



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D-2: Excessive deficit procedure (EDP 1)

Luxembourg,

FINAL FINDINGS

EDP dialogue visit to Croatia

8-9 November 2018 (Part I)

13-14 December 2018 (Part II)

Executive summary

Eurostat undertook an EDP dialogue visit to Croatia on 8-9 November (Part I) and on 13-14 December (Part II) 2018, as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, to enquire on the existing and forthcoming situation with respect to source data, to review the implementation of ESA 2010 methodology, to analyse the recording of specific government transactions and to ensure that provisions from the ESA 2010, Manual on Government Deficit and Debt (MGDD) and recent Eurostat decisions are duly implemented in the Croatian EDP tables and national accounts.

Particular attention was given to the review the institutional responsibilities in the framework of the EDP/ GFS reporting and data sources; the delimitation of general government in the context of ESA 2010 and the classification of specific units; the calculation and reporting of Gross Fixed Capital Formation (GFCF) for the government sector; the accrual principle implementation in general and the recording of taxes and social contributions in particular. The points of the agenda, which could not be covered in the meeting on 8-9 November (Part I), were discussed during Part II of the meeting (13-14 December 2018).

As the major result of the dialogue visit, Eurostat observed *significant capacity issues* in relation to compilation of EDP/ GFS statistics in Croatia. This mainly concerns inadequate personnel resources,

inefficient compilation arrangements and insufficient coordination between the various parties involved. The discussions were rendered more difficult by the rotation of staff at the Croatian Bureau of Statistics (CBS).

Eurostat also took note of technical difficulties in the process of compiling data along the following dimensions:

- (a) Coverage (exhaustiveness) of source data in different versions transmitted as well as difficulties in communication on the coverage of the source data;
- (b) Timing of reporting: both concerning the reporting of the entities forming general government to the Ministry of Finance (MoF) as well as consequently the timing of the transmission of input data to the CBS and the Croatian National Bank (CNB);
- (c) Eurostat took note that data exchange between the MoF and the CBS/ CNB is currently slow due to technical constraints (CD-ROM delivery);
- (d) Eurostat took note that in the absence of automated bridge tables, the speed of compilation is unnecessarily slowed down, mainly because required statistical adjustments have not been independent from the input data, necessitating a comprehensive re-compilation every time new source data are delivered;
- (e) The statistical compilation is not fully integrated between non-financial and financial accounts resulting in statistical discrepancies.

The other main points discussed during the dialogue visit were the calculation and the frequent revisions of investment; the government measures undertaken in accordance with the 2017 Law on Procedures for Extraordinary Management in Companies of Systemic Significance for the restructuring of the Agrokor Holding; the guarantees provided to the formerly privatised Croatian shipyards and expected large calls on those guarantees during 2018 and 2019; the (forced) conversion of mortgage loans from Swiss francs into euro in accordance with a law enacted in 2015; the recording of EU flows and specifically of flows related to EU financial instruments; the recording of military equipment expenditure; and the recording of the assets related to large concession contracts (e.g. BINA ISTRRA motorway concession).

Furthermore, the discussion also focused on a number of specific GFS issues, like for example the methods employed in splitting subsidy (D.3) and property income (D.4); COFOG issues; compilation of Taxes on production and imports (D.2) and Current taxes on income (D.5), etc..

Other issues discussed included interest, financial derivatives, privatisation, emission permits, securitisation and sale and leaseback operations.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP standard dialogue visit to Croatia on 8-9 November (part I) and 13-14 December (part II) 2018.

In the first part of the visit, the delegation of Eurostat was headed by Mr Luca Ascoli, Acting Director of Directorate D [EDP and GFS] and Head of Unit D.1 [Excessive Deficit Procedure Methodology]. Eurostat was also represented by Ms Gita Bergere, Head of Unit D.2 [EDP 1], Ms Laura Wahrig [Team Leader for GFS], Mr Martim Assuncao and Mr Vassil Georgiev, EDP Country Desk officer [Croatia].

In the second (and final) part of the visit, the delegation of Eurostat was headed by Ms Gita Bergere, Head of Unit D.2 [EDP 1]. Eurostat was also represented by Mr Philippe de Rougemont, Team Leader for Methodology and EDP Supervisor [Croatia], Ms Laura Wahrig, Team Leader [GFS], Ms Daniela Ilavska, future EDP Country Desk officer [Croatia, from the first 2019 EDP notification] and Mr Vassil Georgiev, EDP Country Desk officer [Croatia].

Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in both parts as observers. The Croatian authorities were represented by CBS, the MoF and the CNB. Representatives from other ministries/agencies participated in the discussion for some points of the agenda as relevant.

The previous Eurostat EDP standard dialogue visit to Croatia took place on 18-20 January 2017.

Eurostat carried out this EDP standard dialogue visit in order to review the implementation of the ESA 2010 methodology and to ensure that provisions of the Eurostat MGDD and the Eurostat decisions are duly implemented in the Croatian EDP and GFS data.

The main objectives of the EDP standard dialogue visit were (1) to review institutional issues and data sources for the EDP/GFS data compilation, (2) to discuss the delimitation of general government in the context of ESA 2010 and the classification of specific units (groups of units), (3) to review the implementation of accrual principle such as the reporting of investment, interest, EU flows and other accounts receivable/ payable in EDP notification tables and related questionnaire. Among the outstanding action points of the previous dialogue visit, discussion focused on the reporting of gross fixed capital investment (GFCF), as well as on the capacity issues in relation to the compilation of GFS/EDP statistics.

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

1. Statistical institutional issues

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

Introduction

The institutional responsibilities have not changed since the last Eurostat EDP visit. Prior to the visit, the CBS sent an explanatory note (summarised in this introduction) on the institutional arrangements related to the compilation and reporting of GFS and EDP data. General government accounts and EDP tables are compiled by the CBS, the CNB and the MoF.

Croatian national EDP working group (EDP WG), which comprises experts from the CBS, CNB, MoF, the State Audit Office and the Agency for Investments and Competitiveness, meets several times a year (once or twice every quarter, and more often before/ during the EDP notifications) in order to discuss issues and facilitate the EDP reporting. Furthermore, apart from the national EDP working group, there exist two sub-committees with competence on specific EDP topics (e.g. on sector classification and on national accounts). Such sub-committees organise meetings on an ad-hoc basis, when issues on such specific EDP topics need to be resolved. In case of disagreement, the final decision is taken by the CBS. The working group was established via a Memorandum of Understanding signed in July 2013.

The ESA non-financial accounts, EDP tables and the reporting to Eurostat are the responsibility of CBS in cooperation with CNB and MoF. Financial accounts data and Maastricht debt compiled by the CNB are used in EDP tables 1, 3 and 4. Planned figures for EDP reporting are prepared by the MoF.

CBS have been compiling EDP data as the official responsible institution since the October 2013 EDP notification (for the periods since 2009). In several previous years the EDP data were compiled by the MoF. EDP reporting is planned every year as part of the Annual Implementation Plan of Statistical Activities. The Financial Agency 'FINA', which is a public corporation classified in the non-financial corporations sector (S.11), has the important role of collecting and disseminating financial data from various units included in the general government sector.

Discussion and methodological analysis

The discussion was opened by the Director General of the CBS, who reiterated the problem of a significant understaffing at the CBS and the ensuing combination of a heavy work load/ relatively sub-par compensation of the CBS staff involved in EDP reporting and national accounts statistics in general. Reorganisation is under way to create a few new units within CBS, including, importantly, a dedicated EDP-only unit, which had not existed thus far. This re-organisation proposal was expected to be complete by the end of 2018, after which the prescribed procedure for central government bodies of passing the Regulation on internal structure by the Government of the Republic of Croatia was to be performed. Cross-domain consistency issues, in particular with regard to EDP and national accounts, have persisted (existing derogation with regard to the compilation of sector and GNI accounts).

During Part II of the meeting, the Director General of the CBS informed Eurostat that a critical situation in the personnel resources in the statistical office would partially be resolved by re-occupying a vacant post by an expert already experienced in the EDP/GFS statistics. The change would become effective in January 2019. Eurostat took note of this information and enquired further about the institutional arrangements, adequacy of resources and compilation procedures used by the Croatian

statistical authorities. The CNB was asked to comment on the current situation. The Vicegovernor of the CNB expressed full support to initiatives that could contribute to strengthening the inter-institutional cooperation and quality of data. Concerning the situation in the CNB, he considered the staff resources devoted to EDP/GFS statistics as sufficient at the moment and announced an additional post that would be created in the context of planned accession of Croatia to euro area. On the issue of the cooperation and coordination between institutions, he considered the current situation as adequate, however, still with room for improvement. Some drawbacks were observed mainly in the implementation in practice of the provisions of the Memorandum of Understanding.

The discussion focused on the Financial Agency 'FINA', which provides an important input data source for the EDP notification tables. FINA data of financial reports on budgetary accounting is based on the *modified accrual principle*: revenue is recorded in the reporting period at the time it is available (measurable) and the expenditure is recorded based on the occurrence of obligations, independently of their payment. In other words, expenditure is on a modified accrual basis (GFCF is included, while capital consumption/ depreciation is not), while revenue is primarily on a cash basis.

The predominant part of the FINA reports contains detailed revenue and expenditure items (named 'PR-RAS'¹ report with approximately 1000 reporting lines). FINA data also includes a balance sheet report (of approximately 300 line items). Direct cash flow statement is not included in the current FINA reports, it can be inferred from the PR-RAS and balance sheet items (by utilising the indirect method for creating cash flow statements). Eurostat recommended that the Croatian EDP working group discuss potential changes to the FINA reports, in order to enable quicker compilation of cash flow statements, while also introducing enhanced data quality checks.

The CBS has also reiterated that a number of different surveys are being used in order to compile data. An example of such surveys is the INVp survey, which is used for the compilation of investment data (gross fixed capital formation data). Financial transactions can also be derived from the budgetary accounting and the monetary statistics. The CBS informed that the elimination of discrepancies in financial transactions had proved to be a significant problem, having in mind the large number of unconsolidated unit reports (3700+). Eurostat acknowledged the existing institutional responsibilities and pointed the attention towards the data issues, which have been continuously noted (during EDP notifications and in correspondence).

Such data issues exist alongside several major dimensions: data coverage (e.g. missing data on units included in the local government); quality of reported data (implausibility, discrepancies to other known sources, such e.g. as the INVp investment survey); timing (late dissemination of data and frequent database changes, with changes often necessitating comprehensive re-compiling efforts); and lack of appropriate technical solutions for the data exchange among the national statistical authorities. Eurostat shared the experience of other countries, where fines are imposed on units (managers of units) which send their financial data beyond set deadlines.

Some improvements would also be welcome in the area of data compilation and automatization of procedures. In this relation, the Croatian statistical authorities mentioned an IT project financed from EU funds and aimed at the statistical and financial data reporting. The expected outcomes of the project are bridge tables for part of general government units with accounting types different from the

¹ Translated from Croatian language, PR-RAS means Costs' a report on Revenues and Expenditures, Inflows and Outlays

budgetary type, which would enable them to provide plans and financial statements also on budgetary accounting principles, and the IT solution that would gradually replace the current provision of financial statements from FINA by a centralised collection of data directly from reporting units. It was clarified by the Croatian statistical authorities that such project was aimed at the improvement of the technical aspect of the data collection rather 'Incomes-Costs' than of data quality. The CNB claimed that this project still did not foresee any access to individual data collected in the database², instead of aggregated financial reports currently used, that would contribute to the quality of compiled data and allow understanding the application of accounting rules. Eurostat recommended to review the project documentation and parameters of the IT project led by the MoF, which is currently in the evaluation phase, and to include changes that would allow an access to sufficiently detailed data.

Eurostat enquired about possible ways to obtain individual data (for example from the general ledger) since the system did not currently allow access by neither CBS nor CNB. It was explained that in such cases, the MoF procures this information (which may not be in the FINA reports) from other data sources, using specialised queries which take more time to write and execute. Eurostat underlined the importance of the access to individual data sources, such as the general ledger³, in order to have consistent and coherent data and analytic tools for specific cases such as identification of long-term trade credits, capital injection testing, super dividends, identification of beneficiaries for loans granted by government units, beneficiaries of EU flows, etc.

The Croatian statistical authorities further explained that financial reports are usually delivered by post with an accompanying letter. The deadline for reporting units is the last day of February and FINA needs 2 days to process the data. The first delivery by FINA to the MoF and later on to CBS and CNB is in the beginning of March, followed by usually another two updated deliveries. As explained in the meeting, mainly the CBS and CNB representatives would welcome an earlier delivery of data that would considerably speed up the data compilation. The MoF thought that situation should improve with the introduction of the online access to the database.

Eurostat also inquired about the system of control applied to the timeliness for the delivery of the reports, from the original data source/ compilers to the EDP experts within the CBS. Such systems appear inadequate, as witnessed by the experienced intra-institution reporting delays. Eurostat pointed out that an incentive system has been introduced in other EU member states, whereby sometimes institutions are legally required to furnish data within set time limits, examples were provided. The Croatian statistical authorities undertook to consider the introduction of an incentive/ control system, in order to improve the timeliness of the reports.

Discussion also focused on the budgetary units belonging to the local government sector occasionally missing from the working balance reported in the EDP table 2C because of those units' omitting or being late to report in a certain reporting period. The Croatian statistical authorities explained that such cases happen very rarely. Eurostat emphasised that any adjustments for those units have to be disclosed in the EDP tables 2 in the specific line "*Non-financial transactions not included in the working balance*" and should not be applied at the level of the working balance. The working balance reported in the EDP tables 2 is to be consistent with the balance of official financial reports in case of local government or with the balance of the State Budget voted in the Parliament in the case of the central government.

² The MoF later explained that access to individual data in the database is foreseen, and the project documentation in the current phase – public procurement of consulting services – is such that it does not limit the future requests of the users of the application. With regard to the types of financial reports, their content, submitting deadlines etc., they are defined by legal acts.

³ The CBS/ CNB objected that there are 3700+ budgetary units, which makes the suggestion very difficult to apply (in addition to legal authorization hurdles)

Findings and conclusions

AP 1. Eurostat stressed the importance of ensuring sufficient personnel resources for EDP/GFS compilation, including ensuring minimal EDP/GFS methodological capacity at the CBS, a point already mentioned in the January 2017 SDV. Eurostat observed significant staff turnover within the CBS, with detrimental effect on the quality of EDP/GFS reporting (e.g. lack of institutional memory) and encouraged the statistical authorities to organise themselves in order to address those problems (e.g. by documentation of procedures).

Deadline: continuous, with semi-annual reporting along with EDP notifications⁴

AP 2. The Croatian statistical authorities will make an effort to speed up the delivery of source data to various compilers, including delivering the CD-ROM by hand instead or in addition to the current procedure and will inform Eurostat on the solution applied.

Deadline: April 2019 EDP notification⁵

AP 3. While Eurostat was informed of the existence of routine exchanges at working level, it felt that the Croatian statistical authorities needed to ensure adequate co-ordination in order to facilitate the timeliness and the quality of EDP/GFS reporting, particularly in respect of data exchanges (e.g. access to sufficiently detailed source data). To this effect, Eurostat recommended that the MoF services in charge of the project 'Financial and statistical reporting' on the IT system for financial statements compilation (currently in its evaluation phase) consult the national EDP working group participants in order to collect their needs. The Croatian statistical authorities will inform Eurostat about the progress.

Deadline: June 2019⁶

AP 4. The MoF should communicate to the statistical compilers (CBS / CNB), in a clear and timely manner, information on newly included units (e.g. budgetary/ reporting units), units that have disappeared, as well as units that have failed to report data, along with any other meta-data.

Deadline: before and during each compilation round, progress note by 31 March 2019⁷

AP 5. The Croatian statistical authorities will report to Eurostat the coverage achieved in the reported statistics, e.g. for local government, during the April notifications, and ensure that statistical adjustments are carried out. Such coverage adjustments should result in EDP tables 2 adjustments, typically in the section '*Non-financial transactions not included in the working balance*'. Such coverage adjustments shall not be done at the level of the working balance.

⁴ The Croatian statistical authorities sent a progress note on 30 September 2019.

⁵ The Croatian statistical authorities sent a progress note on 30 September 2019. The Croatian statistical authorities reported during the April 2019 notification that all deliveries of source data (CD-rom with the database containing financial reports of local units and budgetary and extra-budgetary users) were delivered to CBS and CNB in accordance with the deadlines defined by CBS.

⁶ The Croatian statistical authorities sent a note on 9 October 2019, explaining the progress in the implementation of the project.

