as well as Part 1, which were missing.

It was concluded that the Croatian statistical authorities would need to undertake more work to record the figures on tax revenue correctly and report them in EDP tables and Table 5 of the Questionnaire related to EDP tables.

Findings and conclusions

Action point 32. In relation to the reporting of the tax revenue for the April notifications, and with a view of reducing the revisions between April and October notifications, Eurostat invited the Croatian statistical authorities to use the most recent monthly tax data available, especially for CIT. This may entail resubmitting EDP and GFS tables mid-April, in case of large deviations observed between the tax receipts of March and the estimate included in the EDP notification sent at the end of March. *Deadline: continuous*

4.2.2. Interest

Introduction

The Croatian statistical authorities have submitted tables on interest data ahead of the dialogue visit, as requested by Eurostat.

Discussion

The issue of interest was discussed extensively in the past. The Croatian statistical authorities confirmed that the approach is in line with ESA 2010 and the MGDD rules.

When analysing EDP tables 2 and comparing them with EDP tables 3, Eurostat noted that there are significant differences between interest accrued and paid in the two tables and wondered if these could only be explained by the fact that in EDP table 2 interest relates only to the main body reported in the working balances.

Eurostat asked for explanations on how the premium at issuance and coupon sold on bonds issued by tranches are reported in the databases (FINA and SAP). It was agreed that the MoF will investigate and inform Eurostat about their findings. Moreover, Eurostat enquired where the coupon sold is reported in EDP tables 3 and invited the CNB to investigate the issue.

Findings and conclusions

Action point 47. The Accounting Office will clarify the recording in the FINA database and in the SAP database of premium at issuance and of coupons sold (on bonds issued by tranches) and will inform Eurostat on their conclusions. *Deadline: April 2017 EDP notification*³⁶

Action point 48. The CNB will clarify the recording of coupons sold in EDP tables 3 and verify that coupons sold are appropriately treated when calculating accrual interest. *Deadline: April 2017 EDP notification*³⁶

Action point 49. The statistical authorities will resubmit the detailed table on interest corrected according to the discussions in the meeting, using the revised template currently being prepared by Eurostat. *Deadline: June 2017*

4.2.3 GFCF

Prior to the EDP visit, CBS provided Eurostat with a note on the calculation of the GFCF for the government sector, including a description of the revisions between April and October notifications. The issue of the recording of GFCF was discussed above, under item 3.1 of the agenda.

4.2.4. Recording of the EU flows

Introduction

Under this item of the agenda, the implementation of Action point 25 of the EDP dialogue visit of February 2015³⁷ was discussed, as well as the implementation of a new chart of accounts.

Discussion

It was explained that the National Fund (under the MoF) dealing with the EU funds has a bank account at the Croatian National Bank and its financial statement is included in the financial statement of the State budget (class 2, obligations to EU).

The NCB aims at analysing the recording of EU funds, by fund and main beneficiary and had some concern about the fact that expenditure and revenue are inflated, without however

³⁶ On 31 March 2017, the Croatian statistical authorities informed Eurostat on the results of their analysis and provided corrections to data on some bonds issued before 2013 and in 2015, which lead to small revisions in the EDP tables of April 2017.

³⁷ 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 2015.*

any impact on B.9. It was explained that, for example, if the central government would transfer funds to a university, the transaction would appear in the FINA system. It would be recorded in the accounts as a financial transaction from the central government (reduction in class 2) and expenditure (class 3) and revenue (class 1) to the Ministry of Education. When the money was paid to the university, the Ministry of Education records expenditure, while the university records its revenue and expenditure. It was agreed that some analysis is needed to resolve the recording, which was, at the time, inflating both revenue and expenditure.

The Croatian statistical authorities explained that the budgetary Chart of Account introduced, from January 2015, a new account "384 Transfers of EU funds to subjects outside general budget". In this account, all expenditure based on transfers of EU funds to those subjects is recorded, except for the subsidies funded from EU, which remained within the account of subsidies. By the latest amendments of the Chart of Accounts, in September 2016, the account 384 is being abolished, and new expenditure accounts on the basis of EU funds transfer are being introduced - within individual accounts on economic classification of expenditures, from which it would be easier to distinguish the kind of expenditure as well as the recipients of the funds.

