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Directorate D: Government Finance Statistics (GFS)
Unit D-1: Excessive deficit procedure, methodology and GFS

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- FINAL FINDINGS -

EDP dialogue visit to Bulgaria

7 – 8 June 2018

Executive summary

Eurostat undertook an EDP dialogue visit to Bulgaria on 7 – 8 June 2018 as part of its regular visits to Member States and with the aim to assess the existing statistical capacity, review the implementation of ESA 2010 methodology, review the recording of specific government transactions and assure that provisions from the ESA 2010 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Bulgarian EDP tables and national accounts.

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

As regards data sources, the NSI had informed Eurostat before the visit that there were no changes since the last EDP visit. Eurostat took note of the good compilation method of *Cash and deposits* (F.2) that assures full consistency between government source data and Monetary and Banking statistics.

Regarding the delimitation of general government, a detailed discussion took place on government controlled entities classified outside general government. Firstly, Eurostat asked the Bulgarian statistical authorities to undertake the necessary reclassification of public units in liquidation in line with the MGDD rules. Then, the application of the market / no market test was discussed and the Bulgarian statistical authorities agreed to amend its compilation formula for the 50 % test. Next, several units were discussed in more detail. Eurostat asked the Bulgarian statistical authorities to reclassify the Bulgarian Railways Holding in the government sector, given that it does not meet with the 50 % test in recent years and also given that one subsidiary out of two is already classified in S.13. Eurostat also did not agree with the Bulgarian Energy Holding's classification to S.12 and recommended to the Bulgarian statistical authorities to reflect on two different classification options. Regarding the Bulgarian Development Bank (BDB), the Bulgarian statistical authorities agreed to investigate the role of the Supervisory Board concerning the cases of “non-performing loans” and the approval of loans. In addition, Eurostat considered that the money advanced to government by BDB in the context of the National Programme for energy efficiency of multi-family residential buildings should be considered as a Loan and not as Other accounts payable (F.8), with an impact on government debt, and consequently the government guarantee provided to the BDB in this context should be excluded from the government guaranteed debt. Eurostat took note that the deficit impact of this operation is already correctly recorded in government accounts. The Bulgarian statistical authorities were also asked to review the sector classification of several smaller units.

Concerning taxes, Eurostat took note that the Bulgarian statistical authorities, following a previous agreement with Eurostat, currently apply a time-adjusted method that attempts to reallocate taxes to the year of activity. In practice, in some cases, cash is moved backwards by up to one year. However, Eurostat observed significant revisions beyond one year, thus beyond just the moving back of cash. As a follow-up of the 2016 EDP dialogue visit, the Bulgarian statistical authorities agreed to move to a simple time adjusted cash method. During the meeting, a new proposal for recording of taxes was discussed and Eurostat asked the Bulgarian statistical authorities to review the proposal, using an average time lag.

Then, the discussion focused on the recording of EU flows. Eurostat took note that, in principle, the recording of EU funds seem to be correct and in line with the rules, and moreover data sources available are at the Ministry of Finance, although the presentation of information could be more transparent. In this respect, Eurostat asked to receive additional information on the EU flows adjustments, which would allow Eurostat to properly monitor the recording of EU flows.

As regards the accrual adjustment for Gross fixed capital formation (GFCF), Eurostat took note that GFCF is recorded on a cash basis and no accrual adjustment is done as, according to the NSI, cash is very close to accrual. The accrual adjustments to expenditure are made via under *Other accounts payable* and are fully allocated under Current transfer (D.7), instead of across different national accounts categories (Intermediate consumption, GFCF), as would be appropriate. Moreover, Eurostat asked the Bulgarian statistical authorities to examine the possibility of using direct information from the general ledger to derive GFCF on an accrual basis for budgetary units, so to cross check with the cash data (adjusted for Other accounts payable).

Concerning Public Private Partnerships (PPP), the Bulgarian statistical authorities confirmed that, currently, there are no PPPs in Bulgaria although a framework for PPPs exists. No new concessions have been signed since the last EDP dialogue visit. Any concession income is spread over the economic life of the assets.

Eurostat provisionally agreed that the government loan provided to *Natsionalna Elektricheska Kompania* (NEK) could remain recorded as a loan (F.4) in national accounts. However, the Bulgarian statistical authorities should closely monitor the situation and report to Eurostat in case of any changes, which might impact the recording in national accounts.

Regarding decommissioning costs, the Bulgarian statistical authorities agreed to implement the capitalisation of the State Enterprise Radioactive Waste `s expenditure, as required by the national accounts rules (GNI). In addition, Eurostat also asked to investigate how the contributions to the Nuclear Facilities Decommissioning Fund and the Radioactive Waste Fund are recorded in national accounts. Following the forthcoming conclusions of the EDPS WG on the appropriate recording of such contributions, the Bulgarian statistical authorities will adapt their recording, if necessary.

Eurostat also asked the Bulgarian statistical authorities to change the current method of recording Emission Trade Permits (ETS) from sale of non-produced assets to Other taxes on production – D.29, using an average price method, or a one-year time lag.

Finally, some other issues were also discussed, such as capital injections, guarantees, military equipment expenditure, debt assumptions, debt cancellations and debt write-offs.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Bulgarian statistical authorities during the meeting and the quality of the documents provided beforehand.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the Excessive Deficit Procedure, Eurostat carried out an EDP dialogue visit to Bulgaria on 7 – 8 June 2018.

The delegation of Eurostat was headed by Mr Luca Ascoli, Head of Unit D1 (Excessive Deficit procedure and methodology). Eurostat was also represented by Mr Philippe de Rougemont, Ms Malgorzata Szczesna and Ms Simona Frank. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting, as observers. Bulgaria was represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF) and the Bulgarian National Bank (BNB).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA 2010 methodology, to assure that rules of the ESA 2010 Eurostat Manual on Government Deficit and Debt are complied with and to make sure that Eurostat decisions are duly implemented in the Bulgarian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were: to review the implementation of ESA 2010 methodology, such as sectorization of units and the accrual principles (taxes, EU flows and gross fixed capital formation) and to review the recording of specific government transactions.

With regard to procedural arrangements, the *Main conclusions and action points* would be sent to Bulgaria for review. Then, within weeks, the *Provisional findings* would be sent to Bulgaria for review. After this, *Final Findings* will be sent to Bulgaria and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

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

1. STATISTICAL ORGANISATIONAL ISSUES

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Introduction

Eurostat reviewed the institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation. An inter-institutional Memorandum of Understanding (MoU) exists between the three key partners in the GFS production: the National statistical institute (NSI), the Central Bank (BNB) and the Ministry of Finance (MoF). Regular meetings are organised between the three institutions.

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

Discussion and methodological analysis

The Bulgarian statistical authorities explained that there had been no changes in the institutional arrangements in the framework of the EDP data compilation since the last EDP dialogue visit in 2016. It was further explained that the current MoU is in the process of being updated. However, the changes will not be substantial. In addition, there are ongoing discussions regarding the possibility to sign a bilateral agreement between the NSI and BNB.

Next, the calculation of debt was discussed in more detail. The NSI explained that, although the MoF compiles all necessary data for the Maastricht debt, the NSI has a final decision on the final implementation of the methodology. In other words, the NSI is responsible for the supervision of the whole compilation process while the MoF actually compiles data (i.e. makes the necessary checks and validations). At present, the NSI does not have a direct access to the MoF database, but receives, if necessary, an extraction from their database. The cooperation between the two institutions is considered good.

Further, Eurostat enquired about the data sources used for the financial accounts as the ESA Table 27 is compiled by the BNB while the EDP tables 3 and ESA tables 6 and 7 are compiled by the NSI. The Bulgarian statistical authorities explained that data sources used are the same and the consistency between the EDP tables and ESA tables 27 has been significantly improved since the last EDP dialogue visit.

The quarterly financial accounts (ESA Table 27) are compiled by the BNB while the MoF is responsible for the compilation of the quarterly Maastricht debt. In this respect, Eurostat enquired whether any changes regarding this arrangement are foreseen. The Bulgarian statistical authorities explained that the current arrangement might be reconsidered in the future.

Findings and conclusions

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

Deadline: when available

1.2. Data sources and revision policy, EDP inventory

Introduction

The ESA 2010 EDP Inventory is published in the website of Eurostat and provides detailed information on data sources used. Under this point of the agenda, the data sources and the revision policy were discussed in more detail.

Budget reporting and *trial balance* of the budgetary units are the main data sources used for the compilation of the three government sub-sectors. The data reported in the budget are available on a cash basis, whereas *trial balances* are produced on an accrual basis. The same data sources are used for the compilation of financial and non-financial accounts.

Discussion and methodological analysis

Regarding data sources, the NSI explained that there have been no changes since the last EDP dialogue visit. The detailed description of data sources by government sub-sector is described in the EDP inventory, publicly available on the Eurostat website[1].

Firstly, the discussion focused on data sources used for the compilation of Maastricht debt. The main data source used for the central government debt is the *Official Register of Government and Government Guaranteed debt* (ORGGGD), created and maintained by the MoF. The information of the social security funds debt is also included in this register. The separation of the sub-sectors debt data allows to report debt according to the EDP rules. For this purpose, a detached statistical module was created in the register. The local government debt data are derived from the *trial balances* of local governments (municipalities). A *Central Register of Municipal debt* (CRMD) is also established in the MoF. All municipalities are obliged to provide, to the MoF, the information on debt in line with the EU rules and the Bulgarian legislation on public accounts. The whole local government debt data is kept in the CRMD.