⁷ According to the note sent on 9 October 2019, the MOF prepared a detailed document explaining changes that was provided to other statistical authorities alongside with data. Eurostat was informed that this practise will continue in the future.

Deadline: before and during each compilation round

Deadline for the note: 31 March 2019

AP 6. The Croatian statistical authorities will develop a strategy over the medium term designed to allow access to individual raw data (e.g. general ledger of spending units) to national EDP working group participants and report to Eurostat.

Deadline for a progress report: June 2019, after which continuous

AP 7. The Croatian statistical authorities will reflect on the apparent lack of incentives for reporting entities to send input in a timely and complete manner to the MoF, also possibly envisaging solutions of a legal nature.

Deadline: 30 June 2019 for a progress report

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

Introduction

The MoF and the CNB provide the primary **data sources for the compilation of Maastricht debt**. The MoF is responsible for data related to treasury bills, bonds (domestic and international issuance), foreign loans, debt of other (central and local) government units, as well as non-financial corporations classified in the general government sector according to ESA 2010 rules. The CNB is responsible for data/ adjustments related to loans to general government units provided by resident banks and HBOR (the Croatian Bank for Reconstruction and Development, which is classified inside general government). According to the EDP Inventory, these sources provide full ESA 2010 coverage of debt instruments and of general government institutional units.

The MoF provides monthly data on issued debt securities and foreign loans approximately 10 days after the end of reporting month. The Monetary and Banking Statistics Collecting System of the CNB (reporting on institutional unit level) provides monthly data on loans from domestic credit institutions, HBOR and CNB (preliminary data 6 days and final data 42 days after the end of reporting month). The MoF also provides documentation on issued state guarantees and the Monetary and Banking Statistics Collecting System of the CNB provides monthly data on stock of general government guaranteed debt of institutional units outside general government.

Additionally, the MoF provides monthly data on guarantee calls, which is used for monitoring the number of calls for decision making on debt assumption according to the 3rd call rule and also provides documentation in case of contractual debt assumption. The timeliness of data sources provides for actual data to be used for the compilation of Maastricht debt for the April EDP notification, so the revision after the first notification is done only exceptionally.

With regard to the **compilation of the general government deficit/ surplus**, the main data source for units on budgetary accounting is the financial reports – FINA PR-RAS statements (profit and loss accounts) which are based on the modified accrual basis or so called mixed accounting basis, as well as changes in balance sheet accounts. This data source is available for the April notification in a preliminary form. The same detailed data are used for production accounts for GNI/GDP compilation

purposes at activity level. According to Article 104 of the Budget Act, the recognition of revenue, receipts, expenditure and expenses is based on the modified accrual accounting principle. The valuation of assets, liabilities and equity is performed on modified accrual principle, applying the method of historical cost. Furthermore, the Ordinance on budgetary accounting and chart of accounts specify that: - revenues are recognized in the reporting period in which they are received, provided that they are measurable; - expenditure are recognized when they incur in the reporting period, regardless of whether they are actually paid; - depreciation of non-financial long-term assets – not recognized as an expense; recorded as an adjustment of the value of assets in the balance sheet.

Discussion and methodological analysis

Eurostat recalled that the revision policy, which CBS committed to publish on its website (as a conclusion from the EDP dialogue visit in January 2017), was actually not published. The discussion focused on delays and technical problems, experienced in the ‘bridging’ between source data and EDP reporting. Frequent intermediate revisions in source data (sometimes even very close to EDP reporting deadlines) have been causing multiple re-calculations and re-compilation efforts. Eurostat pointed out that these processes are not only sub-optimal, but are also prone to errors. Eurostat advised that a proper automated bridge-table system with checks and balances should be contemplated and implemented, either in the form of an improvement to the current processing of source data, or as a new optimised system. Some specific FINA report items were also discussed. It was noted that the FINA trade credit lines were lacking maturity-split detail.

Eurostat enquired about the use of such cash flow statements, especially with regard to the compilation of specific B.9 components, such for example as the GFCF spending. During the discussion it transpired that often cash flow information was missing. Eurostat emphasized the importance of cash flow information, as well as information on group 9 from the general ledger, as additional quality checks for data collected in statistical surveys. In this context, also the action point 9⁸ from the 2017 EDP dialogue visit was recalled, requesting the Croatian statistical authorities to introduce a fully consistent and reconciled system (so-called closed system) of financial reports. The MoF explained that a complete reconciliation between stocks and flows was currently not possible due to technical constraints. The number of lines in the reporting templates is limited and thus mainly the accounts in group 9 are not included in the financial reports. Eurostat was concerned about the lack of progress on this action point and particularly about the disruption of cash flow reporting for local government units.

Eurostat also enquired about the existence and practical use of bridge tables for the compilation of EDP/GFS data and recalled the significant differences between GFS/ESA tables and EDP tables that are still being observed. From the explanation provided in the meeting, it was clear that no automated bridge tables existed under ESA 2010. Eurostat wondered how the transition from public accounts to EDP/GFS statistics could be carried out without using such bridge tables and stressed their crucial role in the correct classification of transactions/stocks and data compilation process. The Croatian statistical authorities were therefore urged to provide Eurostat with the bridge tables, in particular from the general ledger to ESA categories and from FINA reports to ESA categories.

⁸ AP 9 from the 2017 SDV: The Accounting Office will examine, in cooperation with the CBS and CNB how the FINA ‘inflow and outflow statement’ can be complemented in order to obtain a closed system. In the meantime, the national EDP working group will examine how the current inflow and outflow statement and balance sheet information in FINA database can be used to approximate a closed system. On this basis, a compilation of a “gap” (discrepancy in accounting terms) will be calculated.

a) S.1311 main unit (State budget) and other units of the central government sub-sector

The CBS clarified that the central government sub-sector is composed of budgetary users and extra-budgetary users, as well as non-market public corporations (among others, the Croatian Railways Infrastructure and the recently re-classified Railway Passenger Services, Croatian Radio Television, Croatian Motorways and the Rijeka-Zagreb Motorway). Detail is available in the EDP Inventory.

All legal entities on budgetary accounting prepare financial reports submitted to FINA, comprising, among others, the PR-RAS (incomes-costs type) statement (of approximately 1000 reporting lines) and a balance sheet (approximately 300 reporting lines). A unit within the government according to the ESA terms, is an extra-budgetary user according to the Budget Act and should submit financial reports following the common template, in addition to (e.g.) business accounting financial statements. The MoF recalled that the report on the budget execution provided an appropriate equivalent to a cash flow statement (which is absent in the FINA reporting). For several years the MoF has been involved in building bridge tables, in order to translate the transactions from business accounting into national accounts terms and principles. Frequent changes in the bridge tables have also been related to intermediate revisions in source data.

b) S.1313 local government sub-sector

The main data sources for the compilation of non-financial accounts for the local government subsector are also the FINA financial reports for all the units in the local government sub-sector. The MoF informed that significant issues have been experienced with the timeliness and the quality of the data submitted by local government units to FINA. Data/ unit coverage also needs to be continuously reviewed. The use of statistical surveys was also discussed for both central and local government, specifically mentioning the INVp survey used to compile investment data. The missing cash flow data problem, as noted in the beginning of the discussion, has been especially acute in local government unit reporting.

The discussion focused on the fact that some of the local government units (e.g. kindergardens, libraries, schools) submit their financial data very late and often with errors, which adds significantly to the time needed to process the information. Eurostat enquired about the materiality of such missing/ or potentially incorrect data, and the MoF informed that it could, on occasions, be in material amounts (the observed more significant errors were mostly with the local/ regional government reports, a few local governments were often late in reporting). Eurostat emphasized that any materially important information should be notified without undue delays, even if such information becomes available outside of the usual EDP notification cycles.

c) S.1314 social security funds

The Croatian statistical authorities explained that, at a former request by Eurostat, the subsector social security funds was separated from S.1311 (including three units: the Croatian Pension Insurance Administration (HZMO), the Croatian Institute for Health Insurance (HZZO) and the Croatian Employment Service (HZZ)).

Findings and conclusions

AP 8. Eurostat recommended that the Croatian statistical authorities review the ordinance on financial reporting in budgetary accounting, with a view to complement the current FINA reporting, in order to achieve a so-called 'closed system' reporting. This will entail reporting (1) group 9 of the general

ledger, among others, in order to allow proper reconciling between profit & loss and balance sheet statements; (2) missing cash flow information, in order to have a complete cash flow reporting, notably to be used for the financial account compilation, a suggestion already advised in the 2017 SDV [AP 9 of the 2017 SDV]. Unfortunately, Eurostat noted the recent disruption of cash flow reporting related to local governments.

*Deadline: June 2019 for a progress report*⁹

AP 9. The Croatian statistical authorities will implement technical solutions, such as e.g. automated bridge tables, in order to cope with intermediate revisions in source data.

Deadline: 31 August 2019 for the implementation, progress report by 31 March 2019

AP 10. The Croatian statistical authorities will provide Eurostat with bridge tables, which should notably concern the transition (1) from general ledger to ESA 2010 categories and (2) from FINA lines (e.g. PR-RAS, balance sheet, P1/P2) to ESA 2010 categories. The Croatian statistical authorities will provide a note explaining the level of automation currently existing in the exploitation of bridge tables, as well as existing practical arrangements (e.g. Excel compilations, etc.).

*Deadline: 31 March 2019*¹⁰

AP 11. The Croatian statistical authorities will examine the possibility to include, in FINA reporting, the maturity-split of trade credit items (in the balance sheet report).

*Deadline: June 2019 EDP notification for a progress report*¹¹

1.2.2. Compliance with Council Directive 2011/85

Introduction

Data collected in the context of the Directive 2011/85 are published on CBS website since end-January 2017. Croatia is one of few EU countries, which have never reported data on non-performing loans (NPLs).

The Croatian State Audit Office (SAO) is responsible for the audit of the bodies classified in general government and for the companies and other legal entities in which the Republic of Croatia holds the majority of shares. It is also responsible for the audit of the use of EU funds and other funds granted by the other international organizations. The audits are performed according to the SAO's annual plan, which includes units classified in General Government which are audited each year. The audit of the units classified in the public sector (e.g. Croatian Railway Infrastructure Company, Croatian Radio-Television) is decided based on the performed risk assessment, the financial significance of the entities, the results of previous audit, etc. After the audit is completed, the findings are publicly

⁹ In January 2019 the Ministry of Finance delivered the explanation of reasons for discontinuing cash flow reports. It was decided, considering pros and cons of different approaches, to apply decentralised approach in establishing and development of budgetary accounting.

¹⁰ The bridge tables with complementary information were sent to Eurostat on 23 September 2019.

¹¹ The progress report was provided on 23 September 2019.

available on the website of the State Audit Office. SAO is also included in the EDP working group since 2016.

Discussion and methodological analysis

The Croatian statistical authorities informed Eurostat that they queried a number of units and concluded that there are no *standardised guarantees* issued by the government sector units in Croatia (as seen in EDP Questionnaire Table 9.4).

CNB has proposed new analytical survey aimed at resolving the issues with the general problem of compiling data on instrument loans (F.4 asset side) and the data for NPLs in particular. The survey aims to obtain quarterly analytical i.e. disaggregated data of the units, which submit main FINA reports for budgets, budgetary and extra budgetary users. The intention is that new survey provides metadata on the loans: i.e. precisely identify AF.4 instruments; calculate EDP inter-subsectoral debt for consolidation purposes; make capital injection test for the loans provided to the public corporations (i.e. to compile capital transfers); improve the data quality for debt cancellation transactions; quality improvement and consolidation of interest receivables; calculate financial transactions and exchange rates adjustments; and calculate NPLs. The MoF is now expected to adopt the survey and to start the production of the reports.

As informed in the October 2018 EDP notification requests for clarification, the survey was agreed within the national EDP WG, however it is now the MoF which needs to facilitate the carrying out of the survey among government units. Some issues with data consolidation were being experienced.

For the lack of NPLs reporting problem, it was agreed that a short term solution will be sought, whereby data from some of the larger (mostly financial) units like HBOR and HAMAG will be reported only. As a long term solution, NPLs data should be incorporated in the FINA reporting (which should, as a matter of principle, include useful elements not only of profit and loss type of reporting, but also data of the expanded balance-sheet and cash-flow statement type). The FINA reports by units should enable the compilation and the consolidation of profit and loss statements, balance sheets and cash flow statements at a meaningful level of granularity. The budgetary chart of accounts should also be reviewed and expanded, in this context. The MoF informed that the latter could only be done in the second half of 2019, since the 2019 budgetary chart of accounts has already been reviewed and agreed as of November-December 2018.

The discussion also focused on the (audited) financial reports of several specific units, among which DAB, HROTE, HERA, the Fund for Environmental Protection and Energy Efficiency, Croatian Roads, Croatian Motorways, Radio Television, Railway Infrastructure, and Railway Passenger Services (HŽPP). CBS informed that the results of audits/ internal controls for the units classified in S.13 were being used by the statistical authorities to amend data. The systematic exchange of relevant EDP/ GFS information between CBS (CNB) and SAO needs however to be improved further.

Some delays in the publication of the questionnaire related to government-controlled entities classified outside general government were also discussed. With regard to PPPs, the list of off-balance-sheet PPPs (mostly old PPP transactions) was reviewed.

Findings and conclusions

AP 13. With regard to the data published in the context of the Directive 2011/85, Eurostat noted that data on contingent liabilities for 2017 have not been published on the CBS website. The Croatian statistical authorities committed to publish the data as soon as possible.

Deadline: as soon as possible¹²

AP 14. In relation to the observed lack of data on NPLs, the Croatian statistical authorities should take the necessary steps to ensure the availability of NPLs data, in the medium term, either by extending the FINA reports or by introducing an ad-hoc template for both central and local governments. In the short term, an ad-hoc collection of data from HBOR and HAMAG could be used to extrapolate NPLs data for general government.

Deadline for note to Eurostat: January 2019, national publication of data by October 2019, provision to Eurostat by December 2019¹³

1.2.3. EDP Inventory

Introduction

The latest version of the EDP Inventory for Croatia was published in April 2017. An update for Annex 1 to the EDP Inventory (Register of General government units by subsector and by NACE) was prepared and sent after the end of 2017. Eurostat stressed that the EDP Inventory has to be reviewed regularly and updated, in case of changes in the methods, procedures and sources adopted by the Croatian statistical authorities in the compilation of EDP data. Eurostat also recalled that the market/non-market test needs to be regularly performed for the units included in government sector. Eurostat requested an updated EDP Inventory.

Findings and conclusions

Deficiencies in the April 2017 version of the EDP Inventory were discussed during specific methodological points (in order to avoid repetition, see the discussion of the items under part 4 below).

AP 19. The Croatian statistical authorities will send to Eurostat the updated EDP Inventory.

Deadline: November 2019 or earlier, if some chapters are available before

1.2.4. GFS issues and COFOG data

Introduction

Data sources used are described in the EDP inventory, which was last updated in April 2017. In 2017 significant discrepancies were discovered between EDP statistics and other statistical domains, more

¹² The data on contingent liabilities for 2012-2017, excluding NPLs, were published on the CBS's website.

¹³ The first note was sent on 23 September 2019 and an updated information was provided on 9 October 2019, the Croatian statistical authorities introduced an annual survey that is aimed to collect relevant data from HBOR and HAMAG.

notably national/ sector accounts statistics/ GNI. The latter led to revisions in data sources, with important changes in data used to compile subsidies (D.3) and property income (D.4).

Discussion and methodological analysis

Eurostat recalled the questions asked during the October 2018 EDP notification, namely a detailed split in subsidies (D.3), including recent transfers from D.3 to D.9, as well as the split of the property income (D.4). Additionally, Eurostat enquired about the missing COFOG country page, and the quarterly data sources in use, in particular referring to tax data in ESA table 2. Recent revisions in D.611 (Employers' actual social contributions) and D.613 (Households' actual social contributions) were discussed, focusing on inconsistent treatment in the financial and the non-financial accounts. Previous GFS issues, which have at times prevented / delayed the validation of the ESA GFS tables, were also discussed. CBS informed that it compiles COFOG, however availability of adequate data sources remained unclear.

D.4 income split was discussed, in particular the methods by which income is split among D.41, D.42 and other D.4 income, in the context of recent revisions made and some resulting inconsistencies. Tax lines in ESA table 2 were also discussed. Eurostat stressed that the accuracy of the EDP/GFS reporting should not be sacrificed due to GNI/ national accounts cross-domain consistency reasons. The accuracy of the EDP/GFS reporting is of a paramount importance, and any changes it may create in the other statistical domains should be analysed and adjusted, possibly with some delay, even at the cost of a temporary mis-alignment between the domains.

