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

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FINAL FINDINGS

EDP standard dialogue visit to Croatia

16-18 December 2019

Executive summary

Eurostat undertook an EDP dialogue visit to Croatia on 16-18 December 2019, as part of its regular visits to Member States, with the aim to assess the existing statistical capacity, data exchanges and institutional cooperation, to review data sources for the EDP/GFS data compilation and to verify the implementation of ESA 2010 methodology, mainly for the sector classification of units, for the accrual recording of investment, taxes, EU flows, and interest, and for the recording of specific government operations.

Eurostat reviewed the institutional responsibilities in the framework of the reporting of EDP and GFS data. This part of the discussion largely focused on the ongoing process of updating the Memorandum of Understanding. Together with a commitment on strengthening of personnel capacity of the Croatian Statistical Office, the update of the MoU forms part of the prior commitments adopted by the Croatian statistical authorities with a view of joining the European Exchange Rate Mechanism (ERM 2).

As regards data sources, Eurostat reviewed the progress achieved in the implementation of an IT project on financial and statistical reporting. The revision policy was discussed only to a minor extent, since it was being updated, foreseen to be completed in the beginning of 2020.

Progress achieved by the Croatian statistical authorities on open action points from the EDP dialogue visit in 2018 was also discussed. The outstanding issues were mainly followed up under the respective points of the agenda.

A particular attention was devoted to the delimitation of general government. Eurostat reviewed the formula of the market/ non-market test and the application in the sector classification of units. In this relation, several action points were defined, aimed at the adaptation of the market/ non-market test and reclassification of units identified in the meeting. The sector classification of some public transport companies and units under specific NACE codes was also discussed and will be followed up in the October 2020 EDP notification.

On the issue of taxes and social contributions recording, it was concluded that stocks and flows of other accounts receivable relating to taxes and social contributions would be revised for the years prior to 2015, following the change in data sources agreed with Eurostat. In addition, the Croatian statistical authorities will obtain separate data on tax refunds so that the other accounts payable relating to taxes and social contributions could be reported in EDP/GFS statistics.

The discussion continued on the implementation of rules for the recording of the EU flows and of the so-called EU financial instruments. Eurostat stressed that the neutrality principle of EU flows recording had to be followed in general and in the specific case of EU financial instruments, too. Eurostat also reviewed the recording of interest in national accounts and asked the Croatian statistical authorities to provide corrected and consistent data in the specific template submitted by Eurostat.

Concerning the recording of gross fixed capital formation, the Croatian statistical authorities will revise the data for the years before 2016, following a change in data sources. Eurostat took note that, for these particular years, the deviation between previous and new data source might be considerable and would need further analysis.

In relation to specific government transactions, Eurostat reviewed the reporting of guarantees, including guarantees provided to shipyards, of government claims and of capital injections in the specific tables of the Questionnaire relating to the EDP tables. Eurostat took note that the Croatian statistical authorities were currently working on obtaining the gross transactions on increases and decreases of central government claims.

Concerning Public Private Partnerships, Eurostat concluded that two contracts were de facto concessions rather than PPPs and asked the Croatian statistical authorities to provide a simulation of the lease and lease-back model. In relation to EPCs, the Croatian statistical authorities will review the recording of EPCs based on the previous standardized contract, taking into account some elements pointed by Eurostat in the meeting.

Other issues discussed included the recording of decommissioning costs, financial derivatives, emission permits and the upcoming expiry of derogations in the ESA 2010 transmission programme related to GFS.

Final findings

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Croatia on 16-18 December 2019.

The delegation of Eurostat was headed by Ms Gita Bergere, Head of the Unit D2 - Excessive deficit procedure (EDP) 1. Eurostat was also represented by Ms Laura Wahrig, Mr Philippe de Rougemont and by Ms Daniela Ilavska. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Croatian authorities were represented by the Central Bureau of Statistics (CBS), the Ministry of Finance (MOF) and the Croatian National Bank (CNB). Representatives from the Ministry of Finance - Tax Authority, the Ministry of Economy and APN (EPC) also participated for some points of the agenda.

The previous Eurostat EDP dialogue visit to Croatia took place on 8-9 November 2018 (Part I) and on 13-14 December 2018 (Part II).