The Bulgarian statistical authorities confirmed that the ORGGGD has an interface connection to the CRMD database, which permits automation of the consolidation procedure from 2016 onwards. While central government (budget) data is available on a monthly basis, local government data is available on a quarterly basis.

[1] http://ec.europa.eu/eurostat/documents/1015035/7110762/BG-EDP-Inventory-201512.pdf

The Bulgarian statistical authorities clarified that a *trial balance* is actually a kind of a general ledger, but on a quarterly basis, and contains data on debit, credit, stocks and flows. The data from the *trial balances* (quarterly basis) is compared with data from the general ledger (annual basis) and usually no differences are observed. Data from the general ledger is used to generate profit / loss accounts and balance sheets statements.

Next, Eurostat enquired about the data sources used for *Cash and deposits* (F.2). The Bulgarian statistical authorities explained that two data sources are used, as described in the EDP inventory. The main data source, used by the NSI to compile F.2 in the EDP tables 3, is the so-called *Form 91*. This form was designed by the MoF and compiles information on deposits held by all budget spending units. On the other hand, for the compilation of the QFAGG (ESA Table 27), the BNB uses information from the *Monetary and Banking Statistics*. The Bulgarian statistical authorities underlined that usually there are no differences. Nevertheless, in case of any differences, the priority is given to cash data (*Form 91*), and it is dealt on a *case-by-case* basis. There are only 27 banks in Bulgaria and even a small difference is being closely monitored by the BNB. The comparison between the two data sources, i.e. *Form 91*, Monetary, *and Banking Statistics*, is crosschecked on a monthly basis. The MoF also confirmed that no big differences are observed between the two data sources, as they actually complement each other. For example, *cash in transit* and *foreign bank accounts* held by the budget entities are not covered by the *Monetary and banking Statistics*, but are separately reported in cash reporting (the *Form 91*). The BNB uses these data from the MoF (the *Form 91*) and crosschecks it with the *Monetary and Banking Statistics*. Eurostat considered this practice as a very good compilation method of F.2, as it assures a full consistency between the government source data (general ledger) and the Monetary and Banking statistics.

Then, the revision policy was discussed in more detail. April EDP notifications are based on a preliminary data, while October EDP notifications are based on final data. Data sources used are the same. In general, only data for the year n-1 is revised in October notifications. In principle, no further revisions are made to years n-4 to n-2. Data for these years may be revised only in exceptional cases.

The most significant revisions are mainly related to taxes. Estimations (based on forecasts made by the *National Revenue Agency*) are used for the first two EDP notifications, because the major part of income taxes are paid only in the following year, so the information for the previous year is available only after the October EDP notifications. Thus, C*urrent taxes on income, wealth, etc*. (D5) for year n-1 are normally revised in the year n+1 April EDP Notifications, when the final figures are available.

The next benchmarking revision is planned for the October 2019 EDP notification and will be implemented from 1995 onwards.

Findings and conclusions

Action point 2: Eurostat took note of the good compilation method of F.2 that assures full consistency between the government source data (general ledger) and the Monetary and

Banking statistics. Eurostat suggested to the Bulgarian statistical authorities to adapt the EDP inventory in order to reflect this very satisfactory state of affair.

Deadline: end-December 2018[2]

2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF 29 FEBRUARY – 1 MARCH 2016

Introduction

The Bulgarian statistical authorities have implemented nearly all action points from the 2016 EDP dialogue visit.

Discussion and methodological analysis

Regarding the AP 1[3], the Bulgarian statistical authorities explained that, at this stage, the Memorandum of Understanding on EDP issues has not been updated yet and will be provided to Eurostat as soon as becomes available (see the Action point 1 under item 1.1).

Regarding the AP 13[4], the follow up of this issue (i.e. change of the method used for taxes) is discussed in detail under item 4.2.1.

Findings and conclusions

Eurostat took note that nearly all action points from the previous EDP dialogue visit have been implemented. The follow-up of some action points is further discussed under various points of the agenda.

3. FOLLOW-UP OF THE APRIL 2018 EDP REPORTING – ANALYSIS OF EDP TABLES AND THE RELATED QUESTIONNAIRES

Introduction

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

Discussion and methodological analysis

Eurostat took note that the 2016 deficit was revised by about 0.3 % of GDP due to taxes, as estimations were replaced by the final data. The method used for taxes was extensively discussed during the 2016 EDP dialogue visit, when Eurostat recommended changing the current method, which leads to frequent and large revisions. The Bulgarian statistical

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[2] The updated EDP inventory was published in March 2019.

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

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

authorities already agreed to change the method, i.e. to move to a simple time-adjustment cash data in the context of the forthcoming benchmarking exercise in 2019, in order to avoid sizeable revisions. This issue is further discussed under the item 4.2.1.

In addition, as a follow-up of the April 2018 EDP notification, Eurostat proposed to discuss the recording of *Gross fixed capital formation* (GFCF) under point 4.2.6.

Findings and conclusions

The outstanding issues of the April 2018 EDP notification are discussed under various items of the agenda, namely 4.2.1 (taxes) and 4.2.6 (GFCF).

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

4.1. Delimitation of general government

4.1.1 Changes in sector classification since the 2016 EDP visit

Introduction

Prior to the visit, the Bulgarian statistical authorities provided a list of units classified in the general government sector, by sub-sectors.

All public hospitals are classified in the sub-sectors of central or local government. The universities and the Bulgarian Academy of Science execute their budgets according to their special laws, outside the State Budget (since 1998) and are included in the general government sector.

Discussion and methodological analysis

The NSI explained that there have been no substantial changes since the last EDP dialogue visit. Then, the participants of the meeting reviewed the main changes in the list of units classified in general government sector since the last EDP visit in 2016. Eurostat observed that no public units in liquidation are included in the list of government units. At the same time, Eurostat also noted that the 2017 *Questionnaire on public corporations* states that 20 units were re-classified (or disappeared) due to inactivity or liquidation. The main question raised by Eurostat was about where these public units in liquidation were classified. The NSI explained that these units are currently not included in the general government sector as they are small units with a very negligible impact on government accounts. Eurostat underlined that the chapter I.2.4.4 of the Manual on Government Deficit and Debt (MGDD) clearly states that "*when the market/non-market test is below 50 % for a single year and it is considered that it is unlikely that the results could reverse in the next two years, the reclassification must be implemented as soon as the market/non-market test is no longer met*". In this context, Eurostat stressed that, although the impact on government accounts is considered small, the rules should be applied.

Findings and conclusions

Action point 3: Eurostat asked the Bulgarian statistical authorities to provide a list of the public units in liquidation, currently classified outside S.13, their 50 % test for the last three years and their relevant statistics (deficit and debt). The Bulgarian statistical authorities will undertake necessary reclassification in line with the MGDD rules.

Deadline: by the October 2018 EDP notification[5]

4.1.2 Application of the market/non-market test

Introduction

According to the *Accountancy Act* and the *National Statistical Programme*, all companies registered under the *Commercial Law* are obliged to submit an annual report. Part of this report relates to revenues and expenditures, and provides all the necessary information for the calculation of the market /non-market test (i.e. 50 % test).

The 50 % test is implemented on an annual basis for all public units controlled by central and local government, taking into account the last three consecutive years. The application of the market/non-market test was discussed in detail.

Discussion and methodological analysis

To be considered as a market unit, the assessment is made whether the sales cover a majority of the production costs. The NSI presented the formula used for the calculation of the 50 % test, i.e. comparing sales and production costs. To this effect, the NSI distributed the *Report on revenue and expenditure* (including codes) used for the calculation of the 50 % test.

Firstly, Eurostat enquired about the recording of subsidies in the 50 % test. The NSI explained that all subsidies, including subsidies on products, are excluded from sales when performing the 50 % test. The subsidies are included under the item *revenue from financing* (code 15410) in the report on revenue and expenditure, which is entirely excluded from sales in the formula used. Eurostat took note that, in the case of subsidies, a conservative approach is used, as all subsidies are excluded from sales.

Regarding consumption of fixed capital, the NSI said that, for the purpose of the 50 % test, depreciation from business accounts is used (based on historical cost method - linear method). Similarly, no adjustment is made for losses on trade receivables, as it cannot be separately identified from annual accounts. Losses on trade credits are booked in business accounts only when they are written off.

Eurostat enquired whether the item *acquisitions of assets for own account* (code 15300) is included in the 50 % test. The NSI confirmed that this item is included on both sides, i.e. expenditure and revenue. Eurostat said that, in line with the MGDD chapter I.2.4.3, it should be excluded from both sides (expenditure and revenue): "*To ensure consistency between the*

[5] This action point was implemented in the context of the October 2018 EDP notification.

concepts of sales and production costs when applying the 50 % criterion, the production costs do not consider imputed costs made for own-accounts capital formation". Although, a balanced symmetric approach is used, it might still impact the results of the 50 % test. Thus, Eurostat asked the NSI to exclude this item from both sides of the formula and recalculate the test for the last year only (i.e. 2017). In case significant changes in the results of the 50 % test would be observed for some units, the recalculation should be done for all years for those units.