Findings and conclusions

AP 12. Eurostat recalled large differences between GFS/ EDP tables and other ESA tables observed in the past. Eurostat emphasised the need to ensure EDP/ GFS highest quality reporting in the first EDP notifications, including adherence to methodological rules, sectorisation of units, etc. without delay. In the case that other ESA tables cannot be adapted immediately, tolerance for temporary inconsistencies is to be accepted. Eurostat noted the CBS's objective of having GFS/ EDP tables aligned with other ESA tables at least once a year, and encouraged the CBS to organise itself so to achieve this objective. A note will be sent to Eurostat on this issue.

Deadline for the note: October 2019 EDP notification

AP 15. The Croatian statistical authorities will answer the queries made by Eurostat in recent quarters, on the composition of market output (P.11) and other property income (D.42/D.45) revenue in order to justify the level observed.

*Deadline: April 2019 EDP notification*¹⁴

AP 16. The Croatian statistical authorities will clarify the reasons for the revisions between Interest (D.41) and other property revenue items recently observed in GFS deliveries (also having in mind the significant change recently carried out in the consolidation of debt securities as well as taking care of potential implications on super-dividend testing).

¹⁴ A note was provided on 6 September 2019 and, following the Eurostat's request, further information was sent in email exchanges.

Deadline: February 2019¹⁵

AP 17. In relation to COFOG data:

(a) The Croatian statistical authorities will provide to Eurostat a short explanation of the compilation of COFOG data [3 pages of COFOG metadata, for the manual].

Deadline: end-January 2019¹⁶

(b) Over the medium term, the Croatian statistical authorities will examine the opportunity to exploit the COFOG information contained in the general ledger (class 2 and class 4 of spending units) in order to gross up the cross-classification data currently compiled using an allocation of spending units by COFOG categories.

Deadline: June 2019 for a note¹⁷

AP 18. Regarding the new source data on subsidies/ investment grants, expenditure, CBS will verify whether this source data is meant to be used to determine the detailed non-financial transaction and industry counterpart only or whether the source data can lead to changing (statistically adjusting) B.9 – as was observed – possibly erroneously – for the years 2002-2011. In case of the latter, the Croatian statistical authorities shall motivate the reasons for this statistical adjustment and provide an interpretation to Eurostat of why this is necessary and how the consistency of the compilation with the financial accounts is to be assured. In case of the former, a correction of the accounts should be made.

Deadline for the note: 31 January 2019¹⁸

Deadline for the implementation: April 2019 EDP notification

2. Follow-up to the previous EDP dialogue visit of 18-20 January 2017

Introduction

Majority of the 49 action points set during the January 2017 visit were implemented before the current EDP dialogue visit. However, many of the action points were formulated as one-off, and while there some improvements in the aftermath of the January 2017 dialogue, some of these improvements have not been sustained. Some important ones, however, remained open or partially completed.

Discussion and methodological analysis

Discussion focused on the following outstanding action points, some of which were merged into other relevant points of the agenda (i.e. the methodological points in Part 4). Eurostat pointed out some cases of 2017-SDV action points that were initially followed up by the Croatian statistical authorities in a satisfactory manner, but were later neglected or not followed through due to understaffing and other

¹⁵ A note was provided on 6 September 2019.

¹⁶ The COFOG country pages were provided on 14 February 2019.

¹⁷ The note was provided on 6 September 2019.

¹⁸ The clarification note was provided on 17 September 2019. The issue is still being discussed, mainly with regard to historical years.

institutional issues. One notable such example has been the preparation of the transition table on investment required under 2017-SDV-AP18. This table was designed to compare the compilation of the investment data between two different sources: the FINA financial reports and the INVp survey.

During the notifications, the Croatian statistical authorities have ascertained a number of times that the INVp data is of a higher quality compared to FINA data. However, the INVp GFCF data has been received with a significant delay (t+15 months), which creates the risk for significant revisions in gross fixed capital formation (P.51g) as long as two years following the end of the reporting period. The transition table on investment under the 2017-SDV AP18 was designed to analyse the differences between FINA reports and the INVp data, and to help the process of reconciliation of these differences. Eurostat noted that the transition investment table was not updated between the April and October 2018 EDP notifications, leaving large historical FINA-INVp differences unexplained.

Another example of a 2017-SDV action point which failed to produce a sustainable follow-through was 2017-SDV-AP9, concerning improvements in cash flow reporting (which was discussed under section 1.2.1 above).

2.1. 2017-SDV Action point 2 – Institutional arrangements and adequate staffing

Introduction

2017-SDV Action point 2 (2017-SDV-AP2) stressed “the importance of ensuring sufficient EDP staffing, including EDP methodology at the CBS”. This action point was discussed largely under the first agenda point of the visit (institutional arrangements and responsibilities).

Discussion

The issue of understaffing has exacerbated since the January 2017 EDP dialogue visit. Two key people in EDP/ GFS statistics left their jobs in the summer of 2018. The person in charge of EDP reporting also had a prolonged absence in November and December 2018.

Eurostat stressed the importance of CBS’ ability to perform its role of an independent compiler and controller of EDP and GFS data. The Director General of the CBS informed that reorganisation is under way to create a few new units with CBS, including, importantly, a dedicated EDP-only unit, which has not existed so far. This re-organisation proposal was expected to be complete by the end of 2018, after which it needs government approval.

2.2. 2017-SDV Action point 4 – Revised Annex of the Memorandum of Understanding

Introduction

2017-SDV-AP4 stated “CBS will send to Eurostat the revised Annexes of the existing Memorandum of Understanding (signed in July 2013). Deadline: February 2017”. This action point was discussed under the first agenda point of the current visit (institutional arrangements and responsibilities).

Discussion

The issue has been continuously brought up during the EDP notifications. The latest reply received was that "new circumstances have occurred, which make completing and delivery of revised annexes of the existing Agreement on Cooperation (Memorandum of Understanding) ... not feasible". Among others, these annexes should contain any notable changes in the organisation structure, like the ones discussed with 2017-SDV-AP2.

2.3. 2017-SDV Action point 10 – financial accounts data sources

Introduction

2017-SDV-AP10 stated “The CNB will reflect on exploiting existing FINA data on the financial side, comparing them with, having all system parameters in mind, the accurate and trustable unit by unit data on deposits AF/F2_A and loan liabilities AF/F.4_L from Monetary and Banking statistical [MBS] and supervisory system which also includes HBOR and CNB as reporting units. Observed differences have to be explained in cooperation with the MoF, and where necessary, financial accounts and balance sheet positions should be corrected. Deadline: 15 September 2017”. This action point was also discussed under the first agenda point (institutional arrangements and responsibilities).

Discussion

In 2017, following the SDV, the CBS explained that the heterogeneous nature and extent of the differences between corresponding items in financial reports and MBS reports does not allow inclusion in other accounts receivable/payable (F.89). Provided comparison tables showed that the FINA-MBS differences have remained substantial. CBS suggested to continue the practice of calculating stocks and transactions only from MBS (and external debt).

CNB informed that it uses its MBS for compilation of deposits and currency on the asset side (F.2A). MBS data are collected from banks, HBOR and the central bank, and are based on detailed stock data, on counterparty basis. Data include sufficient detail to calculate transactions by eliminating foreign exchange fluctuations. Counterparties are institutional units that are identified by a unique ID number. For consolidated reports specifically the FINA-MBS comparison yielded significant differences stemming largely from few sizeable units.

Eurostat recommended that the few sizeable units, which account for the majority of these differences, be analysed further, with a view to find a solution to these discrepancies. CBS explained that, as FINA data do not include all the units inside the general government (e.g. those units outside of the "budget and budget user" system) aggregated differences between FINA reports and MBS cannot be computed.

Findings and conclusions

AP 20. The CNB will provide Eurostat and CBS the results of recent analyses on the comparison of F.2 assets and F.4 liabilities from money and banking statistics (data source used) with FINA data and explain any differences, for main units, grouping of units and sub-sectors.

Deadline: 31 January 2019¹⁹

2.4. 2017-SDV Action point 22 – Gross Fixed Capital Formation

Introduction

2017-SDV-AP22 stated “CBS will investigate the possibility of obtaining regular quarterly information on GFCF from the 5 biggest investment units outside the budgetary/extra-budgetary reporting.

¹⁹ The note was sent on 8 February 2019.

Deadline: quarterly, starting for the April 2017 EDP notification”. CBS informed that part of the big units (entrepreneurs) do not deliver quarterly data regularly."

Investment (GFCF) data was discussed under the next agenda point (3.1) of the visit.

2.5. 2017-SDV Action point 25 – the performance of the market/non-market test

Introduction

2017-SDV-AP25 stated “CBS will monitor the units with the market/non-market [MNM] test close to 50% in order to ensure their correct sector classification, notably in the light of the current use of amortisation from business accounts as a proxy for the consumption of capital. Deadline: Continuous”.

Discussion

Eurostat expressed its concerns that not all units with MNM ratio of under 50% (for the past 3 years) were reclassified, as well as about the timing of the reclassification decisions. The few units, which were reclassified in S.13 due to MNM ratio failure, more notably the Croatian Passenger Railways (HŽPP), were in effect reclassified with a delay significantly exceeding the 3-year guideline period.

This point was discussed in detail under points 4.1.1. and 4.1.2 below (‘Sector classification of specific units’ and performance of the MNM test).

2.6. 2017-SDV Action point 46 – Forced conversion of CHF loans into EUR

Introduction

2017-SDV-AP46 stated “The national EDP working group will monitor the statistical recording of the law on the forced conversion of loans from Swiss francs into euro and the potential impact on GFS. Deadline: continuous”

In September 2015 the Consumer Credit Act and the Credit Institutions Act were amended in order to allow bank customers to convert their CHF loans into EUR-denominated loans (via an option, mostly concerning mortgage loans) at a favourable (for the customers) historical exchange rate. CNB estimated that the negative effect from such conversion to the banks was approximately HRK 7 billion (EUR 1 billion) in total. Four banks initiated an international arbitration court dispute in order to claim this amount from the Croatian state.

Discussion

Discussion focused on the possible future fiscal impact from the international arbitration court disputes (brought by the four banks against Croatia) over the law on the conversion of mortgage loans denominated in Swiss francs (CHF) into Euro (EUR). Even though the conversion was voluntary for the households, many of them took advantage of the favourable EUR-CHF exchange rate provisioned in the legal amendment, which brought additional financial burden onto the banks. The accounting effect on credit institutions has been an increase in ‘Other liabilities’ counter-balanced by a decrease in ‘Capital and Reserves’. This has been followed by a shrinking of balance sheet with the gradual deleveraging of ‘Other liabilities’.

The CNB explained that a number of Croatian banks had offered mortgage loans denominated in foreign currency, including notably in CHF, which had been attractive to households due to lower CHF interest rate costs. In the aftermath of the 2008 economic crisis, CHF exchange rates shifted significantly, which had put a significant financial burden onto the households, which were not

properly informed about the foreign exchange risks embedded in their CHF-denominated mortgage loans. This ultimately brought about the amendments to the banking laws in 2015.

Eurostat enquired if the legal amendment also caused the interest rate on the mortgage loans to increase and CNB replied that there was no change in the interest rates, majority of which are fixed. CNB also mentioned a few comparable cases in other countries, in which the court had ruled in favour of the governments (and the bank customers). Eurostat reflected that if the court's decision is favourable to the Croatian government, in economic terms, the transactions can be seen as an ad-hoc tax to banks, with reciprocal tax refunds given to households, ultimately netting of any effect on the S.13 B.9, and asked the Croatian statistical authorities to monitor and inform Eurostat if and when any changes in the arbitration court case occur, in keeping with the general principle that material changes (with potential effect) on government accounts should be notified to Eurostat without delay.

Findings and conclusions

AP 21. The Croatian statistical authorities will reflect on the recording of the forced conversion of loans from CHF to EUR, which resulted in significant losses for (some) banks in 2016, and which is currently recorded in national accounts as other economic flows (in the accounts of the banks, with no impact on GFS/ EDP). Eurostat noted the ongoing arbitration court case initiated by several affected banks against the Croatian government. Currently, the Croatian statistical authorities are not informed about the probability of government compensation for banks' losses. The Croatian statistical authorities will monitor the situation and reflect on the B.9 impact that could arise from any adverse ruling. They will also provide to Eurostat the amount currently claimed by the affected banks in the arbitration court.

*Deadline: April 2019 EDP notification*²⁰

2.7. 2017-SDV Action point 49 – differences between interest paid and accrued

Introduction

2017-SDV-AP49 stated “The statistical authorities will resubmit the detailed table on interest corrected according to the discussions in the meeting, using the revised template currently being prepared by Eurostat. Deadline: June 2017”. This point was further discussed under point 4.2.2 below (‘Methodological Issues on Interest and consolidation of interest’).

Discussion

When analysing EDP tables 2 and 3, Eurostat noted that there were notable differences between interest accrued and paid and wondered if these could only be explained by the fact that in EDP table 2 interest relates only to the main body reported in the working balances. The Croatian statistical authorities confirmed that their approach for booking of interest is in line with ESA 2010 and the MGDD rules. CBS committed to submit an updated interest table according to the latest template designed by Eurostat. Eurostat also reiterated the advantages of the additional EDP tables 3B1 and 3B2, which had not been provided yet.

²⁰ The note was sent on 19 March 2019.

3. Analysis of EDP tables – follow up to the October 2018 EDP notification

3.1. Investment (GFCF)

Introduction

The issue of investment recording has been a key point of discussion throughout the notifications in 2017 and 2018, as well as during the previous EDP dialogue visit in January 2017. CBS uses two main data sources to compile investment: (i) the FINA administrative database, which compiles the FINA reports (PR-RAS and balance sheet data) from sub-sector units and (ii) the INVp investment survey, which, in the words of the Croatian statistical authorities, completely covers the entire universe of general government units. Throughout the EDP notifications, the Croatian statistical authorities have asserted the opinion that the investment survey is of a higher quality as a data source, for the compilation of GFCF reporting.

During the 2017 SDV (under the then action point 18) Eurostat designed a transition table in order to compare the compilation of the investment data between two sources: the FINA financial reports and the INVp survey. However, the INVp GFCF data has been received with a significant delay (t+15 months), which creates the risk for significant revisions in P.51 as long as two years following the end of the reporting period. The transition table on investment under the 2017-SDV AP18 was designed to analyse the differences between FINA reports and the INVp data, and to help the process of reconciliation of these differences. Eurostat noted that the transition investment table was not updated between the April and October 2018 EDP notifications, leaving large historical FINA-INVp differences unexplained.

Discussion and methodological analysis

Eurostat recalled that usually there is a significant delay between the time investment data are available from the INVp survey and the receipt of the FINA reports. The most recent experience is that the FINA database becomes available approximately at the middle of March each year (for financial reports concerning the preceding calendar/financial year), while the first INVp data becomes available approximately 12 months after the year end. It has also been observed that the differences between data in the INVp survey and FINA have persisted. For example, the 2015 GFCF was revised upward by 0.4% of GDP once INVp data became available. ESTAT recalled also that it is beneficial to use both FINA and INVp data, along with a Transition Table on Investment (action point 18 from the previous dialogue visit) providing more detail on the revisions between the two.

CBS pointed out to the fact that according to national accounts regulations, there is a term of t+36 months to finalise statistical data, which deadline they complied with. Eurostat, however, pointed out that the GFS/ EDP statisticians have an important additional layer of responsibility vis-a-vis other statistics, stemming from the EU Stability and Growth Pact, to ensure timely and quality monitoring of compliance with the Maastricht debt and deficit criteria. With this backdrop, the continuous delays and unexplained revisions between INVp and FINA data require the urgent attention by all institutions participating in the Croatian EDP working group.

Regular updates to and analyses of the INVp-FINA investment transition table can be used to institute important improvements in the FINA reports, such that FINA is available even earlier than mid-March, as well as it contains higher quality investment data (institution of additional automated data checks, for example). Ability to analyse ESA transactions at the level of units will be highly beneficial. It is important that both data sources (FINA and INV-p) continue to be used in parallel, which would create

and sustain a data quality check/ early warning signal system. Eurostat recommended that a special attention is pointed towards consolidated investment data (from both INVp and FINA), as potential errors in the consolidation process could yield large discrepancies.

AP 24. Regarding gross fixed capital formation (GFCF), the Croatian statistical authorities will seek means to improve the accuracy of the reporting of GFCF in FINA for the April notifications as well as generally seek ways in order to improve FINA in this respect.