The Croatian statistical authorities explained that there is a new Chart of Accounts in force since January 2017, which brought improvements in the chapter related to the EU flows, both on expenditure and on the revenue side. On the transfers of EU funds, there is a new group of accounts (e.g. 369), divisions (e.g. current transfers - 3693, capital transfers - 3694) and basic accounts (e.g. current transfers for EU of the same budget - 36931, capital transfers for EU of the same budget - 36941). On the revenue side, until 2017, in the Chart of Accounts there was only subgroup 638 Aids/grants from the State budget. In 2015 and 2016 this subgroup was used for recording all revenue from EU funds, regardless of the possibility that the units of local and regional self-government, budgetary and extra-budgetary users might have received the EU funds from some other subject within the general budget rather than from the State budget. The amendments of the Chart of Accounts have enabled recording revenue from EU funds by detailing the titles of the subgroup 638 and divisions 63811 (current aid from the state budget), 63812 (current aid from the local and regional self-budget), 63813 (current aid from budgetary users of another budget) and 63814 (current aid from extra-budgetary users).

It was explained that, besides these improvements, there have been also some new accounts introduced in the class of accounts 1 for receivables, in the class 2 for payables and for accrued revenues within class 9.

The recording would enable the elimination of transfers between the users and prevent double-accounting of data on EU flows.

Moreover, EU funds which are transferred from the State budget to the local government units cannot be recognised either as revenue or expenditure, until the local government units carry out expenditure and submit the needed information.

Eurostat invited the statistical authorities to explain the recording of 778 million HRK in EDP table 2A, which differs significantly from the amount reported in EDP table 3A.

Eurostat pointed out that here are still some items missing in table 6 of the Questionnaire related to the EDP tables, e.g. the stocks of receivables of EU flows, whereas the stocks of payables have been reported. Eurostat strongly encouraged the Croatian statistical authorities to improve the reporting in this table for future notifications.

Findings and conclusions

Action point 33. The Croatian statistical authorities will clarify, in the coming weeks, the bookkeeping related to EU flows, notably to prevent inflating both revenue and expenditure, for data both before and after the revision of the chart of accounts/guidelines newly issued. *Deadline: April 2017 EDP notification*³⁸

Action point 34. In line with Action point 33, the Croatian statistical authorities will complete Annex 1 "EU flows" and Annex 3 "Reconciliation of receivables between tables 2A and 3B", requested by Eurostat before the visit, as well as improve/complete table 6 of the questionnaire related to EDP tables. In doing so, the statistical authorities will clarify the appropriateness of the 788 mill HRK entry reported in table 6 (as well as in EDP table 2A). *Deadline: April 2017 EDP notification*³⁹

4.2.5. Military equipment expenditure

Introduction

The issue of recording of military expenditure and reporting in the Questionnaire related to EDP tables was discussed under this item of the agenda.

Discussion

Eurostat pointed out that, according to the rules, expenditure for military equipment must be recorded at the time of delivery and that payables occur when the equipment is not paid in the same period (year, quarter). From the reporting in the EDP tables and the Questionnaire related to EDP tables, it has been observed that there is quite small difference between deliveries and cash for Croatia. Eurostat took note that there are no long-term contracts related to military equipment and that projects for which the government would have to pay in advance are not a common practice in Croatia.

The representative of the Ministry of Defence also pointed out that, in Croatia, the military procurement undertaken by the ministry relate more to goods/materials than military equipment and that normally the government pays within 60 days. As explained also in previous visits, the Croatian authorities confirmed that the payments for military goods are always made within the same year.

³⁸ This action point was implemented during the assessment of the EDP data in April 2017.

³⁹ The annex was provided according to the deadline.

However, Eurostat pointed out that for the years 2014 and 2015 an amount of 58 mill HRK are reported as advance payments and it was agreed that the Croatian statistical authorities will look into this issue.

Eurostat took note that there are no leasing operations related to the military equipment in Croatia.

Findings and conclusions

Action point 37. The Croatian statistical authorities will investigate the reported advance payments for 2014 and 2015 on military expenditure in table 7 of the Questionnaire related to EDP tables and report their findings to Eurostat. *Deadline: April 2017 EDP notification*⁴⁰

4.3. Recording of specific government transactions

4.3.1. Government guarantees

Introduction

The reporting of government guarantees in tables 9 of the Questionnaire related to the EDP tables was discussed under this item of the agenda, based on the data reported for the EDP notification of October 2016 and the table on guarantees called (including the information on the repayments by original debtor, by company), sent prior to the EDP visit.

Discussion

Eurostat pointed out that there were differences between the calls on guarantees reported in table 9.1 of the Questionnaire related to EDP tables and the data sent prior to the visit, and that it seemed to cover only the guarantees provided by the central government.