Eurostat also noted that the items *sale of fixed assets* (code 15430) and *sale of raw materials and materials* (code 15420) are considered as sale in the 50 % test. Eurostat asked the NSI to exclude the code 15430 from sales. Regarding the code 15420, the NSI was also asked to exclude this item from sales, only after verifying that it does not predominantly include margins for merchandising.

Regarding the item under code 10412 (*expenditure on devaluation*), the NSI said that this expenditure is not part of the production costs in the 50 % test. Eurostat explained that the issue of losses on receivables are currently discussed in the EDPS WG, but recalled that losses on inventories should nevertheless be excluded from sales in the 50% test. The NSI confirmed that the source data allows the identification of this item separately. In this respect, Eurostat asked the NSI to further enquire on the content of the item 10412 and its treatment in the national accounts compilation of the sector S.11, and on this basis to reflect on whether it should be deducted from sales (taking into account that it is already excluded from production costs).

Next, Eurostat enquired from which moment onwards public units not complying with the 50 % test are reclassified in the general government sector, i.e. whether they are re-classified in S.13 already from the first year when the 50 % test is below 50 %. The NSI explained that such units are reclassified only in the third consecutive year of non-compliance with the 50 % test. Eurostat asked the NSI to modify this practice and to apply backwards reclassification of units from the first year when the market / non-market is below the 50 %.

Eurostat also enquired whether there were some cases when the unit was re-classified in S.13 only based on qualitative criteria. The NSI explained that this was the case for public hospitals. In addition, the *Fund for Local Authorities and Governments* (FLAG) was re-classified in S.13 based on the qualitative criteria, as it mainly borrows from the European Investment Bank (EIB) in order to grant loans to other government units, mainly classified in the local government sub-sector. As such the main client of FLAG was general government.

Findings and conclusions

Action point 4: The Bulgarian statistical authorities agreed to amend its compilation formula for the 50 % test, notably to:

- deduct the item 15300 (acquisition of assets for own account) from both the revenue and expenditure side;
- exclude the item 15430 (sale of fixed assets) from the revenue side;
- exclude the item 15420 (sale of raw materials and materials) from the revenue side, after verifying the code used for trading margin.

The Bulgarian statistical authorities will also further enquire on the content of the item 10412 (expenditure on devaluation), on its treatment in national accounts for the compilation of value added, and will reflect on its treatment for the 50 % test. On this basis, it will consider its potential deduction from sales (numerator). This item is already excluded from costs (denominator).

Deadline: mid-December 2018[6]

Action point 5: The Bulgarian statistical authorities were asked to modify their current practice to the effect of undertaking backwards re-classification of units from the first year when the market / non-market would not meet the 50 % test.

Deadline: ongoing[7]

Action point 6: The Bulgarian statistical authorities agreed to provide a list of all public units that were re-classified on the basis of qualitative criteria, if any (beside hospitals and FLAG).

Deadline: end-December 2018[8]

Railways companies

Introduction

There are four railways companies in Bulgaria: BDZ Holding (classified in *Non-financial corporations* - S.11), BDZ Cargo (classified in S.11), BDZ Passengers (classified in S.13) and National company railways infrastructure - NRIC (classified in S.13).

In 2011, the Bulgarian Railways Holding underwent a major restructuring whereby BDZ Holding transferred its assets to its subsidiaries – BDZ Passengers and BDZ Cargo. The holding only kept some non-operational assets as well as its financial function of raising debt.

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

The National company railways infrastructure (NRIC) was reclassified in S.13 in 2007, due the non-compliance with the 50 % test, and the BDZ Passenger was reclassified in 2012. BDZ Holding and BDZ Cargo remained classified outside general government.

Prior the meeting, the NSI provided a detailed calculation, item by item, of the components included in the revenue and expenditure of the above-mentioned railways companies, for the last three years.

[6] This action point was implemented.
[7] Accomplished in the October 2018 EDP notification
[8] A list was provided.

Discussion and methodological analysis

Firstly, the NSI said that, after the reorganisation of railways, about 85 % of debt was transferred to NRIC. Eurostat took note that NRIC and BDZ Passengers were both re-classified in S.13 due to the non-compliance with the 50 % test.

Then, the NSI confirmed that the *public service obligation* (PSO) paid by government to the BDZ Passengers is not considered as sale in the calculation of the 50 % test.

The BDZ Cargo remained classified in S.11, as it is considered a market unit and as its main revenue comes from sales of services. Eurostat noted that depreciation costs were very high in 2015 in comparison to previous years. The NSI explained that this was due to a change in the method used for the calculation of amortisation of transport vehicles. Up to 2015, the method was based on train per kilometre, and from 2016 onwards, a linear method is used. Eurostat observed that the results of the 50 % test for BDZ Cargo are quite high for all years, i.e. sales covers the vast majority of production costs.

Next, the sector classification of the BDZ Holding was discussed in more detail. Eurostat mentioned that both quantitative (50 % test) and qualitative criteria have both to be analysed when deciding on the sector classification of units.

Firstly, Eurostat examined the 2017 annual accounts of BDZ Holding, mainly focusing on sales. In this respect, Eurostat enquired about what is included under the code 15130 (*other revenue*). The NSI explained that the biggest part of this revenue is related to management activities provided to its subsidiaries and, to a lesser extent, hotel activities. However, it was not very clear what kinds of services are provided to its subsidiaries. In this context, Eurostat questioned whether the fees collected from its subsidiaries really have a market nature. A more detailed analysis of accounts showed that most of other revenue actually comes from the sale of assets (code 15400). As this was already discussed under the previous point of the agenda (see Action point 4), the sale of fixed assets should not be considered as a sale in the 50 % test. In this respect, Eurostat asked the NSI to re-calculate the 50 % test by excluding the code 15400 (sale of fixed assets). The first preliminary re-calculation of the 50 % test for the recent years, carried out in the meeting, indicated that the 50 % test, would not be met.

In this regard, Eurostat questioned whether this could also impact on the result of the 50 % test also for BDZ Cargo. However, the NSI explained that this unit have rather small amounts of revenue coming from sale of fixed assets. Given the high results of the 50 % in recent years, the participants of the meeting agreed that it may not have a significant impact on the results of the 50 % test and in this case the unit would accordingly still meet the 50 % test. However, in line with the Action point 4, the compilation formula for the 50 % test will be amended in order to exclude sale of assets, and the 50 % test will be recalculated for all public units.

As regards the implementation of the qualitative criteria, Eurostat observed that one of the subsidiaries of the BDZ Holding is classified in S.13 (BDZ Passengers). The MGDD clearly says that "*in case that the public head office controls mostly non-market subsidiaries, such head office should be classified in the general government sector (S.13)*". In this context, Eurostat considered that the qualitative criteria above seemed not to be fulfilled for the BDZ Holding, which should cause to be classified inside S.13.

Findings and conclusions

Action point 7: The Bulgarian statistical authorities will reclassify the BDZ Railways holding in S.13, given that it does not meet with the 50 % test in recent years, after excluding the item 15430 (sale of fixed assets) from sales (see Action point 4), but also in consideration of the qualitative criteria, as one subsidiary out of two is classified in S.13, and it might be difficult to assess the market nature of the fees collected on the subsidiaries.

Deadline: by the October 2018 EDP notification[9]

4.1.3. Follow-up of the sector classification of Bulgarian Energy Holding and Bulgarian Development Bank

The discussion focused on the follow-up of the sector classification of the Bulgarian Energy Holding and the Bulgarian Development Bank.

Bulgarian Energy Holding (BEH)

Introduction

BEH is a fully government-owned holding company, created in 2008. BEH is structured as a holding company, in which the subsidiaries are incorporated into the holding structure but retain their operational autonomy, including the individual licenses issued. The BEH carries out activities in the field of financial management, project management, corporate governance and business planning.

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

The BEH has a one-tier management structure, i.e. the Board of directors (3-5 members). The MoF nominates three members of the Board, which, according to the law, cannot be government officials. BEH's permission is required if one of the subsidiaries would like to acquire another entity. Similarly, the Minister of Energy's permission is required for any new acquisitions of BEH.

The holding and its subsidiaries were assessed, by the NSI, as market units and are currently classified in the *Non - financial corporations* (S.11) sector. Currently, BEH has 15 subsidiaries, out of which one is not considered an institutional unit and it is consolidated with another subsidiary, while another unit has no activity. A process for dissolution of this latter unit is foreseen to start in 2018.

[9] The BDZ Railways Holding was re-classified in S.13 in the context of the October 2018 EDP notification.

Discussion and methodological analysis

Firstly, the NSI explained that BEH is considered as a public head office according to the ESA 2010, as it exercises managerial control over its subsidiaries, for which the subsidiaries are paying a fee to BEH. As, according to ESA 2010, the head office should be classified *to the dominant non–financial sector of their subsidiaries*, BEH is classified in the *Non – financial corporations* (S.11).