Deadline: This improvement will be judged by a progress note by 31 March 2019 and implementation in April 2019 EDP notification²¹

AP 25. If the Croatian statistical authorities continue to use INVp data, they shall assure the following:

(a) the data must be available to be included for the October t+1 notifications,

(b) if an adjustment to B.9 of S.13 is made, it should be assured that differences between FINA and INVp are not due to differences in the reporting of expenditure transactions between the two sources, notably between P.2 and P.5,

(c) if an adjustment to B.9 of S.13 is made, it should be assured that the adjustment does not overwrite necessary statistical adjustment performed on the basis of FINA data, e.g. for military expenditure to be recorded on delivery basis,

(d) if an adjustment to B.9 of S.13 is made, a consistent interpretation in the compilation of the non-financial and financial accounts needs to be assured. A pre-condition for this is the full reconciliation of the two data sources,

(e) a regular and comprehensive analysis and reconciliation of the two sources as well as of budget execution should be performed and documented (via reports to Eurostat along with each notification).

Notwithstanding the above, INVp could be used as a valuable source of information for splitting P.2 and P.5 as well as for assuring a split of gross fixed capital formation by type, industry, etc. as well as for imputing B.9 neutral transactions such as R&D.

Deadline: detailed analysis by 15 February 2019, continuous for the principles to be applied²²

3.2. Consolidation of AF.3 Liabilities of the S.1311 central government units

Introduction

Prior to the April 2018 notification the Croatian statistical authorities had no measurable information of intra-sector holdings of government debt securities. In 2017, the CNB (Security-Holdings-Statistics) launched a survey ("ISIN by ISIN level") about holdings and transactions with government debt

²¹ The note and bridge table between FINA and INVp were provided on 27 May 2019.

²² The note was provided on 23 March 2019 and on 27 May 2019 together with the action point 24. Further information was provided on 1 July 2019 and replies to eurostat's questions on 6 September 2019. In the October 2019 EDP notification, the Croatian statistical authorities informed Eurostat that the GFCF data for 2017 and 2018 were compiled according to PR-RAS data sources, instead of a statistical survey, and they intended to recalculate the previous years according to the same data sources.

securities issued and held by government units. First data delivery was planned for June 2017 but was accomplished only in February 2018. The survey showed that several units classified inside central government hold government bonds as treasury assets, with no holdings discovered in the units of the other general government sub-sectors. The survey data was also checked against FINA balance sheet data, which is more aggregated than the survey. Since its inception, survey data are collected quarterly (45 days from end of reporting quarter). The survey is based on the economic ownership principle, which effects securities given/ received in repurchase (repo) transactions.

Discussion and methodological analysis

Eurostat reviewed a summary table concerning the results of the survey (units with most material holdings of government securities) provided in advance. Eurostat commended the institution of the survey and recommended that data coverage and quality continue to be reviewed regularly in the future (including data from the local government units), with the backdrop of a significant downward revision in AF.3 debt during the April 2018 notification. Eurostat also inquired about remaining AF.3 liabilities within social security (S.1314) units.

Eurostat also enquired about the monitoring of the government bond holdings by local government units. CNB replied that this is being done via surveys, but that the major intra-government holdings were with a few large units belonging to the central government (Krsko, HBOR, etc.). The discussion also evolved towards the lacking statistical discrepancy of other central government bodies, which had been evidently transferred to F.8 flows. Eurostat asserted that the lack of consolidation discrepancy (the over-estimation of AF.3 debt due to the lack of consolidation was first corrected in the beginning of 2018) would have been evident in EDP table 3B2, if such a sub-table had been prepared. Such gaps could have also been discovered by analysis of cash flow statement, the short term solution to tacking discrepancies, while the long term solution would be to amend the FINA reporting.

The consolidation of AF.3 Liabilities within central government units is further discussed under point 3.6. below ('Statistical discrepancies in EDP tables'), highlighting the need to supply the split of EDP table 3B, into 3B1 Main unit and 3B2 Other central government bodies.

3.3. Croatian passenger railways' (HŽPP's) re-sectorisation into S1311 with effect from January 2015

Introduction

Croatian passenger railways' (HŽPP's) were re-sectorised from S.11 into S.1311 in April 2018, following the MNM test failure over a number of consecutive years. This re-sectorisation was made effective from 1 January 2015. However, evidence existed that HŽPP had failed the MNM test in 2014 as well, and a failure in the years before 2014 was highly likely.

Discussion and methodological analysis

The discussion of HŽPP's sector classification and its effects was merged into point 4.1.1. below ('Sector classification of specific units'). Eurostat enquired about the reasons why HŽPP's re-sectorisation was not made effective at an earlier date, potentially stretching back to the time when HŽPP was established as a separate company. Eurostat requested from CBS to calculate the MNM test for the years prior to 2014, report the results and consider changing the re-sectorisation for historical years.

3.4. Taxes and social contributions

This agenda point was merged into point 4.2.1 below ‘Methodological Issues – Taxes and social contributions’.

3.5. Tourist boards

Introduction

During the October 2018 EDP notification, and following a prior request of Eurostat, the CBS agreed that there is a strong case to consider reclassification of the tourist boards into central government S.13. The reason for the reclassification is that a number of tourist boards’ usual activities reflect public policy preoccupations. Furthermore, the revenue of the tourist boards consists mainly of sojourn tax, membership fees and government subsidies (provided in order to promote Croatia as a tourist destination). Of these, only the membership fees could possibly be deemed (partially) market-based, and membership fees do not represent the majority of the revenues.

Such re-classification will initially be in effect from January 2014 (reclassification to be completed before the April 2019 EDP notification). By the October 2019 EDP notification, the effectiveness of the re-classification will be extended to cover all available EDP historical time series for Croatia.

Discussion and methodological analysis

The tourist boards re-classification was discussed in detail within point 4.1.1. below ‘Sector classification of specific units’.

3.6. Statistical discrepancies in EDP tables

Introduction

The April 2017 EDP Inventory (part 3.2.4.3 “Balancing of non-financial and financial accounts, transactions in F.8” states that the analysis of observed differences in B.9f and B.9 is performed at individual unit level for important units, e.g. HAC (Croatian Motorways), HŽI (Croatian Railways Infrastructure Company), without allocation of the observed difference. “Counterpart data are not used to obtain the final statistics in non-financial accounts. Counterpart data are not used to obtain the final statistics in financial accounts. Counterpart data are used only where no other data is available. The discrepancy is not allocated at the final stage. The discrepancy is not allocated in financial instruments. There are no mechanisms to launch an enquiry [ex-post monitoring] when discrepancies are too high”.

In the process of EDP notifications, Eurostat has been asking about information on statistical discrepancies between B.9 and B.9f at the level of (the largest) individual units (or groups of units). During the October 2018 EDP notification, the Croatian statistical authorities replied that although there was no unified report for big corporations classified into S.13, CBS and CNB continuously work on improvement of B9-B9f discrepancies that had been reduced to minimum. Before the dialogue visit Eurostat requested a note/ table on B9-B9f discrepancies within large S.13 units, however, such note was not provided. During the October 2018 EDP notification, Eurostat also stressed the need to supply

the split of EDP table 3B, into 3B1 Main unit and 3B2 Other central government bodies in order to adequately analyse the discrepancies which still exist.

Discussion and methodological analysis

Eurostat reiterated the benefits from EDP sub-tables 3B1 and 3B2, which, among others, allow for a better analysis of statistical discrepancies between B.9 and B.9f, an analysis that can be performed at individual unit/ group level. If the two EDP table 3 sub-tables had been provided, it would have been noticed that the statistical discrepancy with regard to other central government bodies is zero. Eurostat has observed cases where the F.8/AF.8 of other central government bodies are being compiled as a residual item. Eurostat also recalled that ESA 5.244 precludes the use of F.8 in order to reduce/ conceal statistical discrepancies. Cash-based and accrual-based data sources must be reconciled as a matter of principle. The CNB replied that FINA data (balance sheet and PR-RAS) has been used as the source for the compilation of F.8 payables/ receivables for other central government bodies.

It was clarified that other central government bodies include reporting units in three different categories: those, which submit their financial reports to FINA on an accrual basis (with F.8 relevant items from their balance sheets), other entities (e.g. guarantee funds, etc) which apply budgetary reporting, and non-profit unit types. There are also financial institutions, like HBOR, which prepare reports also directly to CNB (i.e. money and financial statistics could also be used as a reliable data source).

The first group of units already provides good quality data through FINA. On the asset side of F.8, for example, FINA provides several line items: receivable from clients, advances (prepayments) regarding deliveries, receivables from other companies within the group, and other receivables outside of the group. Eurostat advised that B.9f based on data for trade credits can be reported in EDP table 3B2. Certain F.8 positions could be explored further during the compilation process. Eurostat stressed the importance of compiling data on receivables and payables on a unit-by-unit basis (or based on consolidated groups of units).

Eurostat also recalled a recently marked inconsistency between GFS and sector accounts (GDP) with regard to data on taxes and subsidies, and stressed that the quality of the GFS data is of a priority, as established by the EU Stability and Growth Pact. Social contribution payments by the government were discussed.

The CNB clarified that, with regard to budgetary accounting units, the main data source are the P--1/P--2 reports, which show payment transactions on a cash basis (at least for majority of the revenues, primarily taxes and contributions), also produced by FINA. The P--1/P--2 report is aggregated on a monthly basis. Eurostat enquired on the differences between the P--1/P--2 reports and PR-RAS. The MoF explained that, unlike the financial reports, the P--1/P--2 reports do not record sales or expenditure. Eurostat urged the CBS/ CNB to calculate the differences between the P--1/P--2 reports and PR-RAS, and to report the findings for the previous four years.

Findings and conclusions

AP 27. With regard to other accounts receivable/payable (F.8) recording, Eurostat observed that F.8/AF.8 of other government bodies is currently compiled as a residual item, implying zero B.9/B.9F

discrepancy. Eurostat considered this compilation practice as inappropriate and asked the statistical authorities to discontinue it.

*Deadline: April 2019 EDP notification*²³

AP 28. Having in mind past attempts to verify statistical discrepancies (that showed surprisingly large amounts) of other government bodies, Eurostat requested the Croatian statistical authorities to provide a compilation of financial and non-financial accounts by main ESA categories as well as a calculation of the statistical discrepancies separately of these bodies. This should be done by using the balance sheet data for F.8. Notably, on the asset side: (a-1) claims on clients, (a-2) claims within the group (a-3) claims outside the group, (a-4) advances and, on the liability side: (l-1) payables related to raw materials, (l-2) payables related to acquisition of non-financial assets. The analysis should cover the biggest units for the period 2014-2017 and be provided to Eurostat.

Deadline: January 2019

AP 29. On the basis of the above the statistical authorities will report a split of the EDP table 3B into tables 3B1 and 3B2, or sub-tables by units/ groups of units (bringing together hospitals, etc.).

*Deadline: each EDP notification*²⁴

AP 30. Regarding statistical discrepancies, Eurostat took note that there is a continuous process to coordinate statistical compilation among the statistical authorities, and that currently there are statistical discrepancies between B.9 and B.9f resulting from a non-fully-integrated compilation. The Croatian statistical authorities will take measures to limit such discrepancies as far as feasible.

Deadline: continuous

3.7. EU Flows

The discussion of EU flows and instruments was merged into point 4.2.3 below (Methodological Issues – EU Flows).

3.8. 2017 Law on Procedures for Extraordinary Management in Companies of Systemic Significance

Introduction

Agrokor Holding is a Croatian holding of (more than 30, majority non-financial) private companies, spanning from a leading supermarket chain in the country, to primary agriculture and international trade, on different ends of a wide business activity spectrum. Over the past 15 years the holding grew significantly, also through alliances and acquisitions, mostly in the other countries from the former Yugoslavia—Slovenia, Bosnia Herzegovina, Serbia, etc. At the end of 2016, the holding was reported to have consolidated revenues of 17% of Croatia’s GDP, and employing 2-2.5% of the active labour

²³ Some clarification and data on the residual item were provided in the April 2019 EDP notification and clarification continued in the context of the October 2019 EDP notification.

²⁴ On 23 September 2019, the Croatian statistical authorities informed Eurostat that the EDP tables 3B1 and 3B2 will be provided in the April 2020 EDP notification.

force in the country. To finance this growth, Agrokor also borrowed heavily in the past years, with its total debt reaching some ~15% of Croatia's GDP (by the end of 2016).

In early 2017 Agrokor experienced significant financial distress, reaching inability to service its loan obligations. Due to its systemic importance to the Croatian economy ("too big to fail" status), in April 2017, the Croatian government and parliament passed a special law, "the law on Procedures for Extraordinary Management in Companies of Systemic Significance" ("Zakon o postupku izvanredne uprave u trgovačkim društvima od sistemskog značaja za Republiku Hrvatsku" in Croatian language). Under this law, the court appointed a "special commissioner" (along with deputies and a professional advisory team of financial, legal, and technical experts in order to establish creditor protection, and to allow for an orderly restructuring of Agrokor's debts.

The special Agrokor commissioner and his team assumed the management of the Holding in April 2017. Under the law, certain decisions (e.g. larger assets sales, additional indebtedness) have to be consulted with a specially instituted Creditor's committee. Furthermore, the law stipulated a 15 month term (from April 2017) for a special Creditors' Agreement to be reached, thereby relinquishing the Special commissioner and his team from management responsibilities. Such a Creditors' Agreement was indeed signed in July 2018. Under this agreement the (largest financial) creditors agreed to assume control over the company.

Discussion and methodological analysis

Eurostat requested the text of the Agrokor's Creditors Agreement (signed in July 2018). Eurostat also inquired about the role of HBOR (S.1311), which had provided credit lines to the Holding and its companies. CBS and MoF replied that the loans provided by HBOR to the Agrokor group were signed before the financial insolvency which occurred at the end of 2016/ beginning of 2017. These credit lines continue to be serviced by the holding and its respective companies. Therefore, no other special measures were taken by HBOR, other than the regular provisioning policy. The MoF explained that HBOR has a diversified portfolio of investments and has realised a surplus increase in 2017.

Findings and conclusions

AP 31. Regarding Agrokor, the Croatian statistical authorities will examine the recording of any funding provided by HBOR to any Agrokor group company. Regarding financing provided in 2016 or 2017, Eurostat invited the Croatian statistical authorities to determine the nature of the financing and assess the knowledge of Agrokor's financial situation at the time cash was advanced in line with the provisions in ESA 20.121 and ESA 20.198-20.200. The specific provisions made in HBOR accounts as well as their timing shall be examined. Eurostat stressed that should financing have been provided in 2017 in the legal form of a loan, ESA 20.121 would likely prescribe the recording of a capital transfer (D.99p) in 2017. In case of a loan-equity conversion in 2018, Eurostat stressed that such transactions are to be seen as two separate transactions, requiring a capital injection test for the equity part (again very likely D.99p for the full amount, 2018). An explanatory note on Agrokor, already requested in September 2018, should be provided.

Deadline: 31 December 2018, with consequent implementation in GFS and EDP at the next transmission deadlines²⁵

3.9. Support to financial institutions (EDP ‘Financial crisis’ Table, Annex 5)

Introduction

In Q4 2010 government recapitalised Hrvatska poštanska banka d.d. (HPB) which realised a notable loss in 2009 (without participation from private investors). The whole amount of capital injection had been paid in cash by the government. In national accounts this transaction was recorded as a capital transfer. As intervention was not financed through a dedicated debt instrument, indirect liabilities (AF.3) were recorded in the Supplementary table on government interventions to support financial institutions.

In July 2015, following significant 2014 losses due to provisions, HPB's Board of Directors took a decision to increase the capital of the bank. In this recapitalisation process, two subordinated debt instruments held by central government units (Krsko Fund and DAB) were converted into equity (*debt-equity swap*). As those transactions were not recorded as capital transfers at inception, and private investors did not participate either, the total swap amount (of HRK 252.1 million) was recorded as capital transfer in 2015. In 2012, two capital transfers (injections) into the equity of Croatia banka were made due to the losses of the bank. One of these injections was also a debt-to-equity swap not recorded as expenditure at inception, and the other one was recapitalisation.

Discussion and methodological analysis

Eurostat commended CBS/CNB on the quality of the so-called financial crisis tables. Eurostat enquired about a debt to equity swap transaction in the capital of HPB and, in particular, about the extent these SWAPs could have been capital transactions at inception and stated that it is unusual for an energy (decommissioning) fund to hold a large deposit with a commercial bank, which deposit was later converted into equity. The CNB explained that at inception these transactions had been purely financial, and that the Krsko Fund likely pursued the goal of obtaining higher interest income on its funds. Eurostat enquired the CNB to confirm the inception year(s).