It was agreed that the Croatian statistical authorities would check the table clarify the coverage and the consolidation issues and inform Eurostat about their findings.

Findings and conclusions

Action point 38. The Croatian statistical authorities will cross-check the data reported on guarantees in table 9.1 of the Questionnaire related to EDP tables and the data reported in the specific table on guarantees sent before the visit. *Deadline: April 2017 EDP notification*⁴¹

⁴⁰ Action point implemented according to the deadline.

⁴¹ Action point implemented according to the deadline.

4.3.2. Capital injections, super-dividends, privatisations

Capital injections

Introduction

Prior to the visit, the Croatian statistical authorities provided the list of dividends paid to government by a number of public corporations for the period 2013-2015, including the profits of the corporations as well as an explanatory note detailing the super-dividend test.

Discussion

Eurostat asked for explanations regarding the capital injections test and enquired if the test is performed at unit level. The Croatian statistical authorities explained that the data source is the SAP system. The new system with disaggregated FINA reports would allow to obtain data for central government for all transactions in equity. For the local government, the current reporting does not allow an analysis at unit level, and therefore all injections are considered financial transactions in national accounts.

Eurostat pointed out that recording all capital injections as financial transactions in national accounts is not acceptable and advised the Croatian statistical authorities to change their current approach and analyse more the injections and find a way to estimate, either by using a model based on ratios, or applying a prudent approach. For the "model approach", the dividend revenue earned by the local government could be used as an indicator. As an example, some countries use the NACE of the corporation benefiting from the injections, to assign the classification D.9/F.5 (e.g. capital injections to "real estate", being always profitable, are classified as F.5). For the "prudent approach" everything is to be recorded as a D.9, with an impact on B.9.

Findings and conclusions

Action point 39. Eurostat invites the Croatian statistical authorities to change their current policy of recording all capital injections as financial transactions, in the absence of relevant information, regarding the local government sub-sector. Eurostat advises using either a model approach (based on ratios) or a prudent approach that implies recording all capital injections as non-financial transactions. *Deadline: April 2017 EDP notification*⁴²

Dividends, super dividends

Introduction

⁴² The Croatian statistical authorities informed Eurostat on 31 March 2017 that a prudential approach is now implemented starting with the 2008 data.

The discussions under this item of the agenda focussed on the recording of dividends and super dividends and the reporting in table 10.2 of the questionnaire related to the EDP tables. Prior to the EDP visit, the Croatian statistical authorities sent the data on profits and dividends paid to government for a number of public units, including the National Central Bank, as well as their super dividend analysis.

Discussion

Eurostat reviewed the list of dividends paid by public corporations to government in 2013, 2014 and 2015. Eurostat enquired if there is a similar analysis for the dividends at the level of local government. The Croatian statistical authorities explained that for the local government, only an analysis at an aggregated level is performed.

Eurostat also noted that there was an inconsistency between the reporting of dividends/super dividends in EDP table 2A and table 10.2 of the Questionnaire related to EDP tables and asked the Croatian statistical authorities to check the data and make them consistent between the two tables.

Findings and conclusions

Action point 40. In relation to super dividends in table 10 of the Questionnaire related to EDP tables, the Croatian statistical authorities will check the reporting and make it consistent with EDP table 2A. *Deadline: April 2017 EDP notification*⁴³

Privatisation

Eurostat asked to be updated on ongoing and planned privatisations in Croatia. The CBS informed Eurostat that there are no significant privatisation processes ongoing or planned. Some sales of equities in public corporations at the level of local government have taken place, but the amounts are not significant. The Croatian statistical authorities confirmed that they apply a prudent approach and did not record any revenue to local government from those sales.

The privatisation of HPB has been cancelled by the government. The government injection of capital in 2015 was recorded as a capital transfer in GFS and EDP statistics, with an impact on the government deficit.

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

Introduction

The Croatian statistical authorities provided, prior to the visit, a list of debt assumptions for the period 2012-2015.

⁴³ On 31 March 2017, the Croatian statistical authorities informed Eurostat that the data have been corrected.

Discussion

Referring to table 8 of the questionnaire related to EDP tables, Eurostat enquired for the reason why debt write-offs of public corporations are recorded as "other changes in volume" and not capital transfers. The Croatian statistical authorities mentioned that they have to check if all those amounts relate to public or to private corporations and will correct the table, if needed.