The NSI further explained that BEH revenues mainly come from dividends, services provided to its subsidiaries and interest on loans granted to them. However, when analysing the 2017 accounts, Eurostat noted that the main part of its revenue represent financial revenue while the fees paid by the subsidiaries are rather negligible. Furthermore, the balance sheet showed that its assets mainly consist of loans provided to its subsidiaries. On this basis, it can be concluded that the main activity of BEH is to provide financing to its subsidiaries. In order to do so, it borrows on the market, mainly by issuing bonds. On this basis, Eurostat underlined that BEH cannot be considered, in national accounts, as a head office as its main function is to borrow on the market and then redistribute funds to its subsidiaries. If BEH would not exist, then either government would have to borrow for the subsidiaries or they would borrow directly on the market. In this respect, Eurostat asked the Bulgarian statistical authorities to reflect on two possible classification options: either to recognise BEH as an auxiliary unit (funding arm) of its biggest subsidiary, *Natsionalna elektricheska kompaniya* – NEK, itself classified in S.11 or to re-classify BEH in general government sector (S.13) as a public holding, raising debt to finance public subsidiaries.

Then, the results of the 50 % test of BEH's subsidiaries were examined. The NSI provided, prior to the meeting, the results of the 50 % test for all its subsidiaries for the last three years. Eurostat observed that the subsidiary *Tets Maritsa Iztok 2 (9 I 10)* has no activity in the last three years. The NSI confirmed that this unit is in liquidation. Eurostat pointed out that the MGDD chapter on liquidation of public units should be applied in this case and asked the NSI to verify whether a balance sheet exists, which would need to be reclassified in S.13.

Eurostat further enquired on the update of the project *South Stream* pipeline. The NSI regularly monitors this project, where BEH owns 50 % of the capital while the other 50 % is owned by a Russian entity. The process of formal termination started in 2017 and, at this moment, three out of four key contracts have been terminated. Eurostat took note that the project South Stream is currently dormant and asked the NSI to check whether any meaningful balance sheet exists, to be reclassified in S.13.

Findings and conclusions

Action point 8: Eurostat agreed with the Bulgarian statistical authorities' view that the Bulgarian Energy Holding (BEH) classification to S.12 is not convenient, but found objections to consider BEH as a head office in S.11. Eurostat recommended to the Bulgarian statistical authorities to reflect on two classification options:

- Recognise BEH as an auxiliary unit of its biggest subsidiary *Natsionalna elektricheska kompaniya* - NEK (funding arm) in S.11;
- Classification in S.13 as a public holding, raising debt to finance public subsidiaries.

A note on this issue is to be provided to Eurostat.

Deadline: 10 September 2018[10]

Action point 9: Eurostat took note that the BEH`s subsidiary *TETS MARITSA IZTOK 2 (9 I 10)* is currently in liquidation. The Bulgarian statistical authorities will verify whether a balance sheet exists for this unit, which would need then to be reclassified in S.13.

Deadline: 10 September 2018[11]

Action point 10: Eurostat took note that the project *South Stream* is dormant at the moment. The Bulgarian statistical authorities will check whether any meaningful balance sheet exists, to be reclassified in S.13.

Deadline: 10 September 2018[12]

<u>The Bulgarian Development Bank</u>

Introduction

The Bulgarian Development Bank (BDB) is a financial institution, almost 100% owned by the State. It is the successor of the Encouragement Bank established in 1999. Its focus is to support small and medium-sized enterprises (SMEs) directly or via other credit institutions.

In pursuing the government policy on SMEs, the Council of Ministers may approve the strategic goals and tasks of the bank. The government may only influence the BDB's general business strategy and may not participate in the daily running of the bank. The Council of Ministers approves a three-year strategy for the bank's activity in accordance with the national economic policy, following a proposal from the Minister of Finance and the Minister of Economy. The BDB has a two-tier management structure:

- The *Supervisory Board* consists of three members, elected by the *General Meeting of Shareholders* for a five-year term. One of the members is the Deputy Minister of Economy.
- The *Management Board* consists of three up to five members, elected by the Supervisory Board for a five-year term.

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

[10] The Bulgarian statistical authorities chose the first option and recognised BEH as an auxiliary unit of its biggest subsidiary.

[11] The Bulgarian statistical authorities confirmed that no significant balance sheet exist for this unit. This unit is not considered as an institutional unit and it was consolidated with its controlling entity - TETS MARITSA IZTOK 2.

[12] The Bulgarian statistical authorities consolidated South Stream with its controlling unit, i.e. BEH.

Discussion and methodological analysis

Eurostat thanked the NSI for providing a follow-up note on the BDB, which was extensively discussed during the last visit. The NSI confirmed that only a small part of its debt is guaranteed by government, that it does not receive any direct financing from government and that it does not need a government permission to borrow.

When examining the annual accounts of the BDB, Eurostat noted sizeable amounts of deposits, mostly from customers other than credit institutions. The NSI explained that there are no limitations in term of deposits.

In the last EDP dialogue visit in 2016, the constraints on the assets side was extensively discussed. Although the Supervisory Board may not take any part in the day-to-day running of the BDB, it had the following powers:

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

In order to be able to analyse whether constraints on the assets side existed, in line with the MGDD chapter I.6.6, Eurostat asked the Bulgarian statistical authorities to investigate the role of the Supervisory Board in the approval of operations. The NSI' analysis showed that about 10 % of operations had to be approved by the Supervisory Board. At that time, Eurostat agreed that BDB remains classified outside S.13 and recommended to closely follow-up on its sector classification.

During the meeting, the NSI explained that, in 2017, the *General Meeting of Shareholders* approved changes in the Articles of Association of the BDB, which were endorsed by the BNB in the same year. The changes impacted, among others, also the powers of the Supervisory Board, in particular:

- It had to confirm the decisions of financing/refinancing of companies having liabilities classified in the BNB Credit Register under *Non-performing* or *Loss* (*Non-serviced*);
- Exposures to a single client or a group of related clients, which amount exceeds 5% of the Bank's own equity, is done only after authorization given by the Supervisory Board.

In this respect, Eurostat asked the NSI to provide more information on the so-called *non-performing loans* and to analyse the accounting consequences of lowering the threshold from 10 % to 5 % for the approval of BNB operations by the Supervisory Board.

Then, the *National programme for energy efficiency of multi-family residential buildings* (NEEP) was discussed in more detail, in particular the accounting in government accounts. The bank was mandated by government to participate in the NEEP, for which it receives a fee. The financing under NEEP is channelled through the BDB. The bank concludes trilateral agreements with the regional governors (representatives of the State) and the municipality mayors (authorized representatives of the owners' association - HOA). The NEEP was adopted by the Council of Ministers in 2015. The Program finances renovation energy efficiency measures in multi-family residential buildings in 265 municipalities. It targets multi-family residential buildings and the eligible costs include the renovation and retrofitting of buildings. The limit set for the program was initially set to 1 billion BGN, increased to 2 billion BGN in 2016. The HOAs sign the contract, authorising the mayor of the relevant municipality to negotiate on behalf of the HOA and represent them for getting financing from the BDB for renovation work (through making direct payments to the suppliers). The selection of suppliers is done by the municipality following the usual public procurement procedures. The mayor of the municipality (acting on behalf of the relevant HOA), the BDB and the regional governor sign a contract. The process of renovation is monitored by the regional governor, who also signs the final document, certifying the finished work. Based on the contract, the mayor presents payment orders to BDB for payments to suppliers, which are settled by the BDB. Finally, the BDB is reimbursed by the budget.

Eurostat said that, as this task has been mandated to BDB, i.e. government decided for the BDB to participate in this programme, the money advanced by the BDB to government in order to pay suppliers should be re-routed via government accounts as F.4 liability (loan) with an impact on government debt. This is currently not the case as the transaction is recorded as *Other accounts payable* (F.8), which is not part of the Maastricht debt. The Maastricht debt would be increased by about 400 million BGN in 2016.

Eurostat took note that the time of recording of expenditure is already correctly recorded in the government accounts at the time of the certification of work.

Findings and conclusions

Action point 11: Regarding the Bulgarian Development Bank (BDB), the Bulgarian statistical authorities will investigate the role of the Supervisory Board concerning the cases of non-performing loans. In addition, the Bulgarian statistical authorities will inform Eurostat on the possible accounting consequences of lowering the threshold requested for the approval of loans by the Supervisory Board (as soon as data for 2017 becomes available).

Deadline: 10 September 2018[13]

Action point 12: Eurostat considered that the money advanced to government by BDB in the context of the *National Programme for energy efficiency of multi-family residential buildings* should be considered as a *Loan* (F.4*)*, for an amount of 398 million BGN in 2016, from the BDB to government, and not as *Other accounts payable* (F.8). Eurostat took note that the deficit impact of this operation is already correctly recorded in government accounts.

Deadline: by the October 2018 EDP notification[14]

[13] A note on this issue was provided on 10 September 2018.
[14] This was implemented in the context of the October 2018 EDP notification.

4.1.4 Sector classification of units engaged in social housing

Introduction

Prior the visit, Eurostat asked to receive a note on the sector classification of the units engaged in social housing.

Discussion and methodological analysis

The NSI explained that the social housing function is managed directly by municipalities. Therefore, all social housing costs are part of municipal budgets, with an impact on B.9. No separate unit engaged in social housing exists.

Findings and conclusions

Eurostat took note of the explanations.

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

Introduction

Eurostat, together with the Bulgarian statistical authorities, reviewed the last version of the Questionnaire *on government-controlled entities*. Compared to the previous questionnaire, it was noted that some units are no longer included on the list, due to inactivity and liquidation.

Discussion and methodological analysis

Firstly, Eurostat observed that about 60 public units are classified in NACE 68 (*Real estate activities)* and enquired whether they might be linked to social housing. NSI agreed to further investigate on the activity of these units and report to Eurostat.