Eurostat carried out this EDP dialogue visit in order to (1) to assess the existing statistical capacity, data exchanges and institutional cooperation, (2) to review data sources for the EDP/GFS data compilation, (3) to verify the implementation of ESA 2010 methodology, mainly for the sector classification of units, for the accrual recording of investment, taxes, EU flows, and interest, and for the recording of specific government operations.

The main recommendations regarding the structural capacity of the Croatian statistical authorities to compile reliable EDP/GFS data concern:

- (1) the need for the CBS to streamline its current Excel compilation system, to ensure enhanced automation and increased exploitation of individual data,
- (2) the need to ensure that the ongoing IT project of the Treasury on statistical and financial reporting (and related forthcoming Ordinance) eventually allows increased access by the CBS and the CNB to the required detail on balance sheets and inflows/outflows of budgetary units (exploiting to the maximum the potential of the chart of accounts), so to encompass a 'closed system',
- (3) the need for the CNB to exploit FINA data information when compiling the ESA financial accounts, at least as a mean of cross-checking other existing source data.

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

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

1. Statistical institutional issues

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

1.1.1. Coordination among national statistical authorities

Introduction

The cooperation and exchange of relevant data is administered by the Memorandum of Understanding (MoU) concluded between the CBS, the CNB and the MOF in 2013. At the time of the meeting, the statistical authorities were working on the MoU update.

Within this framework, the CBS is responsible for the sector delimitation and maintaining of the Statistical Business Register and for the compilation of ESA quarterly and annual non-financial accounts, COFOG and EDP tables (in cooperation with CNB and MOF). Quarterly and annual financial accounts and Maastricht debt are compiled by the CNB. Planned figures for EDP reporting are provided by MOF.

Discussion and methodological analysis

In relation to the ongoing update of the MoU, Eurostat enquired about the main changes encompassed in the current draft agreement and in related Annexes. The Croatian authorities explained that an emphasis was placed on the improvement of processes for taking sector classification decisions, shortening the deadlines for data deliveries and introducing the possibility to conclude bilateral agreements with other bodies providing information necessary for GFS/ EDP compilation.

Concerning the sector classification issues, the proposed changes were aimed at solving situations when the Sub-committee for Sector Classification was not able to meet or to take decision due to non-availability of some of its members. The Croatian statistical authorities confirmed that, in such case, the meeting of the Sub-committee was cancelled. In addition, Eurostat took note that, since the previous EDP dialogue visit in 2018, the Sub-committee met on a very sporadic basis. Therefore, in the updated MoU there was a need to emphasise the role of the Sub-committee for Sector Classification and to reinforce the position of the CBS by a provision that, in case of absence of consensus, the final decision on the sector classification stays with the CBS. Furthermore, according to the draft MoU, there is an intention to have an updated list of general government units available before the 15 January of each year. Therefore, the process of updating the list of general government units was foreseen to start already in June of the previous year, after receiving the data for non-financial corporations. That would imply the obligation to inform the newly reclassified entities about their reporting obligations towards the national statistical authorities. In the meeting, however, it was not clear which institution would take the responsibility of informing the newly reclassified entities about the scope and timeliness of their reporting obligations. Eurostat took note that this would be agreed later on and included in the final version of the MoU. According to the updated proposal, the Subcommittee is supposed to meet approximately ten times during the year. A specific part of the MoU will describe the process of sector classification decisions taken by the Subcommittee in the so-called *gantogram*, which is a chart indicating the project schedule with tasks and dedicated time intervals.

Other improvements concerned a harmonisation of the reporting forms used by budgetary units and other government bodies, including those that were recently reclassified inside general government. According to the draft MoU, the MOF should also provide information to the CBS about concessions, such as the duration of the construction period, amount and recording in public accounts.

Eurostat took note of the explanations and asked the Croatian statistical authorities to provide the draft MoU together with the note explaining the main changes. After being signed, the final version of the MoU, including the updated Annexes, will be provided to Eurostat.

Findings and conclusions

- (1) The Croatian statistical authorities will send to Eurostat the draft Memorandum of Understanding (MoU) for review, together with a note outlining the main changes compared to the MoU currently in force (concluded in 2013). After being signed by the Croatian statistical authorities, the final version of the MoU will also be sent to Eurostat.