Findings and conclusions

Action point 41. The Croatian statistical authorities will reclassify the debt write-offs benefitting public corporations, from other changes in volume to capital transfers, notably concerning the HBOR loan portfolio. *Deadline: April 2017 EDP notification*⁴⁴

4.3.4. PPPs, concessions, energy performance contracts, securitisation and sale and leaseback operations

Introduction

Prior to the visit, the Croatian statistical authorities provided a short note on the list of all PPP contracts and a note on the implementation of Eurostat's guidance on energy performance contracts. Moreover, it was confirmed that in Croatia securitisation operations and sale and leaseback operations are not taking place.

Discussion

PPPs

The Croatian statistical authorities confirmed that all PPP projects in Croatia are reported in Table 11 of the Questionnaire related to EDP tables. Moreover, all PPP projects are officially published by the Agency for Investment and Competition (AIK) in the Register of PPP contracts on its website <http://registar.aik-invest.hr>.

Eurostat pointed out that some information in Table 11 is missing and it was agreed that the Croatian statistical authorities will improve the reporting for the coming EDP notification.

Energy performance contracts (EPC)

The Croatian statistical authorities explained their difficulties in collecting the data for EPCs contracted in 2015. According to the first findings there are 43 contracts signed in 2015, with total contracted value of less than 10 million EUR. During the December 2016, an improved data collection system was agreed among MF, CBS and CNB, according to which

⁴⁴ Action point implemented according to the deadline and the figures were revised. The analysis showed that an amount of those "other changes in volume" relate in fact to private corporations and not to public ones.

MF will officially set up a collection of all EPCs signed in a particular year by all units of general government foreseen to be performed by the AIK.

The representative of the AIK explained that 17 contracts for public buildings refurbishment amount to 900 mill HRK.

It was explained that according to the Law only a typical contract can be signed by government. In AIK representative's view the main issue of concern about the guidance note by Eurostat is the 50% rule, which makes the refurbishment impossible to be carried out; therefore in Croatia the procurement had to be stopped. According to the Law, the investor has to be an energy service company.

Eurostat enquired if a typical contract was already analysed.

The AIK representative pointed out that the contracts are in line with ESA and are published for the procurement procedure (on the website a typical contract is available). Moreover, there is a working group between the CBS and CNB analysing the contracts in order to decide if the classification is on or off balance sheet. They are treated like PPPs.

It was stressed that even though all the ESA rules are applied, a contract is illegal if it impacts the government debt in Croatia.

Eurostat explained that one can deviate from the legal and apply the economic form (economic ownership), taking into account the exposure to construction risk and exposure to risk and rewards of an existing asset.

UMTS

Eurostat enquired about the recording of UMTS in GFS and EDP. The CBS explained that the proceeds from selling UMTS licences are recorded as revenue from rents, and that this is already described in the EDP Inventory.

Findings and conclusions

Action point 35. CBS will send to Eurostat a copy of the model contract for EPCs in Croatia, as well as one example of a signed contract. *Deadline: February 2017*⁴⁵

Action point 36. The Croatian statistical authorities will complete the missing information on PPPs in table 11 of the Questionnaire related to EDP tables. *Deadline: April 2017 EDP notification*⁴⁶

Action point 43. CBS will verify the current recording of UMTS proceeds as rent in HAKOM as described in the EDP Inventory. This recording is consistent with the

⁴⁵ The action point was implemented according to the deadline.

⁴⁶ The action point was implemented according to the deadline.

forthcoming clarification guidance of Eurostat on the recording of these kinds of proceeds.
*Deadline: April 2017 EDP notification*⁴⁷

4.3.5. Recording of financial derivatives

Introduction

A note on financial derivative operations has been sent by the Croatian statistical authorities prior to the EDP visit.

Discussion

The CNB explained that it has a complete overview about swaps, as the data on foreign currency debt and foreign currency swaps is under its management. Moreover, it was confirmed that only the central government undertakes swap operations.

The CNB explained that bonds issued originally in USD are hedged with cross-currency swaps into EUR, with fixed to fixed interest rates. The transactions are calculated in CNB based on the information provided by the Ministry of Finance and there is no impact on B9 (and B9f).

As far as stocks are concerned, they are calculated by CNB as a difference of discounted flows on two derivative legs, using the USD and EUR yield curves respectively.

CNB explained that financial derivatives are reported on a gross basis in EDP tables, while in GFS quarterly financial accounts, they are reported on a net basis.