Secondly, Eurostat recalled that the company *Proektna Kompaniya Neftoprovod Burgas* was already discussed during the 2016 EDP dialogue visit, as it did not comply with the market / non-market test. At that time, the NSI explained that this unit was engaged in the building of a gas pipeline, which explained the big investments in the last years, due to which the market / non-market test fell under 50 %. In line with this information, the NSI proposed to closely monitor this unit in order to verify whether it would comply with the 50 % test in the subsequent years. Eurostat agreed with the NSI and underlined that if the market/ no market test would be still below the 50 % in the future, the unit would have to be re-classified in the government sector.

Eurostat noted that no market / non-market test was provided for this unit and asked the NSI to verify whether the 50 % test is met. Eurostat also asked the NSI to verify whether significant expenditure has incurred in the past, how it was funded, and whether any residual liability exists.

Next, Eurostat noted that the market / non-market test is falling below 50 % for two public units *Sports property management pomorie* and *Stolichen avtotransport*. In particular, in the case of *Sports property management pomorie*, it was observed a sudden drop of the 50 % test in 2015-2016 in comparison to 2014. In this context, Eurostat asked the NSI to verify whether these two public units would comply with the 50 % test in 2017 and to reclassify them in S.13, if not.

Eurostat also enquired about the public unit *Metropoliten* and, in particular, whether a part of its assets is still recorded on the balance sheet of Sofia municipality, as it was explained during the previous EDP dialogue visits. If this was still the case, Eurostat asked the NSI to adapt the 50 % test (consumption of fixed capital) as appropriate.

As regards the BDZ Cargo, Eurostat remarked that the stock of amortisation on fixed assets as a percentage of fixed assets in 2016 are very low and asked the NSI to investigate on the main reasons for this.

Then, the sector classification of units engaged in financial activities was discussed, in particular the protection funds, which are currently classified in the sector *Financial corporations* (S.12). The sector classification of these funds was already discussed during the previous EDP dialogue visit. It was recalled that the Deport Insurance Fund (DIF) was reclassified inside general government in 2015, in the context of the ESA 2010 implementation.

Eurostat took note that the liabilities of these units were negligible. During the discussion, Eurostat enquired about the *Guarantee Fund* and, in particular about the role of the *Financial Supervision Commission,* responsible to set the level of the contributions to this fund. The Bulgarian statistical authorities explained that the main activity of the Guarantee Fund is payment of compensations on the obligatory Motor Third Party Liability insurance and Accident compulsory insurance. The Guarantee Fund performs some functions and tasks as assigned by law and focused on the protection of the interests of both the Republic of Bulgaria and European Union citizens. Eurostat underlined that in case that government sets the contributions, they should be recorded as tax. This fund could remain classified outside the general government only if the arguments provided by the Bulgarian statistical authorities would prove that that these contributions are not taxes. The NSI agreed to reflect on this issue.

Findings and conclusions

Action point 13*:* The Bulgarian statistical authorities agreed to further investigate the activities of 60 public units classified in NACE 68 (Real estate activities) and report back to Eurostat.

Deadline: mid-December 2018[15]

Action point 14*:* Regarding the sector classification of the public unit Proektna kompanya neftoprovod Burgas Aleksandrupolis BG EAD, Eurostat asked the Bulgarian statistical authorities to verify whether significant expenditure was incurred in the past, how it was funded and whether any residual liability exists.

[15] This AP was accomplished.

Deadline: 10 September 2018[16]

Action point 15: Eurostat asked the Bulgarian statistical authorities to verify whether the two public units Sports property management pomorie AD and Stolichen avtotransport EAD will comply with the 50 % test in 2017 and to reclassify them in S.13, if not.

Deadline: by the October 2018 EDP notification[17]

Action point 16: Eurostat asked the Bulgarian statistical authorities to verify if some part of the fixed assets of the public unit Metropoliten EAD are classified in the S.1313 sector, possibly due to the law regulating public infrastructure ownership, and accordingly adapt the 50 % test as appropriate.

Deadline: 10 September 2018[18]

Action point 17: By the same token, Eurostat asked the Bulgarian statistical authorities to explain the reasons why the stock of amortisation on fixed assets is very low as a percentage of fixed assets for BDZ Cargo as of end-2016.

Deadline: end-November 2018[19]

Action point 18: The Bulgarian statistical authorities will reflect on the nature of contributions paid by insurers to the Guarantee Fund (*Garancionen fond*), in order to see whether they have the nature of taxes.

Deadline: end-December 2018[20]

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes and social contributions

Introduction

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

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

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

[16] This unit was re-classified in S.13 in the context of the April 2019 EDP notification. The impact on government deficit and debt was negligible.
[17] The unit *Sports property management Pomorie* does not comply with the 50 % test and was re-classified in S.13 in the context of the October 2018 EDP notification while the unit *Stolichen avtotransport* complies with the 50 % test and remain classified in S.11.
[18] The 50 % test was adjusted accordingly and the unit still complies with the 50 % test and it remains classified in S.11.
[19] The note was provided on 29 November 2018.
[20] A note was provided end-December 2018.

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

The National Revenue Agency (NRA) provides data for all taxes while the estimated time adjusted cash data for excise duties are based on the tax declarations collected by the Custom agency. A detailed description of the method used is available in the EDP inventory[21].

The specific time adjustment method used was extensively discussed during the 2016 EDP dialogue visit, when Eurostat expressed doubts on whether the method used could be called TAC, as estimations are being used in order to calculate accruals. In addition, the current method leads to sizeable revisions of tax revenues. The NSI agreed to change the method and to switch to a simple TAC in the forthcoming benchmark revision in the context of the October 2019 EDP notification. Prior to the meeting, the NSI provided a note on the new proposed time lags, per tax, and on the differences between two methods. This note was discussed during the meeting.

Discussion and methodological analysis

Firstly, Eurostat took note that the Bulgarian statistical authorities currently apply a time-adjusted method that attempts to reallocate taxes to the exact year of activity. In practice, in some cases, cash is moved backwards by up to one year. However, when analysing the differences between the results of the current method (using estimations) and the new method using a simple time lag, Eurostat remarked that this shows that significant revisions in the past did not incur only due to the moving backwards the amounts. In particular, big differences were observed in 2007. The NSI explained that these revisions were partly related to t legal tax changes. Eurostat underlined that using a simple TAC means to use different time lags for different components of taxes as basically cash is moved backwards by an average time lag. When an average time lag is used, the stock of receivables related to taxes would be the same over years (receipts) and should not lead to accumulating B.9. In this respect, Eurostat asked the NSI to provide also a filled-in Table 5 of the Questionnaire related to the EDP tables, in line with the new method.

The main principles to be followed is that the time lag should reflect the economic reality and any change of tax legislation should be reflected in the time lag; for example, it would not be possible to report 13 months of collection of taxes in one year and only 11 months in another year. Therefore, a weighted average time lag should be used adjusted accordingly, which means that a change of legislation should lead to a change in the weighted average time lag.

[21] https://ec.europa.eu/eurostat/documents/1015035/7110762/BG-EDP-Inventory-201512.pdf

When analysing the new proposed time lags, Eurostat noted that a new time lag was proposed for VAT refunds. While the current method uses 2-3 month adjustment, the new proposal is to use 1 month. The NSI explained that the proposed change is because companies are mostly refunded within 1 month. Eurostat agreed that this seems to be a good example of an average time lag. However, the possible case of deliberate postponing of refunds by government in one year should be analysed by the NSI and, if necessary, data should be adjusted accordingly. The pattern of tax refunds should be closely monitored by the NSI.

Eurostat asked the Bulgarian statistical authorities to review its proposal of simple TAC, using an average time lag for the time adjusted cash, in line with the discussions above.

Findings and conclusions

Action point 19: Concerning taxes, Eurostat took note that the Bulgarian statistical authorities, following a previous agreement with Eurostat, currently apply a time-adjusted method that attempts to reallocate taxes to the year of activity. In practice, in some cases, cash is moved backwards by up to one year. However, Eurostat observed significant revisions beyond one year, thus beyond just the moving back the cash. In 2016, Eurostat asked the Bulgarian statistical authorities to move to a simpler time adjusted cash (TAC) method. The Bulgarian statistical authorities submitted prior to the visit a new proposal. Eurostat asked the Bulgarian statistical authorities to review their proposal (i.e. simple TAC), using an average time lag in line with the discussions held in the meeting. The Bulgarian statistical authorities will also provide the Table 5 of the Questionnaire related to the EDP tables in line with the new method.

Deadline: mid-December 2018[22]

4.2.2. Accrued interest

Introduction

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

The main source data for interest accrued and paid are *trial balances* and cash reports of units. The cash revenue from interest is included in the working balance (WB). Premiums and discounts are also included in the WB. These flows are neutralised in the line *Difference between interest accrued and paid*. The premiums and discounts are spread over the life of an instrument. In national accounts, premiums are treated as negative expenditure (decrease of expenditure).

Before the visit, the NSI provided an ad-hoc table on interest in EDP tables, which was discussed during this point of the agenda.

[22] The new proposal was sent and it is currently discussed with Eurostat.