Findings and conclusions

AP 32. Eurostat, CNB and CBS will clarify whether DAB related amounts should be reported in Annex 5 for 2016.

Deadline: 31 January 2019

3.10. Historical EDP Tables

Introduction

²⁵ The note was sent on 31 December 2018.

Croatia has experienced significant difficulties with the compilation of historical EDP tables, often being the latest among the EU members to submit the historical tables.

Discussion and methodological analysis

Eurostat recalled that, albeit not mandatory, the information needed for the historical EDP tables 1 and 3A should already be available in the ESA tables compiled for the purposes of GFS reporting. Eurostat urged the Croatian statistical authorities to improve the timeliness of the historical EDP tables (at least concerning historical EDP tables 1 and 3A). Eurostat recalled that submission of historical GFS/EDP tables is a vital element which allows EDP/GFS statisticians to analyse and, if need be, reconcile significant revisions made to data sources (time series). The revisions that the CBS made to GDP/GNI (as reported on 23 May 2018) were one among several such examples of significant revisions to data sources (which could potentially have a notable implication for the calculation of the government deficit and debt). It was noted that the co-ordination between the CBS and the CNB should be improved.

Findings and conclusions

AP 26. With regard to EDP historical tables, Eurostat noted that while the data on the financial side (EDP Table 3 and debt in Table 1) were locally available on time, the delivery of historical tables had been routinely delayed. The Croatian statistical authorities will ensure the timely provision of EDP historical tables to Eurostat.

Deadline: each EDP notification

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector

4.1.1. Sector classification of specific units

Introduction

As noted already in point 3.3 above, the Croatian passenger railways' (HŽPP's) were re-sectorised from S.11 into S.1311 in April 2018, following the MNM test failure over a number of consecutive years. This re-sectorisation was made effective from 1 January 2015. However, evidence existed that HŽPP had failed the MNM test in 2014 as well, and a failure in the years before 2014 was highly likely.

Also, as noted in point 3.5 above, during the October 2018 EDP notification, and following a prior request of Eurostat, the CBS agreed that there is a strong case to reclassify the Croatian tourist boards into central government S.13 due to their main activities of implementing promotional public policies. The revenue of the tourist boards consists mainly of sojourn tax, membership fees and government subsidies (provided in order to promote Croatia as a tourist destination). Of these, only the membership fees could possibly be deemed (partially) market-based, and membership fees do not represent the majority of the revenues.

It was agreed during the October 2018 EDP notification that the tourist board re-classification will initially be in effect from January 2014 (reclassification to be completed before the April 2019 EDP

notification). By the October 2019 EDP notification, the effectiveness of the re-classification will be extended to cover all available EDP historical time series for Croatia.

Discussion and methodological analysis

Eurostat recalled that some of the units, like for example HŽPP (Croatian passenger railways) were re-classified after more than 4 years of MNM test failure. CBS replied that this was due to sought cross-domain consistency with other statistical domains, more notably national accounts. Eurostat stressed that the sector classification of units is at the fundamental basis of both government and national accounts. Reclassification cannot be delayed due to cross-domain consistencies. If need be, GNI national accounts should accommodate any (temporary) classification mis-alignments.

Eurostat also recalled ESA 20.23-20.29 which stipulates that companies, for which the general government is the only or the major client, have to be classified within general government. For practical reasons, such analysis should be performed starting from the largest public corporations first, before moving onto smaller ones. The qualitative criteria for classification were also discussed (including specific examples, such e.g. as PARENTIUM d.o.o.) and it was suggested to consider the design of a new survey on qualitative criteria.

Several units were specifically reviewed for their losses, and a few were also reviewed for unexpected/unexplained unit B.9 improvements.

Findings and conclusions

AP 41. Regarding the B.9 of other central government bodies in 2017 - Croatian Waters, Fund for Environmental Protection and Energy Efficiency, Croatian Roads Ltd. (HC), Croatian Radio Television, Croatian Railways Infrastructure, Croatian Motorways, other (DAB, HROTE, HERA) -, the Croatian statistical authorities will provide Eurostat with an analysis on the reasons for the increase in B.9 in 2017 together with financial statements for 2016 and 2017 and their ESA non-financial and financial accounts.

*Deadline: 15 February 2019*²⁶

AP 42. Eurostat took note that the reclassification of Croatian passenger railway company (HŽPP) was currently inconsistent between the financial and the non-financial accounts: the latter recording the assumption of debt as a capital transfer in 2015 and the former as a reclassification by another change in volume. In agreement with Eurostat, the Croatian statistical authorities will remove the 2015 capital transfer in the April 2019 EDP notification, improving B.9 by HRK 894 million in 2015, with an impact on statistical discrepancy, given that the reclassification of the railways is deemed to have occurred in a year prior to 2015.

*Deadline: April 2019 EDP notification*²⁷

AP 43. Following the discussion during the October 2018 notification, it was concluded that the tourist agencies (boards) need to be classified in S.13 due to the fact that a majority of their usual activities reflect public policy preoccupations (e.g. sojourn tax collection, government subsidies to promote

²⁶ The explanation was provided on 19 February 2019.

²⁷ The change was implemented in the April 2019 EDP notification. the sector classification of HŽPP for the years before 2015 is further followed up.

Croatia as a tourist destination). This reclassification is to be completed for notification years before the next notification in April 2019. For previous years, the reclassification could be delayed up to the next benchmark revision.

Deadline: end-March 2019²⁸

AP 44. Regarding sector classification, Eurostat requested to verify the sector classification of entities JADROPLOV, JASINJE and LUČKA UPRAVA ZADAR.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019²⁹

AP 45. Regarding sector reclassification, Eurostat requested to verify the classification of PARENTIUM d.o.o. (town-planning agency) assessing its market/non-market character.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019³⁰

AP 49. The Croatian statistical authorities will clarify the circumstances of the recapitalization and the privatization of Petrochemia in 2018, and indicate the appropriate statistical recording, including the evaluation on whether INA d.d. belongs to the public sector of Croatia.

Deadline: April 2019 EDP notification³¹

4.1.2. The performance of the market-nonmarket test and government controlled entities classified outside general government (public corporations)

Introduction

EDP Questionnaire Table 10.2 provides details for losses incurred by specific units, but such detail has frequently been missing in the EDP transmissions received from the CBS. Furthermore, due to EDP inter-institutional arrangements (availability of financial statements and sub-committee meetings) resectorisation effectively occurs with a significant time lag (nearly 5 years following the year, in which failure of the MNM test had been established for the first time). This has led to undue delays in substantiated sectorisation changes. Details missing from EDP Questionnaire Table 10.2 also included company identification numbers and NACE industry codes.

Decisions for sector classification of units are taken by a special classification subcommittee of the national EDP working group, consisting of representatives from the CBS, CNB and MoF. Every year, a list of 'borderline' units is put forward to discussion in this subcommittee. According to the Croatian authorities, the starting major criterion in deciding about the classification of a unit is the quantitative

²⁸ The tourist boards were reclassified inside general government initially for the years 2015-2018, and by the October 2019 EDP notification reclassification extended to the period 2002-2014.

²⁹ The note was provided on 28 January 2019. The units were reclassified inside general government in the April 2019 EDP notification, except for JADROPLOV, which passed the MNM test (significant sales of fuel at market significant prices).

³⁰ The note was sent on 15 January 2019 and the unit was reclassified inside general government in the April 2019 EDP notification.

³¹ The note was provided on 31 March 2019 and the agreed recording applied in the April 2019 EDP notification.

performance of the market/non-market (50%) test. The delimitation of the general government sector is regularly maintained and updated by the Statistical Business Register of CBS.

The Statistical Business Register (Statistički poslovni registar [baze podataka, sektorska klasifikacija]) comprises the total population of all institutional units in Republic of Croatia. Information on public corporations which classified outside of S.13 is submitted with the Questionnaire on government controlled units classified outside general government.

Furthermore, units which were reclassified into S.13 according to qualitative aspects, are also tested every year (e.g. HRT, HAC, HŽI etc.). The classification subcommittee employs special algorithm for primary classification of new units (integrated in the Statistical Business Register), taking into account criteria, such as NACE code, legal status and ownership. After the financial reports of “new units” are available, the 50% rule is applied and the sector code is updated if the results are different than those given by the algorithm.

Prior to the meeting Eurostat requested an update note on the performance of the market/non-market (MNM) test for units, as well as the algorithms/ formulas used, but this update was not provided.

Discussion and methodological analysis

The discussion focused on the criteria used for the sector classification of new units, the algorithm/formula used to calculate the MNM test ratio, the updates to the registry of government controlled units classified inside and outside of general government and the consistency between different data sources concerning classification of units. CNB informed that the national EDP working group subcommittee on sectorisation meets 3-4 times per year and that the MNM test is performed once a year based on FINA data. Three year failure of the MNM test results into a re-classification of a unit into government, with such reclassification occurring usually during the October EDP notification, i.e. 3 years 9-10 months after establishing the first MNM failure. CNB also informed that majority of the large units are already reclassified into government.

Eurostat requested that the CBS implements without delay the appropriate sectorisation of units on the basis of the analysis made by the relevant working group, either by following the unanimous view of the working group, or by taking a classification decision (following the rules agreed at European level) in the absence of consensus within the working group. Eurostat took note that the 'Statistical Business Register' can be updated very quickly and with retroactive effects in such a manner as to ensure a consistent compilation across statistical areas (financial accounts, GFS, input-output statistics, etc).

Eurostat reiterated that cross-domain consistency purposes should not justify inaccuracies in the compilation of the government's B.9 and/or EDP debt. Data should be analysed in such a way that for the April EDP notification all reclassification decisions should be implemented. Major reclassifications outstanding should be performed alongside the benchmark revision in 2019³². The CNB informed that the new survey (described under point 1.2.2.) will be used, and evaluated in ~June 2019.

Eurostat requested information on the specific calculations performed during the market/non-market test (the test algorithm), which is being used as the major factor to determine the statistical classification

³² The Croatian statistical authorities informed Eurostat in summer 2019 that the benchmark revision was postponed to 2020.

of units. Detailed line-by-line information was provided during the meeting, mostly in Croatian language, and the algorithm table was discussed in detail. The CNB clarified that a few changes had been implemented since the previous dialogue visit, e.g. own production output and D.39 now excluded from the formula. The CNB were not sure if those changes had been properly described in the EDP Inventory (last updated in April 2017, shortly after the previous dialogue visit). The CBS also informed that the main data source for the performance of the MNM test are the financial reports derived from FINA (profit-loss statements, i.e. RDG within the GFI-POD report for non-financial corporations and PR-RAS³³ NPF for units on non-profit accountancy, as well as some balance sheet items).

Particular attention was paid to several FINA line-items, discussing, e.g. the current practice of deducting 'Investment maintenance' (line 257) from P.2/costs without parallel reduction in sales. Eurostat recalled that part of such investment maintenance outlays are typically being capitalized as fixed asset improvements. Similarly, 'Scholarships' (line 265) are deducted from P.2/costs without symmetrical deduction from revenue or addition to D.1/costs. The treatment of severance payments (line 268) was also discussed. Inclusion of D.6 Social contributions and benefits was also discussed (with focus on avoiding instances of potential double-counting). With respect to the latter, the Croatian statistical authorities stated that if double-counting existed, it was in low amounts. Eurostat stressed that the MNM algorithm formula should be confirmed and adapted, where such need exists.

Eurostat enquired about missing data (2014-2016) for largest losses in public corporations (Questionnaire table 10.2). The largest corporations, such e.g. as Petrochemia and INA/ INA Matica were discussed in more details drawing comparisons between the EDP Questionnaire tables and the public corporations questionnaire. The CNB mentioned that some of the observed differences might be due to consolidated vs. non-consolidated group figures. Eurostat observed that, in the public corporations questionnaire, INA was missing. The CBS clarified that INA had been acquired and consolidated into a foreign company (MOL), which was showing in the public corporations questionnaire. The CNB also clarified that, for INA, there had been a privatization through an IPO, in which 47% was acquired by MOL, while the government has retained 20+ percent ownership. Eurostat questioned if INA (MOL) should be in EDP Questionnaire table 10 at all. Eurostat also noted missing information from the public corporations questionnaire, e.g. 'M's in the three Market/ Non-market test columns both for sizeable S.12 and S.11 corporations.

The CNB informed that the INA case had been discussed, but there was no consensus in the national EDP working group (the classification sub-committee) because of a missing court decision, so INA (MOL) should still be in the public corporations questionnaire. Eurostat advised that the court decision be consulted and that, in general, EDP Questionnaire table 10 and the public corporations questionnaire should be harmonized.

Eurostat also noted that NACE code is not reported throughout EDP Questionnaire table 10.2. The discussion also focused on S.11 public corporations, notably on research institutions and a few other NACE codes. The Croatian statistical authorities expressed doubt that some of the NACE codes (e.g. NACE 70, 84) shown in the public corporations questionnaire might be wrong.

³³ PR-RAS is the main financial report of S.1311 units included in budgetary accounting. Units keeping other types of accounting report via special amendments.

Finally, Eurostat also stressed that public corporations in liquidation/ bankruptcy/ dormancy should be classified inside general government, at least from the moment when the unit failed the market/ non-market test.

Findings and conclusions

AP 33. The Croatian statistical authorities will ensure that during October EDP notifications the losses reported in EDP Questionnaire Table 10.2 for the year (t-1) are appropriately filled in.

Deadline: *each October EDP notification*

AP 34. The Croatian statistical authorities will insert identification numbers and missing NACE codes in the EDP Questionnaire table 10.2, and insert additional lines where appropriate.

Deadline: *each EDP notification*

AP 35. The CBS will therefore discontinue its current practice of delaying the sectorisation changes.

Deadline: *continuous*

AP 36. Eurostat took note that the sector classification due to the units having failed the 50% market/non-market test in 3 consecutive years (t-3, t-2, t-1) is not undertaken annually for all units, neither during the April, nor during October notifications of year t (or only partially), and considered this situation not in line with the provisions of ESA. The Croatian statistical authorities agreed to carry out the test annually. The CBS agreed that, as a practical implementation solution, reclassifications in case of maximum 2 consecutive years of failed 50% test would be carried out – unless good reasons would exit for awaiting another year. In general, all necessary administrative procedures shall be undertaken not to unduly delay necessary sector reclassifications. Once established, such reclassification should be applied retrospectively (i.e. from the first year when the test falls below 50%).

Deadline: *continuous, progress note end-December 2018, together with analysis on AP64-74*

AP 37. The Croatian statistical authorities will provide to Eurostat the algorithm currently applied in the Statistical Business Register to determine the preliminary statistical classification of a new unit, until the relevant data to apply the market/ non-market test are available.

Deadline: *January 2019³⁴*

AP 38. As concerns the 50% test, the Croatian statistical authorities will verify the reason for its current practice of deducting 'Investment maintenance' (line 257) from cost/P.2 without parallel reduction in sales. To the extent that these investment maintenance outlays are capitalized, as well as reported as an expense, a revenue item would presumably be credited in business accounting. Similarly, for 'Scholarships' (item 265), the statistical authorities will review why they are deducted from P.2/costs without deduction from revenue items or additions to D.1/costs. The appropriateness of the treatment of severance payments (item 268) will also be investigated. A note will be sent to Eurostat and the 50% formula will be adapted where required. Following an agreement on the adapted formula, the test will be re-run in time for the April 2019 EDP notification, or at the latest for the benchmark revision.

³⁴ The note was provided on 15 January 2019 and further explanations on 23 January 2019 and on 4 March 2019.

Deadline for the note: January 2019³⁵

Deadline for implementation: April 2019 EDP notification

AP 39. Regarding sector reclassification, Eurostat requested to verify the sector classification of units whose only or major client is government (according to ESA 20.23-20.29), for main units in the short run.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019³⁶.

AP 40. In the long run, Eurostat welcomed the new survey on the qualitative criteria and suggested an implementation by summer 2019 in time for the benchmark revision. The draft survey will be sent to Eurostat for comments.

Deadline: December 2018³⁷

AP 46. Regarding sector reclassification, Eurostat requested to verify the classification of units with NACE 70.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019³⁸

AP 47. The Croatian statistical authorities will analyse the sector classification of the publicly controlled entities in NACE 72 (research institutes) and will inform Eurostat about the results.

Deadline: June 2019

AP 48. Eurostat took note of the inconsistent treatment of INA d.d., between table 10.2 of the Questionnaire related to EDP tables (included) and the Questionnaire on government controlled entities classified outside general government (excluded). The CBS will continue monitoring the public control, or lack thereof, of INA, in view of the complex situation. The CBS will report to Eurostat on the potential statistical implication when relevant.