Deadline for the draft MoU and the accompanying note: end-December 2019¹

Deadline for sending the final MoU: after the MoU is signed²

1.1.2. Personnel capacity issues in CBS

Introduction

In two previous visits, Eurostat identified issues in relation to inadequate personnel resources in the CBS. In the EDP dialogue visit in 2018, Eurostat stressed the importance of ensuring sufficient personnel resources and minimal methodological capacity at the CBS in order to compile quality and timely EDP/GFS data. In addition, Eurostat observed significant staff turnover within the CBS that could have a negative effect on the production and dissemination of data. The identified drawbacks were included in the four prior commitments on statistics that Croatia adopted in a view of joining the ERM 2 mechanism.

Discussion and methodological analysis

Prior to the meeting, the Croatian statistical authorities provided to Eurostat two reports on the status of implementation of two measures: ‘Strengthening of the capacities of statistical bodies’ and ‘Adoption of the new Official Statistics Act’, both in the context of prior commitments. According to the first report, several measures were adopted in order to improve the collection, compilation and dissemination of statistical data. The one particularly discussed was the adoption of the new Regulation on Internal Organisation of the CBS approved by government in August 2019. Together with the new Ordinance on internal order of the CBS, both adopted measures were aimed at increasing the staff level and reorganisation of the CBS’s internal structure. As concerns the Macroeconomic Statistics Directorate, the CBS clarified that personnel had recently increased by 11 staff and higher job complexity ratios had been proposed in order to ensure highly qualified staff. Eurostat took

¹ The draft MoU, without Annexes, was sent to Eurostat on 24 December 2019.

² The core text of the MoU without annexes was signed on 31 January 2020 and provided to Eurostat on 8 April 2020.

note that, currently, three experts worked for the EDP compilation and one additional position was open for public announcement. Moreover, an IT expert was assigned to the EDP unit in July 2019 to work full time as an IT support.

The Croatian statistical authorities also informed Eurostat about the existing draft proposal for the Official Statistics Act that was foreseen to be adopted in the first quarter of 2020. The previous version of the Act has not been updated since 2013. In the meeting, the Croatian statistical authorities specifically described those provisions of the Act that concerned the implementation of prior commitments in the area of statistics, i.e. to enhance the CBS's coordination role in the statistical system and to facilitate the CBS's access to administrative registers of reporting units. In order to harmonise the existing arrangements with the European Statistical System, the draft Act changed the definition of conditions for the appointment and dismissal of the Director General and professional independence. Eurostat took note of the explanation and informed the Croatian statistical authorities that all measures adopted in the framework of the prior commitments would be subject to assessment by the Commission in the first half of 2020.

Findings and conclusions

- (2) The Croatian statistical authorities will provide to Eurostat the internal Regulation on internal organisation of the CBS and the new Ordinance on internal order of the CBS, together with a progress note on the implementation of the prior commitment relating to the reinforcement of the capacity of statistical authorities (including through increased qualified personnel resources).

Deadline: end-December 2019³

- (3) Eurostat took note of the recent increase in staff in charge of GFS/ EDP at the CBS and encouraged the authorities to adopt as soon as possible the practical measures proposed by the CBS so to structurally ensure sufficient personnel resources and retention of methodological expertise in the GFS/ EDP domain.

Deadline: ongoing

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

1.2.1.1. Automated compilation procedures and IT infrastructure

Introduction

All budgetary and extra-budgetary units provide their financial reports to FINA – the institution responsible for the collecting and disseminating financial data from various units included in the general government sector. The reports follow a "modified accrual principle", i.e. expenditure is on an accrual basis (with some exceptions) and revenue is on a cash basis.

³ The internal Regulation on internal organisation of the CBS and the new Ordinance on internal order of the CBS were provided on 18 December 2019.

The budget execution report for the State budget is generated by the SAP IT system of the State Treasury, on a cash basis. In accordance with the Budget Act, reports on budget execution, respectively on execution of financial plans are compiled also by local budgets, respectively by extra-budgetary users at central and local levels. The reports on the State budget execution and execution of financial plans of extra-budgetary users at central level are submitted to the Parliament, while the reports at local levels are submitted to the relevant local bodies (assemblies, councils).

In case of other central and local government bodies, having accounting systems other than budgetary, the CBS directly receives preliminary statements in March and these data are used for the April EDP notification. Final statements for those units are available in June and they are used for the October EDP notification.

Other data sources are reports of social security funds, annual financial reports of non-financial corporations, annual financial reports of non-profit institutions, CNB's money and banking statistics, CNB's external debt statistics, CNB's survey on intra and inter-governmental holdings of general government debt securities, CNB's survey on transactions on debt assumed by the government, report on stocks and transactions in shares and other equity by the Ministry of State Property and CERP, satellite report on UMTS, satellite report on emission trading permits, CNB's profit and loss account for the super dividend test of transfers to the State budget.