Discussion and methodological analysis

Eurostat noted that no amortisation of premiums and discounts is reported in the ad-hoc table on interest and questioned whether they are spread over the life of the instrument. The NSI explained that, by mistake, it was included under the line *Coupon accrued* and consequently the line on the stock of coupons is not correct. Eurostat asked the NSI to correctly report the amortisation of premiums and discounts in the table on interest.

The NSI confirmed that premiums and discounts are recorded in the working balance, that is at issuance and redemption respectively and, therefore, adjustments must be done in the EDP tables 2A. Eurostat questioned on how the neutralisation is done in the EDP table 2A. In the EDP table 3B, the neutralisation seemed to be correctly done via the line *Issuances above / below the nominal value*. However, it was not clear in which line in the EDP table 2A the adjustments for premiums / discounts are made, given the fact that the amounts for Difference *between interest accrued and paid* are the same in both tables. The NSI agreed to verify whether the adjustment on premiums is made correctly in the EDP table 2A. If the adjustment is already included under *Other adjustment*, then it is to be shown separately. Eurostat underlined that, in case no adjustment is done, this should be done either under *Difference between interest paid and accrued* or under *Other adjustments*, with an impact on B.9.

In addition, the NSI confirmed not to have any cases of capitalised indexed securities and that the table on interest covers the whole central government sub-sector.

Findings and conclusions

Action point 20: Eurostat asked the Bulgarian statistical authorities to provide an updated ad-hoc table on interest along the line discussed in the meeting, excluding the amortisation of premiums / discounts from the stock of coupons and show it in the appropriate lines.

Deadline: 10 September 2018[23]

Action point 21: The Bulgarian statistical authorities were asked to verify whether the adjustment on premiums is made in the EDP table 2A. If the adjustment is already included under *Other adjustment*, then it is to be shown separately. If no adjustment is done, than this should be done either under Difference between interest paid and accrued or under Other adjustments, with an impact on B.9.

Deadline: 10 September 2018[24]

[23] The updated table on interest was provided on 10 September 2018.
[24] The NSI confirmed that the adjustments for premiums are made under the line *Difference between interest accrued and paid*.

4.2.3 EU flows

Introduction

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

Generally, EU funds are not included in the WB, with the exception of Schengen facilities. EU funds are included in the line *Net lending (+) or net borrowing (-) of other central/ local government bodies*.

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

This issue has been extensively discussed with the Bulgarian statistical authorities in the previous EDP dialogue visit. Prior to the visit, the NSI provided a document, containing the information on accrual adjustments made by fund as well as the cash report of the funds.

Discussion and methodological analysis

Firstly, Eurostat said that, generally, the recording of the EU funds seems to be correct and in line with the rules, and moreover good data sources are available at the Ministry of Finance (i.e. cash reports of the National Fund and the Agriculture Fund). Conceptually, the approach chosen by the MoF is correct, but the presentation could be more transparent. Usually, the accrual adjustments in the EDP tables 2 are made via Other accounts receivable and payables, which allow a comparison with the adjustments made in EDP table 3. In the case of Bulgaria, a direct comparison with the EDP table 3 is not feasible as the adjustments are done via Other adjustments in the EDP tables 2. The MoF underlined that the current method of the presentation has been chosen, because it is more accurate. The current approach, based on available data, is built on a detail level and ensures a neutral impact on government deficit.

The MoF confirmed that the cash reports of the EU funds include also national co-financing, as source data do not provide a distinction between national and EU financing, i.e. no separate account for national and EU co-financing exists. However, the managing agencies provide the necessary information on the proportion of EU financing. Currently around 80 % is estimated to be financed by the EU while the remaining 20 % represents the national part of co-financing. The latter is considered as expenditure with an impact on B.9 while the former is recorded as Other accounts receivable / payable. Expenditure is recorded at the time when the money is spent. This time of expenditure is used to record a government revenue so to neutralise EU expenditures.

Eurostat asked to receive additional information on the EU flows adjustments, which would allow Eurostat to monitor the recording of EU flows. For this purpose, Eurostat proposed to design a special template, in consultation with the Bulgarian MoF, to be regularly filled in, along with the EDP notification tables.

Then, Eurostat enquired about the recording of Jeremy / Jessica funds. The Bulgarian statistical authorities explained that lending (F.4) between S.13 and S.11 is not recognised and that capital transfers (D.9) are imputed instead. In other words, any new lending relating to those EU institutions would result in D.9 expenditure (neutralised by a revenue from the EU) and any loan repayment in D.9 revenue (neutralised by a deduction to the revenue from the EU). The Bulgarian statistical authorities explained that these funds are recorded as any other EU expenditure and detailed data sources allow identifying all transactions or projects. Eurostat explained that a *Survey on the use of EU financial instruments* was launched recently by Eurostat and invited the Bulgarian statistical authorities to provide their answers. Eurostat took note that the approach used by Bulgaria is in line with the recording option c, proposed by Eurostat in this survey.

Next, Eurostat asked on how disallowances are recorded in national accounts, i.e. in these cases when the EU decides that a part of the amount paid to beneficiaries by government on behalf of the EU was not justified and had to be refunded or that a penalty has to be paid by Bulgaria. The Bulgarian statistical authorities explained that the necessary information is received directly from the funds and the adjustment is done on the expenditure side (in the case of fines) in the year when the EU decides not to reimburse certain expenditure. In this case, it would be recorded as national co-financing, i.e. as expenditure with an impact on B.9. The cases of disallowances are mainly related to agriculture.

Finally, Eurostat invited the NSI to provide supplementary information on EU flows (supplementary ESA table 2).

Findings and conclusions

Action point 25: Based on the discussions held in the meeting, Eurostat will design a template for the information on EU flows, in consultation with the Bulgarian statistical authorities, to be regularly provided to Eurostat along with the EDP notification tables.

Deadline: 10 September 2018[25]

Action point 26: The Bulgarian statistical authorities agreed to send the supplementary information on EU flows (supplementary ESA table 2) to Eurostat.

Deadline: end-December 2018[26]

[25] The template will be designed in 2019. Nevertheless, the Bulgarian statistical authorities are already providing additional information in April and October EDP notifications.

[26] The first data was provided and the Supplementary ESA table 2 was transmitted in March 2019.

4.2.4 Military equipment expenditure

Introduction

The NSI records expenditure for the acquisition of military equipment at the time of delivery, which is close to cash, according to the Bulgarian statistical authorities. Leasing operations for the acquisition of military weapon systems are treated as financial leasing. The source data used are the balance sheets of the Ministry of Defence.

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

Discussion and methodological analysis

The NSI confirmed that expenditure for the acquisition of military equipment is recorded on a delivery basis, which in Bulgaria equals cash for all years. The NSI also confirmed that all military equipment is captured in the WB and underlined that the amounts involved are very small. The cooperation between the NSI and the MoF is very good. In the future, it is foreseen an increase of the military expenditure due to the purchase of Eurofighters. Eurostat invited the NSI to closely monitor the recording in national accounts, in particular in the case of pre-payments.

Then, Eurostat explained that differences have been identified on the reporting of military expenditure between the Table 7 of the Questionnaire relating to the EDP tables and COFOG data and asked the NSI to explain the differences. The NSI agreed to investigate these differences.

Findings and conclusions

Action point 27: The Bulgarian statistical authorities will investigate on the differences concerning military equipment expenditure between the Table 7 of the Questionnaire relating to the EDP tables and COFOG data.

Deadline: end-June 2018[27]

4.2.4. Court decisions with impact on government accounts

Under this point of the agenda, the Bulgarian statistical authorities explained that there are currently no open court cases with a possible impact on government accounts.

[27] A note was provided on 29 June 2018.

4.2.5 Gross fixed capital formation (GFCF)

Introduction

Under this point of the agenda, the time of recording of the GFCF in national accounts was discussed in detail.

Discussion and methodological analysis

The Bulgarian statistical authorities explained that GFCF is recorded on a cash basis and no accrual adjustment is done. According to the NSI, cash equals accrual for budgetary units.

Firstly, Eurostat enquired about the data sources used for GFCF. The NSI explained that budget data (cash) are used for budgetary units, while annual reports data (accruals) are used for public corporations, classified in S.13.

As regards the accrual adjustments of public corporations classified inside the general government (S.13), the NSI explained that a special questionnaire on GFCF is used. Eurostat asked to receive the template of this questionnaire.

Regarding budgetary units, Eurostat questioned why accrual data from the General ledger are not being used. The Bulgarian statistical authorities explained that, in the past, cash data were more reliable and accurate, but acknowledge that the situation has improved. The NSI further explained that they are currently discussing with the MoF the possibility to create a model in order to calculate the accruals also for budgetary units.

At this stage, the NSI makes all the accrual adjustments via Other accounts payable under the category D.7 (current transfers). With this practice in place, the B.9 is correct, while the individual categories (P.2 – *Intermediate consumption*, P.51 – *Gross fixed capital formation*, etc.) are not allocated correctly in line with the economic reality. Eurostat asked the NSI to split Other accounts payable across different appropriate national accounts categories rather than allocating them fully under D.7, as it is currently the case.

In addition, Eurostat encouraged the NSI to examine the possibility of using direct information from the general ledger in order to derive P.51 on an accrual basis for budgetary units, in order to cross check the cash data adjusted for Other accounts payable.