Deadline: when relevant

AP 50. Regarding the sector reclassification, Eurostat requested to verify units with NACE 84, given that ESA 3.84 indicates that NACE 84 is non-market.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019³⁹

AP 51. Regarding the sector reclassification, Eurostat requested the Croatian Statistical Authorities to reclassify units in liquidation/ bankruptcy/ dormancy, at least from the first year of market/ non-market

³⁵ The note was sent on 2 January 2019.

³⁶ The note on AP 39 and 40 was provided on 23 September 2019. The Croatian statistical authorities informed about progress in introducing the survey on the assessment of qualitative criteria for sector classification of units.

³⁷ Please see footnote to the action point 39.

³⁸ The note was provided on 18 January 2019. The entities under the NACE 70 were reclassified inside general government in the April 2019 EDP notification.

³⁹ The note was sent on 18 January 2019. Part of the units in NACE 84 were reclassified inside general government in the April 2019 EDP notification. The remaining units are to be followed up.

test failure. Furthermore, the different sets of information provided to Eurostat would need to be cross-checked against each other.

Deadline: analysis before provision of the questionnaire on public corporations, due on 31 December 2018, eventual implementation into EDP and GFS by April 2019

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Taxes

Introduction

The main data source for recording tax revenue is the FINA cash data (monthly in P-1 and P-2 reports) except for the radio-television fee which is collected directly from Croatian Radio Television (an S.1311 unit), some environmental taxes collected by the Environmental protection and energy efficiency fund, deposit insurance premiums data received from the MoF, fee for Incitement of Electricity Production from Renewable Energy Sources and Cogeneration collected from HROTE and data from the Tax Administration on reprogramming of tax debts from 2013 onwards.

FINA's P-1 and P-2 reports are considered as a better source because data are more detailed than the ones included in the Budget reporting and they are available on a monthly basis. FINA collects tax data and CBS compiles data for EDP and GFS tables and related questionnaires. Besides that, also additional data on other forms of tax collection (e.g. foreign currency) are received from the MoF. Data on tax revenue are government cash receipts adjusted to the concepts of ESA in a way that time-adjusted cash (TAC) method is implemented. Tax revenue obtained from the FINA database represents the amounts of cash received in the period. Therefore, in the annual and quarterly General Government nonfinancial accounts, the most important taxes are converted to an accrual basis by time adjusting the receipts using the average delay between the time that tax liabilities are incurred and the time that they are paid. Time adjustment is implemented on VAT, certain excise duties, taxes on insurance premiums and personal income taxes with time lag of one month (t+1) and corporate income taxes with time lag of four months (t+4). For the April notification, TAC method is not implemented for corporate income tax because data is not yet available for first four months of the current year. As well, final data for radio-television fee, environmental taxes data obtained from the FZOEU and fee for Incitement of Electricity Production from Renewable Energy Sources and Cogeneration from HROTE are not available for April notification, so planned or estimated figures are used. The final data for the year t should become available at t+9 months.

Discussion and methodological analysis

Eurostat recalled the video conference from September 2017 with regard to ad hoc time adjustments to the tax cash receipts. It happens occasionally that, for some months during the year, large amounts are received on the 1st working day of the following month. It has been agreed with Eurostat that, in those cases, the cash flows of this 1st working day of the subsequent month will be reviewed for potential anomalies and ad-hoc adjusted (if needed) to the previous month. Tax adjustments had also been made on occasion for delayed tax refunds. Eurostat stressed that national accountants have to use the figures with such ad-hoc adjustments.

Significant seasonal/ quarterly anomalies in D.2 tax receipts were discovered in 2017, which have been an issue of discussion throughout the EDP notifications since the last EDP dialogue visit. These anomalies were largely caused by one-off events, such for example as the last day of a given quarter falling on a weekend, with the tax proceeds, which were booked in the first week of the subsequent quarter wrongly accounted as pertaining to the subsequent quarter. Following a dedicated video-conference between Eurostat and the Croatian statistical authorities, which took place in September 2017, this issue has been substantially rectified. The CBS continues to report monthly D.2 (and D.5) tax receipts, and Eurostat is continuously monitoring these data. The Croatian statistical authorities committed to report to Eurostat the adjustments made in each EDP notification. Consistency of recording of taxes between GFS tables and other national account tables should be ensured.

The discussion also focused on recent revisions in the EDP Questionnaire tables with regard to time-adjustments in tax recording. Time adjustment anomalies were discovered with regard to S.13 units due to the usage of business accounts. Eurostat pointed out that the general accounting principle of matching revenues and costs (including tax accruals) by periods should be respected.

The CBS also informed that a small part of the tax settlements are made in foreign currency and in kind, however the time adjustment of such settlements have not been clarified. Eurostat asserted that the tax revenue should be consistent with the other FINA (PR-RAS) reporting, consistently using (only) the P1/P2 report for the purposes of tax accrual time-adjustments. To this end, Eurostat requested more detailed structure of reporting (included in PR-RAS and P1/P2).

Furthermore, during the discussion it transpired that some para-fiscal charges (complying with the definition of tax) are being recorded as sales. Eurostat noted that such para-fiscal charges should be reclassified as taxes. Such para-fiscal charges are often collected by specific (industry-based) units, such for example as the Tourist boards. Eurostat requested that the sector classification of such specific units be reviewed, and if any of these units are classified outside of general government, their classification should be further analysed/ substantiated. At the request of the ECFIN representatives, also the utility fee (recorded as a tax) was discussed.

Findings and conclusions

AP 52. The Croatian statistical authorities will explain why the revision in the table 5 of the Questionnaire related to EDP tables in October 2018 was not consistent with the revision of taxes in ESA table 2.

Deadline: February 2019

AP 53. Eurostat noted that, currently, tax expenditure of units classified inside government (e.g. public corporations) are recorded using amounts reported in business accounts, without specific adjustment, which implies a distortion of B.9 for general government. The Croatian statistical authorities will ensure correct recording taxes on the expenditure side, consistent with that of the revenue side. This principle of consistency of consistency between tax revenue and expenditure is obviously to apply to all sectors of the economy.

Deadline: April 2019 EDP notification for implementation in general government and progress report for the rest of the economy. Full implementation for benchmark revision.

AP 54. The Croatian statistical authorities will clarify the reporting of tax settlements in foreign currency and in kind in the EDP/GFS data. Eurostat thought that the tax revenue should be consistent with the PR-RAS reporting, using the P1/P2 report for the purposes of the accrual adjustment only.

The CBS will provide Eurostat with a comparison of the amounts in both PR-RAS and P1/P2 by tax category, for the previous 4 years. Furthermore, the Croatian statistical authorities will investigate how tax settlements in kind (in the form of non-financial asset) are currently recorded in the system.

Deadline: April 2019 EDP notification⁴⁰

AP 55. Eurostat took note of the specific modifications carried out to the routine 1 or 2 month of time adjustment for tax revenue (regarding the last working day in the month and specific tax refunds), that are required in Croatia in order to obtain proper accrual adjustment of taxes, as agreed with Eurostat (Directorate D). The Croatian statistical authorities will report to Eurostat the adjustments made in each notification. They will ensure the consistency of recording of taxes between GFS tables and other national accounts tables.

Deadline: continuous, semi-annual

AP 56. The Croatian statistical authorities will analyse the 40 largest para-fiscal charges currently recorded as sales, and reclassify any charges which meet the definition of taxes. In case such charges are collected by entities outside general government, the sector classification will be reviewed.

Deadline: February 2019

AP 57. Regarding the utility fee (recorded as a tax), the Croatian statistical authorities will explain why it meets the definition of the subcategory property taxes.

Deadline: January 2019⁴¹

Social contributions

Introduction

From the April 2017 EDP Inventory, information on the amounts of social contributions collected from employers, employees, self-employed and unemployed is obtained directly from the Ministry of Finance and represents the amounts actually collected i.e. the cash contributions received by three Social Insurance Funds (HZZO, HZMO, and HZZ). Since there is a very little delay between the accrual and payment of social contribution liabilities, the amounts obtained from MoF are used without adjustment. Interests on late payments related to social contributions are recorded under interest revenue.

Discussion and methodological analysis

The discussion focused on the need for time adjustments in social contribution accruals. Eurostat emphasized that, like taxes, social contribution payments should also be adjusted in order to arrive at the appropriate accrual basis of accounting, giving as an example the social contributions and personal income taxes paid at the income source (and simultaneously). EDP Table 2D (social security funds) was reviewed during the discussion, and Eurostat pointed out that some details were missing.

⁴⁰ The note was provided on 18 April 2019 and on 23 April 2019 and some clarification during the April 2019 EDP notification. Further clarifications were sent in September and October 2019. In the October 2019 EDP notification, the Croatian statistical authorities decided to change the data source from P1/P2 forms to PR-RAS (SAP), resulting in revisions of negligible amounts.

⁴¹ The note was provided on 11 January 2019.

Additionally, the 2014-2015 transactions transferring amounts from the 2nd pillar to the 3rd pillar of social security were discussed. Eurostat enquired about the nature of these transfers, in other words, if these transactions were just a transfer of rights from one pillar to the other, or if these had been a correction to reflect the respective pillar's obligation towards insured people (including different categories, such e.g. as free professions, self-insured, etc.) more accurately. Adjustments in 2016 and 2017, albeit of a seemingly smaller size, were also noted. GFS recording of these transfers was discussed in detail.

Findings and conclusions

AP 58. CBS will apply time-adjusted cash recording for actual social contributions, instead of cash, after having clarified that the payment schedule is similar to D.51a amounts retained at source.

Deadline: 31 March 2019⁴²

AP 59. Eurostat took note of the lump sum transferred from the 2nd to 1st pillar in 2014-2015 and requested the Croatian statistical authorities to enquire on the nature of the operation, so to reassure on the methodological soundness of the current recording. The Croatian statistical authorities will specify if the lump sum is a transfer of rights from one pillar into another, or it is merely a correction carried out in recognition of which pillar has the effective obligation against the insured parties. In the latter case, ESA 20.273-20.275 may not be applicable. Furthermore, the size of adjustments in years 2016 and 2017 will be investigated. In case the treatment according to 20.275 is retained, the revenue transaction to be recorded is D.75 and not D.613cs.

Deadline: April 2019 EDP notification

AP 60. The Croatian statistical authorities will provide headings and explanations in the 'Detail' lines of Table 2D. In general, details of EDP tables should usefully receive titles.

Deadline: each EDP notification

4.2.2. Interest and consolidated interest

Introduction

The data sources for *interest expenditure* on debt securities are the general government units that issue debt securities (the Ministry of Finance for S.1311 and units of local and regional self-government for S.1313). Interest (D.41 Uses) is calculated on an accrual basis for all instruments bearing interest (AF.31, AF.32, AF.41 and AF.42). Information on interest is available for each debt instrument and for each subsector of general government. For bonds issued with coupon, accrued interest is calculated using the actual days counting convention (365/366 year base). For debt securities issued with discount or premium (recorded as negative expenditure) the difference between face and redemption value is spread over time using compound method and days count by 360 in an year.

All Treasury bills are issued with discount, while bonds are mainly issued with coupon. However, there are some central and local government bonds that are issued with discount and coupon and some central government bonds issued with premium and coupon. For data on loans, as of December 2010,

⁴² The action point was completed for the years 2015-2018 in the April 2019 EDP notification.

the CNB uses the Monetary and Banking Statistics Collecting System and a new system for collecting variables of Profit and Loss Account of domestic banks, which provide full coverage of institutional units for general government sector and the same coverage of financial instruments as for debt stock. Data on accrued interest (D.41 Uses) on HBOR loans given to general government units are provided by HBOR in form of a Questionnaire defined by CNB on a quarterly basis.

The data sources for *interest revenue* are FINA financial statements of budgetary users (modified accrual principle, in which revenue are recorded when collected) and corporations (accrual basis). There are no accrual adjustments in EDP tables for budgetary users.

Consolidation of intra-government debt-security (AF.3) holdings was discussed in point 3.2 above. Intra-governmental lendings (AF.4) have been recognized, so the consolidation of interest is carried out for this instrument within central government subsector and on general government level between subsectors. Data sources used for consolidation of interest are the same as for compilation of financial accounts.

Prior to the meeting, the CBS provided to Eurostat a filled-in Interest questionnaire table, however in an older format.

Discussion and methodological analysis

Eurostat asked CBS to fill in the updated template on interest, which has been improved in order to show potential areas for inaccuracy (discrepancies). Discussion focused on the 'Discount' and 'Premium' lines (of the previously filled table on interest). Eurostat expressed an opinion that amounts in the Premium line may be missing (with the second part of the 'Premium' line showing zeros). The CNB confirmed that in 2017 there were no new debt issuances at premium. Eurostat further enquired about differences between the table on interest and the amounts shown in the working balance (raising the question of the entry under the change in debt). It appeared that some discounts enter the working balance while others don't. CNB replied that in the working balance there were just the cash payments of the discount that matured in the same year, while the table on interest showed the difference between the face value and the issue value. The change in debt is explained as the difference between new issuance and the debt repayments during the year.

The discussion also focused on the interest revenues/ costs recorded by HBOR (the Croatian bank for reconstruction and development). HBOR receives from the State Budget part of its funding in the form of payments into HBOR's capital, as well as funding for special activities, where HBOR acts as an agent on behalf of the government. Eurostat enquired about the treatment of the implied interest subsidizing that occurs in such transactions.

Findings and conclusions

AP 61. The Croatian statistical authorities will clarify the current recording of interest subsidies in favour of HBOR (as observed in the balance sheet of HBOR in its annual report).

Deadline: February 2019⁴³

⁴³ The note was provided to Eurostat on 12 September 2019.

4.2.3. EU flows

Introduction

The National Fund (an MoF, S.1311 unit) is responsible for the reporting related to EU funds for which special bank accounts exist with the CNB. The EU Funds related transactions are included in the financial statement of the State budget (class 2, obligations to EU). The CNB analyses the recording of EU funds, by fund and by main beneficiary. The CNB has previously expressed concerns about the fact that expenditure and revenue are inflated, without B.9 impact. For example, if the central government would transfer funds to a university, the transaction would appear in the FINA system. It would be recorded in the accounts as a financial transaction from the central government (reduction in class 2) + expenditure (class 3) and revenue (class 1) to the Ministry of Education.

Data sent by the National Fund on a quarterly basis consists of (a) all receipts by each EU fund on the special accounts opened within the central bank and (b) payments from those accounts at the level of final beneficiaries, by each EU fund and by type of the transfer (capital, current) and (c) reimbursements of EU funds by each fund. The reporting system should enable to distinguish government from non-government final beneficiaries. The receipts to the CNB account are recorded as central government deposits and are neutralized in financial accounts through increase in other accounts payable. Furthermore, the EDP Inventory states that usually the expenditure are recorded in the first half of the year and reimbursed from the EC/revenue within two months; the effect is zero on annual basis.

EU contributions are recorded in the working balance of EDP tables 2. Furthermore, EU flow transaction entries are detailed in EDP questionnaire table 6, with F.8 adjustment entries, in case of time lags between EU fund inflows and outflows.

Discussion and methodological analysis

Discussion focused on how EU contributions are recorded (especially in EDP table 2A) and if they enter the working balance. MoF confirmed that EU contributions are included in the working balance and added that there is a time lag between disbursements/ payments, which creates F.8 adjustment entries. Eurostat enquired about the reflection of these adjustments in Questionnaire table 6 (specifically in item 17 of the table), which should show amounts similar to those in EDP table 2A, and asked CBS/ CNB to further investigate the presentation in the Questionnaire table.

The internal consistency of EDP Questionnaire Table 6, as well as the reconciliation between Questionnaire Table 6 and EDP tables 2A and 3B, were discussed. Anomalies were pointed out for 2014 and 2016. Eurostat noted that further information is needed to verify the consistency in accruals between between Questionnaire Table 6 and EDP tables 2A and 3B. In this regard, the information from ECB GFS table 1b will be useful.

Receivables and payables related to EU financial instruments, as well as the GFS recording of EU flows, were also discussed during the meetings. The recording of EU financial instruments was also discussed. The CBS confirmed that EU financial instruments give rise predominantly to financial transaction entries. Eurostat enquired if the CBS has information of any losses/ capital gains on EU financial instruments, and how such information is being recorded.

Findings and conclusions

AP 62. CNB and CBS will ensure the internal consistency of EDP Questionnaire Table 6. CNB and CBS will notably ensure the coherence of the adjustments for EU flows done in EDP table 2A and 3B.

For 2014 and 2016, a correction in EDP Table 2 is necessary with B.9 impact. For 2017, the recording in EDP Table 2 shall be re-analysed taking into account newly sent data.