It was confirmed that there have been no restructuring/re negotiations of swaps, no swap cancellations, no swaptions and no off-market swaps.

Eurostat enquired about the five bonds in USD and if they were the only debt in USD. The CNB needs to check the data but was of the opinion that those five bonds were not the only ones in USD. Eurostat analysed EDP table 3 and enquired about an amount of 0.5 bn HRK reported. The CNB explained that that amount is the difference of the 3 legs (net interest).

Eurostat explained that if an amount of 0.5 bn HRK relates to a termination of the swaps, this should be counterbalanced in "foreign currency debt" in EDP table 3 and requested an analysis of the issue and, if necessary, a correction in the EDP tables, leading to a possible revision of statistical discrepancies.

Findings and conclusions

⁴⁷ Action point implemented according to the deadline. All UMTS receipts are recorded as rent in national accounts and EDP data.

Action point 44. The Croatian statistical authorities will clarify the underlying transaction recorded as derivative in 2015 (0.5 bn HRK) presumed to be an unwinding of swap, hedging foreign currency debt. *Deadline: April 2017 EDP notification*⁴⁸

Action point 45. The statistical authorities will confirm that the unwinding of such hedging swaps (Action point 44) leads to a matching entry under revaluation in EDP table 3. *Deadline: April 2017 EDP notification*⁴⁹

5. Other issues

The possible future fiscal impact from the dispute over the law on the conversion of loans in Swiss francs into euro

Introduction

The issue discussed under this item of the agenda refers to the consequences for the government accounts (GFS and EDP) of the Croatian Parliament amendments of September 2015 to the Consumer Credit Act and the Credit Institutions Act regulating the conversion of loans denominated in CHF or indexed to CHF to loans denominated in EUR or indexed to EUR.

Discussion

The CNB explained that many Croatian households took up loans (for housing) denominated in foreign currency, mostly in Swiss francs. Due to the shift in exchange rates, the monthly instalments of loans increased significantly and consequently a lot of households had difficulties to regularly reimburse their debt.

It was also explained that the credit institutions estimated the effect of conversion and created provisions in accordance with IAS 37. The counterpart of the amounts was, therefore, the increase in expenses in the profit and loss account for the whole amount of conversion. The effects on credit institutions were an increase in “Other liabilities” and a decrease of “Capital and Reserves”. According to the law, the clients can choose to sign or not conversion contracts. After September 2015, as clients sign contracts, banks will report gradual shrinking of balance sheet (lower level of loans and extinguishing of other liabilities) without impacting their profit and loss account.

Eurostat pointed out that there is dispute over the Croatian law on the conversion of loans from Swiss francs into euro, with the credit institutions and the European Commission. As this may be an important fiscal risk, it would be very useful to receive information on the amounts involved and their timing.

⁴⁸ Action point implemented according to the deadline.

⁴⁹ Action point implemented according to the deadline.

It was agreed that the Croatian statistical authorities will monitor the issue to find out who takes the financial burden arising from the repayments of mortgage loans at preferential exchange rates. In case the government is stepping in, the amounts involved and the time of recording will be closely monitored.

Findings and conclusions

Action point 46. The national EDP working group will monitor the statistical recording of the law on the forced conversion of loans from Swiss francs into euro and the potential impact on GFS. *Deadline: continuous*

Agenda of the EDP dialogue visit to Croatia

18-20 January 2017

1. Statistical institutional issues

1.1. Review of institutional responsibilities in the framework of the EDP and GFS data reporting

1.2. Data sources and revision policy; EDP Inventory

2. Follow-up of the previous EDP dialogue visits to Croatia (February 2015) and the videoconference of June 2016

3. Actual data – the October 2016 EDP notification

3.1. Examination of the EDP tables in relation with the Questionnaire related to EDP tables

3.2. Statistical discrepancies in EDP tables

3.3. Tables on government intervention to support financial institutions

4. Methodological issues

4.1. Delimitation of general government, application of 50% rule in national accounts

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

4.2.2. Interest

4.2.3. GFCF

4.2.4. Recording of the EU flows

4.2.5. Military equipment expenditure

4.3. Recording of specific government transactions

4.3.1. Government guarantees

4.3.2. Capital injections, super-dividends, privatisations

4.3.3. Debt assumptions/debt cancellations/write-offs

4.3.4. PPP, concessions and energy performance contracts, securitisation and sale and leaseback operations

4.3.5. Recording of financial derivatives

5. Other issues

List of participants in the EDP dialogue visit to Croatia on 18 – 20 January 2017

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