Findings and conclusions

Action point 22: The Bulgarian statistical authorities agreed to provide the template of the questionnaire on *Gross fixed capital formation* (GFCF) used for the accrual adjustments of public corporations classified inside S.13.

Deadline: end-June 2018[28]

[28] The template was provided on 29 June 2018.

Action point 23: Eurostat asked the Bulgarian statistical authorities to split *Other accounts payable* across different appropriate national accounts categories (P.2 – *Intermediate consumption*, P.51 – *Gross fixed capital formation, etc.* rather than allocating them fully under D.7 – *Other current transfers,* as it is currently the case) i.e. to make the correct statistical allocation according to reality.

Deadline: end-December 2018[29]

Action point 24: The Bulgarian statistical authorities will also examine the possibility of using direct information from the general ledger to derive P.51 (*Gross fixed capital formation)* on an accrual basis for budgetary units, in order to cross check with the cash data adjusted for Other accounts payable (*see Action point 23).*

Deadline: end-December 2018[30]

4.3 Recording of specific government transactions

4.3.1 Public Private Partnership, concessions and energy performance contracts

Introduction

In 2013, the Public-Private Partnership Act entered into force. Under this Act, a PPP is defined as a long-term (between 5 and 35 years) contract between public and private partner(s) with the main aim to implement projects of public interest by obtaining better value from public resources and allocating risks between partners. The project can be financed wholly or partially by the private partner. The private partner should always bear the construction risk and at least one of the two other risks, availability risk and/or demand risk. The private partner gets a rate of return through availability payments made by government.

Discussion and methodological analysis

The NSI confirmed that currently no PPPs exist in Bulgaria and are not foreseen in the near future. Regarding concessions, the NSI explained that no new concessions have been signed since the last EDP dialogue visit and confirmed that all concessionaires are private companies. The concession income is spread over the economic life of the assets as rent (D.45). The concessions are analysed by the NSI.

As regards the energy performance contracts (EPCs), the NSI explained that they are not aware of any new contracts. However, in the past, several ones existed and are coming to the end in 2018. Presently, government is rather using direct subsidies than EPCs.

Findings and conclusions

Eurostat took note of these explanations.

[29] The issue is currently discussed with Eurostat.
[30] The issue is currently discussed with Eurostat

4.3.2 Guarantees

Introduction

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

The Bulgarian statistical authorities provided the list of outstanding guarantees provided by the central government and its repayments by individual companies for years 2014-2017.

Standardized guarantees cover State guarantees for Student Loan Program. In line with the *Student and Doctoral-Candidate Loans Act,* the State shall provide financial support to students and doctoral candidates. The debt of students and doctoral candidates shall be guaranteed by the State and shall constitute an obligation of the government only in the cases where the Council of Ministers has issued guarantees on behalf and for the account of the State in compliance with the requirements of the Constitution and the Government Debt Act.

Discussion and methodological analysis

The NSI confirmed that guarantee calls are recorded in public accounts. They also confirmed that the *three calls rule* is applied, i.e. repeated calls on a guarantee over three successive years lead in the third year to the entirety of the remaining guarantee being treated as if called.

Eurostat enquired about guarantees provided by the local government sub-sector. The NSI explained that guarantees are provided only to hospitals, which are all classified inside the general government.

Eurostat recalled that, in line with the conclusion under the item 4.1.3 (*see Action point 12*), the government guarantee to the Bulgarian Development Bank (BDB) should be excluded from Table 9 of the Questionnaire related to the EDP tables, as the amount guaranteed by government is to be recorded as government debt.

When analysing the annual account of the public entity *Natsionalna elektricheska kompaniya (NEK),* Eurostat noted that the debt reported in the *Ad-hoc table on debt of companies benefiting from government guarantees* does not seem to correspond to the figures reported in the annual accounts of NEK. The NSI agreed to correct it and resend the table.

Finally, the issue of standardised guarantees was discussed in more detail. Eurostat took note that the liability (AF.66), which equals the present value of expected calls (net of any recoveries that could be received), will be increased in 2018 to 2 million BGN. However, Eurostat also noted that the Table 9.4 on standardised guarantees of the Questionnaire relating to the EDP notification tables is not fully filled in. In particular, the columns 3-6 should be filled in and the column 4 is expected to be equal to the provision.

Findings and conclusions

Action point 31: The guarantee provided by the government to the Bulgarian Development Bank (BDB) should be excluded from Table 9 of the Questionnaire related to the EDP tables, as the amount guaranteed is to be recorded as government debt (see Action point 12).

Deadline: by the October 2018 EDP notification[31]

Action point 32: The Bulgarian statistical authorities will update the ad-hoc table on debt of companies benefiting from government guarantees, notably for *Natsionalna elektricheska kompaniya* (NEK), and resend it to Eurostat.

Deadline: end-June 2018[32]

Action point 33: The Bulgarian statistical authorities will revise the Table 9.4 on standardised guarantees of the Questionnaire relating to the EDP notification tables, in line with the discussions held in the meeting.

Deadline: by the October 2018 EDP notification[33]

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

Introduction

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

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

The participants of the meeting reviewed the data on government claims and debt assumptions by government for the years 2014-2017, submitted by the Bulgarian statistical authorities before the visit.

Discussion and methodological analysis

NSI uses direct data sources from the annual balance sheets of units. Information on debt cancellations, stocks and accrued interest revenue is available for all government sub-sectors. The amount of debt cancellation includes also interest accrued. The NSI confirmed that there had been no new cases of debt cancellations and debt write-offs in recent years.

Under this point of the agenda, the government loan to a public unit, NEK (*Natsionalna Elektricheska Kompania*), was discussed in detail. On 30 November 2016, the Bulgarian

[31] This was implemented in the context of the October 2018 EDP notification.
[32] The updated table was provided on 29 June 2018.
[33] This was done in the context of the 2018 EDP notification

government approved a €601.6 million (1.2 billion BGN) payment as an additional state budget payment to be provided to NEK through its sole shareholder, the Ministry of Energy. The payment was provided to NEK in the form of an interest-free (7- year) unsecured shareholder loan (to be repaid not later than December 2023).

The Bulgarian statistical authorities explained that the loan was provided for acquisition of equipment (related to the *Belene nuclear power plant*) and not to cover losses. Eurostat examined the annual accounts of NEK and remarked that net assets were not negative in 2016, although it seems that the company faces difficulties in the repayment of its liabilities. The Bulgarian statistical authorities explained that several amendments to the legal and regulatory framework in 2015-2016 have been introduced, which should result in an increase of NEK's revenues in the future. It was also observed that, in the annual accounts of NEK, about 75 % of this loan is dedicated to the acquisition of equipment and the remaining 25 % is attributable to lawyer fees.

Eurostat took note that NEK is a loss making company with positive net assets and with a high debt. The MGDD as well as ESA 2010 para 20.121 allows, in specific cases, that such loans could be recorded as a capital transfer (D.9) with an impact on government deficit, given evidence that the loan would not be repaid. Nevertheless, at this stage there is no strong evidence that the loan would not be repaid. Thus, Eurostat provisionally agreed that it could be recorded as a loan (F.4) in national accounts. However, the Bulgarian statistical authorities should closely follow the situation and report to Eurostat in case of any change or new information, which might impact the recording in national accounts.

In addition, the Bulgarian statistical authorities explained that the Parliament voted for the possible privatisation of the *Belene project*, held by NEK. If this would be the case, part of the proceeds from the privatisation would be used for the repayment of the loan.

Findings and conclusions

Eurostat provisionally agreed that the government loan provided to NEK could remain recorded as a loan (F.4) in national accounts. However, the Bulgarian statistical authorities should closely monitor the situation and report to Eurostat in case of any changes, which might impact the recording in national accounts.

4.3.4 Capital injections in public corporations, dividends, privatization

Introduction

Prior to the meeting, the NSI provided a list of capital injections for the period 2014-2017 by beneficiary and their treatment in national accounts, by sub-sectors, along with a list of dividends paid to government by individual companies and their profit.

Discussion and methodological analysis

The NSI explained that the data sources used are the cash reports of government units and additional information provided by the MoF. While the MoF provides the list of all capital injections, it is the NSI that decides on the nature of these capital injections in national accounts (i.e. financial versus non-financial). The necessary information is provided timely for April EDP notifications.

Then, the list of capital injections was discussed. The NSI confirmed that all capital injections are analysed according to the rules established in the MGDD. While most capitals injections in the central government sub-sector are recorded as financial transaction, they are mainly recorded as capital transfers in the local government sector. There are no capital injections in S.1314. So far, no capital injections in kind were identified.

The equity injections of the central government sector (S.1311) are mainly related to international banks. Eurostat noted a capital injection into the State Consolidated Company 2016, which is classified in S.1311. The NSI was asked to remove it from the list and from the EDP table 3B and the Table 10 of the Questionnaire related to EDP notification tables, as the amounts should be consolidated within S.1311.

Eurostat took note that, in line with Eurostat's recommendation, the amount reflecting the expected proceeds from the liquidation of the Corporate Commercial Bank (CCB), (855 million BGN) was recorded as a transaction in Equity (F.5) in 2014. It was recalled that a capital transfer of 1.5 billion euro was recorded in 2014, for the difference between the injection carried out to rescue CCB and the expected proceeds. Eurostat explained that the representation of the CCB rescue operation should be also correctly reflected in the Supplementary table on financial crisis, which seemed not to be the case. Eurostat asked the NSI to analyse whether the first estimate of 855 million BGN turned out to have been correctly estimated and what amounts have been already recovered so far. Eurostat proposed to collect all the necessary information on this rescue operation in order to decide on how this should be reflected in the Part 2 of the Supplementary table on financial crisis. Eurostat noted that filling part 3 of the Supplementary table will help in this endeavour.