Deadline: 15 February 2019 for the analysis, 31 March 2019 for implementation

AP 63. Regarding the EU financial instruments, the Croatian statistical authorities will correct the current reporting (2016, 2017) and explore ways to ensure correct reporting in the future. For 2017, the Croatian statistical authorities will explain 2.5 billion HRK in other accounts receivable for transactions and stocks.

Deadline: 15 February 2019 for the analysis, 31 March 2019 for implementation⁴⁴

AP 64. In the EDP questionnaire table 6, the Croatian statistical authorities will report the accrual adjustments related to EU contributions, consistently with the EDP table 2.

Deadline: April 2019 EDP notification

AP 65. (a) The CNB will provide to Eurostat the ECB GFS table 1b.

Deadline: 31 December 2018 and continuous thereafter⁴⁵

(b) The CBS will provide to Eurostat supplementary table 2.

Deadline: together with April 2019 EDP notification and continuous thereafter

4.2.4. Military expenditure

Introduction

Data for the compilation of military equipment expenditure come from the Ministry of Defence and MoF. The pre-payments for deliveries of military equipment are made within the same year as a rule. No adjustments are made to the cash paid, as the whole amount has to be paid within 60 days with an exception in 2014, where pre-payments were in the last quarter of 2014 and the delivery took place in 2015. Regardless of the type of contract used by military forces for the procurement of military equipment, the financial statements of the Ministry of Defence are on so called "modified accrual basis", which was explained in part 1. All non-military GFCF by the Ministry of Defence according to GFCF survey are excluded from intermediate consumption. However, as stated in point 3.1 above, the survey data can be used only with a lengthy delay (~t+20 months). Furthermore, the EDP Inventory mentions that military expenditure is recorded based on FINA's 'modified accrual basis', and it is not clear how this reconciles with the specific military expenditure recording rules enshrined in the MGDD (recording based on delivery).

Discussion and methodological analysis

⁴⁴ The note was sent on 31 March 2019. The data on EU financial instruments for 2015-2018 were revised in the April 2019 EDP notification.

⁴⁵ The table was provided on 24 January 2019.

Eurostat pointed out that, according to the rules, expenditure for military equipment must be recorded at the time of delivery and that payables occur when the equipment is not paid during the same period (year, quarter). Eurostat took note that projects for which the government would have to pay in advance are not a common practice in Croatia.

Eurostat enquired about differences in recording of military expenditure between EDP Questionnaire table 7 and COFOG 02.1 (with deliveries reported in Questionnaire table 7 consistently smaller than those in COFOG). 'Within the same year rule' does not seem to be compatible with the carrying of stocks in AF.81rec. The functioning and the classification of Agencija Alan was also discussed during the meeting. Agencija Alan d.o.o., which pays dividends to the State, is an agency of the government, established for import and export of defence equipment and additional supervision of the defence equipment production for export⁴⁶.

Findings and conclusions

AP 22. Regarding military expenditure, the amount of GFCF recorded (particularly for 2014) shall be examined.

*Deadline: 31 January 2019 note to Eurostat, end-March 2019 for implementation in EDP and GFS data*⁴⁷

AP 23. The Croatian statistical authorities will verify the recording of P.51g in COFOG 02.1 in 2014 (as well as in EDP table 2A, questionnaire table 7 and ESA table 2) and reconcile with the recording of delivery information.

*Deadline: 31 December 2018, with any possible corrections to be undertaken at the next transmission deadline*⁴⁸

AP 66. Agencija ALAN d.o.o. is a government agency and will be reclassified to S.1311 from S.11. The delivery information for military equipment and any trade credit liabilities (in symmetry with delivery rules) will be adjusted on this basis.

*Deadline: 31 March 2019 (at least for the EDP notification years initially).*⁴⁹

4.3. Recording of specific government transactions

Introduction

Shipbuilding is one of the most significant industries in Croatia, with the four largest shipyards (Uljanik, Brodosplit, 3-May, and Brodotrogir) employing an estimated 7500-8000 people. The shipyards were privatised in the early 2010s, but they continued to be substantially subsidised by the

⁴⁶ <http://www.army-guide.com/eng/firm1937.html>

⁴⁷ The note and relevant data were provided on 31 March 2019. The Croatian statistical authorities revised data for 2015-2018. The previous years are to be followed up.

⁴⁸ The clarification was provided on 12 September 2019. The inconsistency was removed.

⁴⁹ The action point was completed in the April 2019 EDP notification.

government ever since privatisation. There is also a significant cross-shareholding in-between shipyards, with the largest one, Uljanik, holding a controlling stake in 3-May, for example. All important shipyards in Croatia are classified in S.11 Non-financial corporations sector.

Discussion and methodological analysis

The discussion focused on the treatment of subsidy transactions, and the issue of the subsidy split between D.31 and D.39 in particular. The text in the EDP Inventory was recalled, which states that “for restructuring of shipyards in Croatia, the amount of 889.2 million HRK has been paid from State Budget in 2016. In 2017 the amount paid was 457.6 million HRK.” In EDP Questionnaire table 10.1, majority of the amounts provided to the shipyards are being treated as financial transactions. Eurostat enquired if the conditions of ESA 20.198 for treating the amounts as financial are complied with. The CBS explained that the large subsidy transactions are being recorded at the moment a cash payment occurs, including transactions between the subsectors of general government. It was also discussed that the central government has issued a number of guarantees to back up the shipyards’ payables, debts and ship deliveries. Eurostat recalled that any guarantee calls should also give rise to claims/receivables by the government. Guarantees were discussed under the next agenda item (4.3.1.) Eurostat enquired about the large shipyard subsidies (889m in 2016, 500+m in 2017) and if there were any such subsidies in 2014 and 2015.

Eurostat also asked CBS to verify the general split between D.31 (product subsidy) and D.39 (general production subsidy), because of implications on the performance of the market/non-market test, also suggesting to add a capital injection test. The CNB replied that they would like to receive more detailed data from the MoF (data on transaction level) in order to be able to properly compile the split between D.31/ D.39 and D.9. Eurostat also enquired about the accrual adjustments made for subsidy payments, as well as for other transfer expenditure. The CBS replied that transfers to other general government units (both current and capital transfers), within and between subsectors are recorded on a cash basis in PR-RAS (limiting inconsistencies between the revenue and expenditure sides). Eurostat further enquired if cases exist where D.39 subsidies are paid to units inside general government.

Findings and conclusions

AP 67. Eurostat took note that the transfer expenditures are recorded on a cash basis in PR-RAS (by derogation from the general principle of modified accrual applicable to expenditure in these reports) for transfers to other units of general government, within and between subsectors, for both current and capital transfers, appropriately identifying corporations reclassified inside government—thus limiting inconsistencies between the revenue and expenditure sides. The statistical authorities will clarify whether subsidies (that are recorded on an accrual basis) are paid to units inside government (for those subsidies classified as D.39).

Deadline: June 2019

AP 68. The Croatian Statistical Authorities will correct the labelling of item 12d in EDP questionnaire table 4.1.1.

Deadline: 28 February 2019 for the analysis, 31 March 2019 for the implementation⁵⁰

⁵⁰ The action point was completed in the April 2019 EDP notification.

AP 69. Regarding shipyards, the Croatian statistical authorities will verify whether the government support to shipyards is in the form of subsidies on products (D.31) or subsidies on production (D.39) or capital transfers (D.9). They will provide a short note on the rationale, and will correct the recording if necessary. The Croatian statistical authorities will report if and what amounts were provided in 2014 and 2015.

Deadline: February 2019⁵¹

4.3.1. Guarantees

Introduction

The Croatian statistical authorities apply the three repeated guarantee calls rule at the level of the institution, leading to debt assumption of the whole outstanding debt of the institution which is under guarantee. It was also agreed in the past that trade credits under guarantee are reclassified as loans, when assumed by government at the moment of the third repetitive call.

Treatment of the individual calls of the guarantees in the Croatian EDP tables is considered correct: guarantee calls are treated as capital expenditure of general government with the impact on government deficit. In the past, government guarantees related mainly to the *Croatian shipyards*, majority of which are classified in sector S.11, following their earlier privatisations.

Discussion and methodological analysis

The discussion focused on the guarantee provided to Uljanik, the largest shipyard in Croatia. CBS/CNB informed that major calls were expected on guarantees provided to Uljanik in (December) 2018, even though the call amounts concerned were not (completely) known at the time of the visit (up to 14 December 2018). The total liabilities of Uljanik amount to ~HRK 5 billion and nearly all of them are guaranteed by the government.

Uljanik's liabilities are in two different categories: loans and advances, but the distribution between the two was not known. An Uljanik guarantee call of HRK 3.5 billion was expected by year end 2018. However, if one large ship order would be successfully completed by the end of 2018, the guarantee call will decrease to HRK 2.6 billion. This call will result in debt assumption by the government, but this new debt will be repaid immediately, so there will be no increase in government debt. This would represent the first call.

Eurostat enquired about a hypothesis where the HRK 3.5 billion call is paid in December 2018 and in January 2019 the large ship is completed, and if the government would assume ownership over the ship. CBS did not know the answer, but informed that there had been proposals to re-nationalize the shipyards.

Also, the EDP questionnaire table 9.3 was reviewed and compared to amounts shown in EDP table 2A and GFS ESA table 2. Anomalies were noted, especially visible in 2016. Eurostat enquired how EDP tables 2 and 3 can be reconciled in terms of guarantee-related transactions.

⁵¹ The note was provided on 24 April 2019 and the recording of subsidies was revised in the October 2019 EDP notification.

Findings and conclusions

AP 70. Regarding the guarantee(s) called in 2018 benefiting shipyards (amount to be determined), the Croatian statistical authorities will record full debt assumption with the first call. They will also clarify the appropriate recording in the case the expected large ship delivery is delayed until early 2019, while the guarantee is called by year end 2018.

Deadline: 15 February 2019, 31 March 2019 for implementation of any subsequently re-quired revisions⁵²

AP 71. The Croatian statistical authorities will verify the recording in EDP questionnaire 9.3 (magnitude of the numbers not reconcilable with ESA table 2), EDP tables 2A (particularly 2016) and ESA table 2. The Croatian statistical authorities will provide Eurostat with a note on the reconciliation between EDP tables 2 and 3.

Deadline: 31 January 2019, 31 March 2019 for implementation of any subsequently required revisions⁵³

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

Introduction

The Croatian statistical authorities provided, prior to the visit, an incomplete list of debt assumptions, cancellations and write-offs. Notable debt assumptions have occurred with HŽ Cargo d.o.o. (the cargo railways operator, in 2015-2017), and Imunološki Zavod d.d. (in 2015). Notable debt write-offs occurred in 2017, in the central government sub-sector.

Discussion and methodological analysis

Eurostat enquired about the reconciliation between Questionnaire table 9.1 (guarantee cash calls and repayments by the original debtor), and Questionnaire table 8 on central government claims (item 5a – Central government claims), which did not contain any amounts. CBS replied that the largest amounts in Questionnaire table 8 concerned HBOR. For HBOR, data on new lending and cash repayments of claims were not available. Therefore, in Questionnaire table 8, net transactions in claims for HBOR are reported according to the sign, i.e. positive in column 4 (new lending), and negative in column 7 (cash repayments). The discussion then focused on the lack of cash flow statements as data sources. The cash flow statement of HBOR, for example, could have been analysed in order to infer gross amounts.

The lack of cash flow statements could even have led to inaccuracies in EDP table 2A. Eurostat strongly advised that the MoF help compilers, in particular by providing them with cash flow statement data. In the long term, cash flow statement data should be incorporated in FINA, while in the short term the MoF should assist the national EDP WG to collect and use the available cash flow

⁵² The note was provided on 31 March 2019. The recording of the guarantee calls and the debt assumption for shipyards was discussed and implemented during the April 2019 EDP notification.

⁵³ The clarification was provided on 25 September 2019 and the corrected reporting in relevant tables was implemented in the October 2019 EDP notification.

statements. This point had been discussed at length during the previous EDP dialogue visit in January 2017. Overdrafts on government bank accounts were also discussed.

Additionally, the reclassification of the Croatian passenger railways (HŽPP) was discussed. The capital transfer shown for 2015 due to the related debt assumption (HRK 800+ million) will be moved from 2015 to an earlier point, since it was discussed that HŽPP broke the MNM test earlier than in 2015. The increase in the debt in 2015 of HRK 600+ million, due to the same reclassification, was due to the fact that HBOR (classified in S.1311) had a claim to HŽPP of approximately HRK 200 million. Eurostat warned that this reclassification of HŽPP created a statistical discrepancy in EDP table 3B, which needs to be addressed. Furthermore, the fact that EDP table 3B contained other change in volume (in relation to the same capital transfer) shows the lack of coordination between the Croatian statistical authorities.

Findings and conclusions

AP 72. Eurostat took note that, currently, the Croatian statistical authorities do not have available separate data on the increase and decrease of loans provided by HBOR to companies reported in the EDP Questionnaire Table 8. Eurostat encouraged the authorities to seek other data sources to obtain the requested split and, until then, to report the net transactions in column 3, if positive, or alternatively in the column 6, if negative.

*Deadline: April 2019 EDP notification*⁵⁴

AP 73. CNB will provide Eurostat their analysis of HBOR indexed instruments and the currency structure of their loans.

*Deadline: 28 February 2019*⁵⁵

4.3.3. Capital injections in public corporations

Introduction

The CBS receives data on individual capital injections from the MoF. For companies with current losses, equity injections are treated as capital transfers in national accounts. At central government level, the capital injection test is applied for all amounts. Data on individual transactions for budgetary central government are provided by the MoF on quarterly basis. Data consists of financial cash transactions on accounts (53) Expenses for equity investments in corporations and (83) Receipts from sale of equity stakes in corporations from Chart of accounts from level 13 of budgetary central government. For each transaction in account (53) Expenses for equity investments in corporations, capital injection test is performed on individual basis and treatment in national accounts is agreed in the national EDP working group. For other units classified in general government, part of central government, local government and social security funds, the data are available on aggregated level through financial reports on quarterly basis, collected by FINA. The same accounts are used in the

⁵⁴ The progress note was sent to Eurostat on 23 September 2019 and, during the October 2019 EDP notification, data were revised according to more detailed information. Gross recording is however still not available and will be followed up.

⁵⁵ The note was provided on 31 March 2019.

calculation, but it is not possible to perform individual capital injection testing. Those transactions are considered financial transactions, unless specific questions had been raised. CNB processes the data, and presents results to the EDP working group which then makes final decision based on profit and loss account of company in question, and whether there are private units involved. No quasi-corporations exist.

Discussion and methodological analysis

The discussion focused on the capital injection testing for the list of the (large) capital transfers by HBOR. CNB informed that a process was started to define what is considered within and outside of the Agrokor group (discussed under point 3.8 above). The units within the group, once the list is ready, will be capital injection tested. CNB informed that they could not, at the time, perform the capital injection test as they did not have gross transactions in loans. Only partial information was found, e.g. on HBOR's loan to Petrochemia, which was classified as capital injection, even though Petrochemia is a publically quoted company. CNB informed that they will set up a procedure to continuously evaluate the lending from HBOR. The statistical authorities were not aware of capital injection testing done on large transactions of HBOR within the past four years, other than that for Petrochemia.

Eurostat also enquired about equity operations by the government and CNB replied that aside from the banking sector (financial crisis related) there were no equity operations, including notably by HBOR. Therefore mainly two forms of government support existed: capital transfers and subsidies. Some debt-to-equity swaps have occurred, e.g. in the case of Petrochemia.

Also, the transaction to re-capitalise Hrvatska Postanska Banka in the aftermath of the 2008 financial crisis was discussed. There were two pre-existing financing instruments by S.13 corporations, which were converted into equity—a convertible bond held by DAB (the deposit insurance agency) and a subordinated deposit by the Decommissioning Fund for the Krsko Nuclear Power Station. Eurostat enquired about the circumstances under which these two instruments appeared and recalled that the both may have to be recorded as capital transfers at the moment of inception, rather than at the moment of the conversion into equity, as seemed to be the case.

Findings and conclusions

AP 74. The Croatian statistical authorities will clarify whether the acquisition of the DAB convertible bond and the constitution of the Krsko Decommissioning Fund's subordinated deposit, later converted into equity of Hrvatska Postanska Banka, would not need to be recorded as capital transfers at inception, i.e. at the time when acquired or constituted.

*Deadline: April 2019 EDP notification for an analysis*⁵⁶

4.3.4. Dividends, super dividend testing

Intriduction

⁵⁶ The note was sent on 31 March 2019.

Data on revenue from dividends and withdrawals from income are available at the central budget level from the Ministry of Finance. The super dividend test is performed by CBS on the unit level using operating profit from financial statements of corporations. In Croatia there are typically no interim dividends. At the local government level the super dividend test is not performed because the amounts are considered very small and immaterial.

Discussion and methodological analysis

Eurostat enquired about the super-dividends shown in Questionnaire table 10.2 and the methods utilised when testing for super-dividends. CNB replied the data source is the FINA financial reports. Operating profit rather than net profit was being used for the formula and the testing was performed by the CBS. No super-dividend testing was being performed on *local government units*, because the amounts concerned were considered too small. Eurostat advised that *statistical approach be undertaken* for local government units: i.e. when dividends are received, the outliers (historical and absolute amounts) should be set out and tested. Eurostat noted that the D.4 revenue amounts for local government were not negligibly small.

Findings and conclusions

AP 75. The Croatian statistical authorities will report the amounts of dividends received by local government. They will examine the opportunity to carry out a statistical treatment for outliers, as a proxy for the super-dividend testing of S.1313 equity holdings. The statistical authorities will verify that the concept of 'operating profit', being subject of comparison with the dividend, corresponds to an operating profit/ distributable income concept in line with ESA 2010. They will report to Eurostat the appropriate FINA lines used for this test.

Deadline: February 2019

4.3.5. Financial derivatives

Introduction

Derivative instruments are limited to bonds issued originally in USD, which are hedged with cross-currency swaps into EUR (under fixed-interest rates). Prior to the meeting, Eurostat requested that CBS/ CNB fill a derivatives template, however this template was not available during the meeting.

A note on financial derivatives sent in January 2017 informed that transactions are calculated by the CNB on the basis of a structure-of-debt data provided by the MoF. Such transactions have no impact on B9 (and B9f). Stocks are calculated by CNB as difference of discounted flows on two derivative legs, using USD and EUR yield curves respectively. In EDP tables, financial derivatives are recorded on gross basis, and in QFAGG they are recorded on net basis (per ESA2010 5.229). There have been no restructuring/renegotiations of swaps, no swap cancellations, and no swaptions and off-market swaps, as confirmed by the MoF. EDP debt stock is valued according to the after-swap valuation principle.

Discussion and methodological analysis

Eurostat encouraged CBS/ CNB to fill in the derivatives template table provided to CBS prior to the meeting. Eurostat informed CBS that the main issue with derivatives is the termination currency

swaps. CNB replied that they were treated as pure financial transactions, with no impact on B.9, which can be seen in EDP table 3B. Eurostat also enquired about the coupon paid in the table on interest, which concerns a SWAP from USD to EUR, and its reflection in the working balance, specifically about the currency basis of the entries in the working balance (EUR or USD). CNB replied that foreign currency debt is approximately EUR 1.5 billion and only the USD bond portion of this debt is being hedged. Eurostat raised the awareness of a potential currency basis mismatch between national accounts recording and EDP table 2 recording. Eurostat enquired about the basis of recording interest on USD bonds.

Findings and conclusions

AP 76. The Croatian statistical authorities will confirm that interest on the USD bonds is recorded before swaps (B.9 impact). They will also clarify the basis of recording in the working balance of the related interests and whether, accordingly, there is a need for an adjustment line in the EDP table 2A in relation to those swaps. Eurostat indeed noted that the swap adjustment line in the table 2A was left empty. The statistical authorities will report the amount of debt under swap over 2014-2018.

*Deadline: April 2019 EDP notification for the verification*⁵⁷

AP 77. Furthermore, the statistical authorities are invited to fill in the draft derivative template provided by Eurostat.

*Deadline: June 2019*⁵⁸

4.3.6. PPPs, concessions and energy performance contracts (EPC)

4.3.6.1. PPPs

Introduction

Prior to the visit, the Croatian statistical authorities provided a short note on the list of all PPP contracts. The first PPPs were contracted in 2005 and currently there are in total 14 PPPs from which 13 are since 7 years in operational phase and one is in construction. Out of 14 PPPs, 12 projects are recorded off-balance sheet. The total market value is approximately EUR 360 million.

On the ground of the Public Private Partnership Act, the Agency for Public Private Partnership (Agencija za javno-privatno partnerstvo, AJPP) was established as a central national authority in charge for evaluating, approving and monitoring the implementation of PPP projects. In March 2015, AJPP was merged into the Agency for Investments and Competitiveness, which has retained all the activities of the former AJPP. Pursuant to Article 7 of the Act on PPP, the public body shall deliver to the Agency Information on intention to implement a project.

As there is the central PPP unit, CBS receives information regarding new PPPs. Besides, the PPP unit keeps the public register of newly announced, approved and contracted PPPs. In every single PPP

⁵⁷ The note was sent on 6 February 2019 and an updated note on 31 March 2019.

⁵⁸ The table was provided on 11 June 2019 and further clarifications on 17 July 2019 and on 6 September 2019.

contract there are provisions allowing the PPP Unit to deliver the contract to CBS. Risk assessing is provided in cooperation of the PPP unit and CBS. In specific cases experts will be engaged.

Discussion and methodological analysis

Discussion focused on the list of PPPs published by the AIK Investment Agency (investcroatia.gov.hr/en/ppp/ppp-projects/). Eurostat enquired about off-balance sheet PPP contracts and asked clarification questions about a new sizeable PPP transaction ([Square of justice – Zagreb](#)). The correct and complete reflection of PPP contracts in table 11 of the Questionnaire related to EDP tables was discussed.

Findings and conclusions

AP 78. The Croatian statistical authorities will provide the contracts of all off-balance sheet PPPs currently existing in Croatia and the contract for Square of Justice – Zagreb, when the latter becomes available. They will correct the reporting in table 11 of the Questionnaire related to EDP tables.

Deadline for PPP contracts: February 2019⁵⁹

Deadline for the EDP Questionnaire: April 2019 EDP notification

4.3.6.2. Concessions

Introduction

Bina Istra motorway is by far the only notable (on-balance-sheet) concession, whereby the government is guaranteeing to the private operator coverage of the operating costs plus a set return on investment. Some contingent liabilities exist in case of an early cancellation of the concession contract. This concession was re-classified on balance in 2015 according to a decision by the CBS, to which Eurostat agreed. Since then, Bina Istra's actual debt was put inside the government debt, with implications on EDP table 2A, which has now been showing notable positive adjustments.

This arrangement is similar to a sale-lease-back operation whereby the government takes an asset under a financial lease, and then leases it back to the operator under an operating lease. As a consequence, the investment in the concession asset appears as GFCF in government accounts, while interest on the financial lease appears as D.41 expenditure. On the operating lease side, the government receives P.1 service contract. Such arrangement causes a negative B.9 effect during initial investment-intensive years (high GFCF and D.41 costs), but then gradually operating lease revenue starts to exceed costs.

Discussion and methodological analysis

Eurostat enquired about the nature of a constantly changing adjustment to EDP table 2A. A lease and lease-back model entails relatively fixed amounts of adjustment. This warrants caution in treatment. Eurostat also enquired why tolling revenue is being booked in addition to the operating lease revenue (the private operator's profit/loss should not in principle affect the government's B.9). If government

⁵⁹ The information was sent on 19 February 2019 and some PPP contracts were provided during the April 2019 EDP notification and the remaining contracts on 23 September 2019.

B.9 improves over time, it is expected that this is due to falling GFCF and D.41 costs, while keeping P.1 relatively stable (in an imputed debt model). The appearance of F.8 was also discussed (F.4 decreasing, with F.8 increasing). CBS informed that a major new construction was expected to start in Bina Istra.

Findings and conclusions

AP 79. In relation to Bina Istra, Eurostat recalled that the concession is considered on-balance sheet due to the exposure of government to the risks and rewards of this concession. The Croatian statistical authorities will investigate the need to switch from an actual debt rerouting method, as currently followed, to an imputed debt model (lease and lease-back model). Eurostat advised that the additional revenue representing the operating lease back (or equivalent) be classified in P.1 rather than D.7. The imputed debt recording would avoid the current artificial recording within F.8, and also allow a net operating surplus of the private operator.

Deadline: October 2019 EDP notification⁶⁰

4.3.6.3. Energy Performance Contracts (EPC)

Introduction

The Croatian statistical authorities provided an update note on EPCs. The first EPC contracts were signed in 2015, with total contracted value of less than 10 million EUR. During the December 2016, an improved data collection system was agreed among MoF, CBS and CNB, according to which MoF officially set up a collection of all EPCs signed in a particular year by all units of general government foreseen to be performed by the AIK (the Croatian Investment Agency).

Discussion and methodological analysis

The modalities of the existing EPC contracts were discussed with an expert from the Ministry of Energy/ the Energy Efficiency Fund (EE Fund), represented by an EPC expert during the meeting. During 2016, an improved data collection system was agreed. The legal successor of the Agency for public-private partnership (currently the Ministry of Economy) is in charge of the collection of all EPCs signed in a particular year by all units of general government. Delivered EPCs are being forwarded to the AIK (Agency for Investment and Competition) which inserts all relevant and agreed data for statistical purposes from contracts into Excel, makes further analyses to confirm whether or not each contract have a PPP elements, and sends the data to CBS and CNB.

Existing treatment of EPC contracts is off-balance-sheet. The EPC expert asked Eurostat to reflect about the interpretation of the Eurostat/ EIB Guide to the effect that all public funding made alongside EIB funding (on similar terms) should not be considered public funding in the meaning of the Guide. Eurostat took note of the question, but recalled that the situation is very fluid pending a future Eurostat decision on the basis of a special CMFB opinion related to EPCs. Eurostat recalled that the CMFB provided an opinion on EPC, which would lead to classifying many EPCs on-balance sheet in a

⁶⁰ On 23 September 2019, the Croatian statistical authorities provided a clarification. Eurostat will follow up.

systematic manner (due to the risk-reward profiling of the energy savings risks). It was noted that the EE Fund is receiving some para-fiscal charges (levies).

Findings and conclusions

AP 80. In relation to EPC contracts, the Croatian statistical authorities will verify to what extent the funds raised from the Croatian Fund on Energy Efficiency constitute public financing in the meaning of the Eurostat Guidance Note and the Eurostat/EIB Guide. This seems rather likely to the extent that the Energy Efficiency Fund is classified inside government. On this basis, the statistical authorities will reclassify - if appropriate - the EPC on balance sheet by way of statistical adjustment, if required, in time for the benchmark revision.

Deadline: June 2019

4.3.7. Others: emission trading permits, privatisation, sale and leaseback operations, UMTS, securitisation

4.3.7.1. Emission trading permits

Introduction

Information about auctions of ETS permits is provided by the Croatian Environmental Ministry. So far a mixture of accounting methods has been used to unwind cash revenues into ETS-related D.29 tax revenue. The method, which is currently used is the so called 'fifo' method, described in the MGDD (2016 edition).

Discussion and methodological analysis

Eurostat thanked CBS and CNB for providing an updated ETS permit table and enquired about the method used to unwind cash proceeds into D.29 tax. CNB replied that all ETS revenue is reported in the year of surrender and that they essentially report on a cash basis, even though they intend to use the so-called *fifo* method described in the MGDD chapter on ETS.

Findings and conclusions

AP 81. In relation to the ETS recording, the Croatian statistical authorities will reflect on the opportunity to switch to a preferable recording method compared to the current quasi-cash method being followed (the latter following an optional recording currently allowed in the current MGDD – the 2016 edition). The result of an on-going consultation in the EDPS WG on this subject can be awaited.

Deadline: October 2019 EDP notification

4.3.7.2. Privatisation

Eurostat enquired about ongoing and planned privatisations in Croatia. The CBS informed Eurostat that there are no significant privatisation processes ongoing or planned. Some sales of equities in public corporations at the level of local government have taken place, but the amounts are not significant. The Croatian statistical authorities confirmed that they apply a prudent approach and did

not record any revenue to local government from those sales. The Center for Restructuring and Privatization continues to have some current revenues, which are being reflected in Questionnaire table 10.

4.3.7.3. Sale and leaseback operations and securitisations

CBS confirmed that securitisation operations and sale and leaseback operations are not taking place. In a wider sense, the Bina Istra concession contract can be viewed as a financial lease to an operating lease back operation (for details, please refer to section 4.3.6.2 Concessions).

4.3.7.4. UMTS licenses

CBS informed that UMTS licenses are the responsibility of a special unit (HAKOM), reclassified into government following the 2015 dialogue visit (reclassification effective since inception). This unit has served as the de facto regulator of UMTS services. CBS confirmed that license sale revenues are being spread out and recorded as rent, allocated over the years of the respective contracts in accordance with the Eurostat decision on UMTS licenses (as already described in the EDP Inventory).

5. Other

Agenda of the meeting

1. Statistical institutional 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 in the context of ESA 2010 implementation, EDP inventory
 - 1.2.1. Availability and use of data sources, revision policy
 - 1.2.2. Compliance with Council Directive 2011/85
 - 1.2.3. EDP Inventory

2. Follow-up to the previous EDP visit of 18-20 January 2017

- 2.1. Former action point (AP) 2: sufficient EDP staffing at the CBS
- 2.2. Former AP4: revised Annexes to the Memorandum of Understanding (from 2013)
- 2.3. Former AP10: analysis of differences with money and banking statistics data
- 2.4. Former AP22: quarterly information on GFCF from the 5 biggest investment units
- 2.5. Former AP25: monitoring of units with MNM test close to 50%
- 2.6. Former AP46: the law on the conversion of loans from Swiss francs into euro
- 2.7. Former AP49: table on interest

3. Analysis of EDP tables – follow up of the April 2018 and October 2017 EDP notifications

- 3.1. Recording of investment (GFCF)
- 3.2. AF.3 liabilities consolidation
- 3.3. HŽPP's (passenger railways) re-sectorisation into S1311
- 3.4. Taxes and social contributions
- 3.5. Re-sectorisation of tourist boards
- 3.6. Statistical discrepancies in EDP tables
- 3.7. EU flows

- 3.8. The 2017 Law on Procedures for Extraordinary Management in Companies of Systemic Significance (Agrokor)
- 3.9. Support to financial institutions (financial crisis tables)
- 3.10. Historical EDP tables

4. Methodological issues and recording of specific government transactions

- 4.1. Delimitation of general government sector
 - 4.1.1. Sector classification of specific units (public transport companies, public holdings, units engaged in financial activities)
 - 4.1.2. The performance of the Market-Nonmarket test and Government controlled entities classified outside general government (public corporations)
- 4.2. Implementation of accrual principle
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest and consolidated interest
 - 4.2.3. EU flows
 - 4.2.4. Military expenditure
- 4.3. Recording of specific government transactions
 - 4.3.1. Guarantees
 - 4.3.2. Debt assumptions, debt cancellations and debt write-offs; government claims
 - 4.3.3. Capital injections in public corporations
 - 4.3.4. Dividends, super dividends
 - 4.3.5. Financial derivatives
 - 4.3.6. PPPs, concessions and energy performance contracts (EPC)
 - 4.3.7. Others: emission trading permits, privatization, sale and leaseback operations, UMTS, securitisation

5. Any other business

List of participants

Croatian Bureau of Statistics (CBS)

Mr Marko Krištof
Ms Suzana Čajkusic
Ms Marija Gojević
Ms Valentina Hudiluk (during part I)
Ms Monika Vaniš
Mr Milan Milković
Ms Zrinka Pavlović

Croatian National Bank (CNB)

Mr Nikola Ljubic Karanović
Ms Lidija Hećimović
Ms Srebrenka Gudan
Mr Tomislav Džidić
Mr Tomislav Galac (confirm?)

Ministry of Finance (MoF)

Ms Ivana Vargašević
Ms Hana Zoričić
Ms Dubravka Flinta
Mr Stipe Župan
Ms Željka Papež
Ms Sanja Krišto
Ms Mirela Vuković
Ms Mateja Alilović

Tax Administration

Ms Gordana Marić
Ms Danijela Duvnjak

Agency for Investments and Competitiveness

Mr Domagoj Dodig
Mr Slavko Čolak

Ministry of Defence of the Republic of Croatia

Representative

European Commission

DG ESTAT Directorate D (EDP and GFS)

Mr Luca Ascoli (during part I)
Ms Gita Bergere
Ms Laura Wahrig
Mr Philippe de Rougemont (during part II)
Mr Martim Assuncao (during part I)
Ms Daniela Ilavska (during part II)
Mr Vassil Georgiev

DG ECFIN

Mr Arian Peric
Mr Gerrit Bethuyne

European Central Bank (Observer)

Mr Hans Olsson