Following this, the dividend policy was discussed in more detail. The main data sources on dividends received by government are the consolidated fiscal program and annual financial statements of public corporations. The NSI receives, from the NRA, detailed information on dividends paid per company. All dividends paid by public companies to government are analysed by the NSI. The difference between the dividend paid and the operating profit of the previous year are recorded as a reduction of *Shares and equity* (F.5) in the EDP table 3B and as a negative adjustment in the EDP table 2A under the line *Other adjustments* in order to neutralise the impact on government deficit. After analysing the formula used, Eurostat noted that the formula for the compilation of the super-dividend test should be reviewed by the NSI, in particular to take into account income taxes, but excluding the component arising from holding gains and other exceptional income.

Findings and conclusions

Action point 34: The 2016 equity injection into the public unit *State consolidation company* by 26 million BGN (classified inside S.13), should be removed from the EDP table 3B and from the Table 10 of the Questionnaire related to EDP notification tables.

Deadline: by the October 2018 EDP notification[34]

Action point 35: The Bulgarian statistical authorities will provide to Eurostat the recoveries (and the remaining claim) related to the Corporate Commercial Bank (CCB) rescue.

Deadline: end-June 2018[35]

Action point 36: In consultation with Eurostat, the Bulgarian statistical authorities will adapt the representation of the Corporate Commercial Bank (CCB) rescue operation in the Supplementary table on financial crisis (in particular in the part 2).

Deadline: 10 September 2018[36]

Action point 37: The Bulgarian statistical authorities will review their formula for the compilation of the super-dividend test, including the need to take into account income taxes (although excluding the component arising from holding gains and other exceptional income).

Deadline: 10 September 2018[37]

4.3.5. Emission permits

Introduction

Prior to the visit, the NSI provided the table on emission permits requested by Eurostat and in particular, the data on cash received and taxes (D.29 – Other taxes on production).

Discussion and methodological analysis

Eurostat noted that no data on taxes was provided. The NSI explained that, currently, ETS are not recorded as taxes, but as a sale of non-produced non-financial assets at the time when the sale takes place (on a cash basis). Eurostat said that the revenues for the emission permits should be recorded as taxes - Other taxes on production (D.29), in the year of surrender of the permits. Eurostat asked to change the current method and to record D.29 by using the average price or a time lag method. Eurostat also acknowledged that this issue is currently discussed in the EDPS WG and that it hoped that the result will be integrated in the forthcoming MGDD.

[34] The NSI clarified that there was no equity injection in the State consolidation company, but this company acquired equity.
[35] This information was provided on 29 June 2018.
[36] The NSI provided its proposal on 4 September 2018, which was discussed and provisionally agreed by Eurostat and it was reflected in the October 2018 EDP notification.
[37] The formula was adjusted accordingly and correctly reflected in the October 2018 EDP notification. The differences were negligible.

Findings and conclusions

Action point 38: The Bulgarian statistical authorities will change the Emission Trade Permits (ETS) reporting from NP (Acquisition less disposals of non–produced assets) to D.29 (Other taxes on production), using an average price method or a one-year time lag method (pending any final agreement of the EDPS WG on the method currently under review).

Deadline: by the October 2018 EDP notification[38]

4.3.6. Decommissioning costs

Introduction

The economic owner of the asset (operator of the plant) is the nuclear power plant *Kozloduy* (subsidiary of the Bulgarian Energy Holding), classified in S.11 (*Non-financial corporations*). The State Enterprise Radioactive Waste (SERW), classified in S.1311 (*central government sub-sector*), is responsible for carrying out the decommissioning of nuclear facilities as well as radioactive waste management.

Discussion and methodological analysis

The activities of SERW on decommissioning of nuclear facilities are financed by the *Kozloduy* International Decommissioning Support Fund (KIDSF) and by a national fund.

In addition, within the budget of the Ministry of Energy i.e. within the State budget (S.1311), two separate funds are established:

- The Nuclear Facilities Decommissioning Fund (FDNF) - for financing the decommissioning of nuclear facilities;
- The Radioactive Waste Fund (RWF) - for financing the radioactive waste management.

Regular contributions are made from the nuclear facility operator (*Kozloduy*) to FDNF. The Bulgarian statistical authorities explained that the level of the contributions is fixed in order to cover decommissioning costs at the end of the operating phase. If the provisions would prove to be insufficient to complete the decommissioning project, the primary responsibility to cover necessary costs would lie with the unit that last operated the nuclear facility.

Decommissioning costs are reported in the Annual Report of State Enterprise Radioactive Waste, and consequently included in the accounts of the central government sub-sector. Eurostat enquired whether the expenditure of the State Enterprise Radioactive Waste is capitalised in national accounts. The NSI explained that the capitalisation of expenditure has not been implemented yet. It is expected to be implemented in the forthcoming benchmark revision in 2019. In order to assess the possible impact on government consumption and GDP, Eurostat asked to receive the non-financial accounts of this unit.

[38] This Action point will be implemented in the forthcoming benchmarking revision in 2019. The revisions are expected to be negligible.

Then, Eurostat asked to receive information on the assets held by the two State budget funds, i.e. FDNF and RWF. Regarding the contributions paid by to these two funds, Eurostat underlined that, in line with the MGDD chapter III.7 *Impact on government account of transfer of decommissioning costs*, these contributions should be recorded as an advance (F.89) and not as revenue. The NSI agreed to adapt the recording, if necessary.

Findings and conclusions

Action point 28: The Bulgarian statistical authorities will provide the non-financial accounts of the public unit State Enterprise Radioactive Waste (classified in S.13). The Bulgarian statistical authorities will implement the capitalisation of the company`s expenditure (with full amortization in one year) as required by the national accounts rules (GNI), with an impact on government consumption and GDP.

Deadline: end-June 2018[39]

Action point 29: The Bulgarian statistical authorities will provide the information on assets held by the Nuclear Facilities Decommissioning Fund and the Radioactive Waste Fund (both classified in S.13).

Deadline: end-June 2018[40]

Action point 30: The Bulgarian statistical authorities will investigate how the contributions to the above-mentioned funds (see Action point 29) are recorded in national accounts. Following the forthcoming conclusions of the EDPS WG on the appropriate recording of such contributions, the Bulgarian statistical authorities will adapt their recording, where necessary.

Deadline: 15 September[41]

4.3.7 Others: Financial derivatives, Sale and leaseback operations, UMTS

Introduction

Eurostat enquired on financial derivatives, sale and leaseback operations and UMTS.

Discussion and methodological analysis

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

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[39] The required information was provided on 29 June 2018. The capitalisation of expenditure will be implemented in the forthcoming benchmark revision in 2019 (October 2019 EDP notification). The impact on GNI is expected to be negligible.

[40] The information was provided on 29 June 2019.

[41] The contributions to the above-mentioned funds are currently recorded as revenue and were correctly recorded as advance (F.89) for the year 2018 while the remaining years will be corrected in the forthcoming benchmark revision (October 2019 EDP notification).

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

Eurostat further enquired whether any 3G and 4G UMTS mobile phone licences have been recently granted by government. The NSI said that no license auction took place after the year 2011, with the exception of the increased license duration for 10 years for one of the operators in 2014. The one-off payment for this extension (60 million BGN) has not been spread yet over the duration of the license, i.e. from 2014 to 2024. It will be implemented with the next benchmark revision in 2019, in line with the 2017 Guidance on the recording of mobile phone licences.

Findings and conclusions

Eurostat took note of the explanations.

5. Other issues

No other issues

EDP dialogue visit to Bulgaria, 7-8 June 2018

Draft Agenda

1. Statistical organisational issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.2. Data sources and revision policy, EDP inventory

2. Follow-up of the EDP dialogue visit of 29 February - 1 March 2016

3. Follow-up of the April 2018 EDP reporting – analysis of EDP tables and the related questionnaires

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government

4.1.1. Changes in sector classification since the 2016 EDP visit

4.1.2. Application of the market/non-market test

– Railway companies

4.1.3. Follow-up of the sector classification of Bulgarian Energy Holding and Bulgarian Development Bank

4.1.4. Sector classification of units engaged in social housing

4.1.5. Government controlled entities classified outside general

4.2. Implementation of accrual principle

4.2.1. Accrual taxes and social contributions

4.2.2. Accrued interest

4.2.3. EU flows

4.2.4. Military expenditure

4.2.5. Court decisions with impact on government accounts

4.2.6 Gross fixed capital formation (GFCF)

4.3. Recording of specific government transactions

4.3.1. Public Private Partnership, concessions and energy performance contracts

4.3.2. Guarantees

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

4.3.4. Capital injections in public corporations, dividends, privatization

4.3.5. Emission permits

4.3.6. Decommissioning costs

4.3.7. Others: Financial derivatives, Sale and leaseback operations, UMTS

5. Other issues

5.1.1. ESA 2010 Transmission Programme

5.1.2. Any other business

EDP dialogue visit to Bulgaria, 7-8 June 2018

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