In 2018, the Croatian authorities (in particular the Croatian MOF) launched an IT project called 'Financial and statistical reporting' that aimed at improving the financial and statistical reporting of data to the CBS and CNB.

Eurostat followed up on the issue of bridge tables and, in particular, on the automation of data compilation using the bridge tables. The revision policy was also discussed.

Discussion and methodological analysis

IT project on Financial and statistical reporting

Eurostat enquired about progress in the implementation of the IT project since it was discussed in the previous EDP dialogue visit in 2018. The Croatian statistical authorities explained that the project preparation entered into its last phase, i.e. a tender for the development of a new application aimed to collect and analyse financial statements from all reporting entities. The project is foreseen to be operational after 18 months of the development period, i.e. in the mid-2021.

Eurostat asked about the expected achievements of the new project, mainly in comparison to the existing system. It was explained that, by means of the IT project, both CBS and CNB would access data from financial statements of the budgetary users in a shorter time and in a more user-friendly and processable way. It was however noted that the access to individual general ledgers of the budgetary units, as proposed by Eurostat, would still not be possible.

The Croatian statistical authorities informed Eurostat that, in the coming phase, compilers of statistical data would become actively involved by defining their statistical needs. Outcomes of those consultations will be considered in the forthcoming Ordinance on financial reporting of the MOF that is expected to be released in 2020. As a part of the new financial reporting,

the Croatian statistical authorities will attempt to introduce the so-called *gross balance sheets*, as proposed by the CBS and CNB, so that the closed system, already discussed and recommended by Eurostat in previous EDP visits, could be reached.

Eurostat took note of the explanations and considered the IT project and the foreseen Ordinance as an occasion to increase the detail of data reported, notably on the balance sheet. The Croatian statistical authorities will provide a progress report, indicating how a closed system could concretely be reached.

Data sources

The discussion continued with information on the progress achieved in the implementation of the so-called *closed system*, already discussed in two previous EDP dialogue visits. Eurostat recalled that an inevitable condition of the closed system is the reconciliation of inflows/ outflows in the profit and loss statement and in the cash report with stocks reported in the balance sheet.

The Croatian MOF explained that, under the existing system, this reconciliation was not possible due to various reasons. One of them was the recording in the SAP system used by the MOF for central budgetary units of the so-called *storno*, which is the cancellation of wrong entries on debit/ credit as matching positive entries in the credit/ debit, rather than negative (offsetting) entries on the same side. As a result, flows in the general ledger do not reflect real economic transactions. Eurostat noted that this may interfere with the aim of establishing an effective closed system. However, it was not clear whether the impact would be significant.

The second reason is that, at the local government level, a number of local treasuries was established, as an instrument of enforcing fiscal discipline, which has shown itself as successful. As the budgetary users of local government units with treasuries do not have their own bank account, all their transactions are performed through the treasury account. Therefore, the budget users' data are recorded in the general ledger of the budget (for example of a city) together with the budget's own data. Thus, it is difficult to have gross balance sheet data for budgets apart from gross balance sheet data of the budgetary users automatically from the IT systems of local units. Therefore, when preparing gross balance sheets for the budgets, some of the data have to be compiled manually.

Currently, for EDP/ GFS compilation, the Croatian statistical authorities use balance sheets (BIL), report on inflows and outflows (PR-RAS) and SAP IT system. The SAP IT system of the State Treasury is cash-based. The coverage is limited to the State budget, but, it provides very detailed data, usually at the fifth level of the Chart of Accounts or at the 9th level, if considered necessary.

The PR-RAS report is submitted by all the budgetary and extra budgetary users of the State budget as well as of local budgets. The report presents expenditures on a modified accrual basis and the revenues on a cash basis, however, on a more aggregated level than the SAP system for the State Budget. The PR-RAS report provides both consolidated and non-consolidated data at the following levels:

- 11 - budgetary users of the State budget (ministries and subsidiaries), non-consolidated

- 12 – budgetary users of the State budget (ministries and similar), consolidated of subordinated users for each ministry (courts, universities, agencies...)
- 13 - the State budget
- 21 - budgetary users of local budgets (except the ones performing de-centralized functions)
- 22 - local budgets, non-consolidated
- 23 - local budgets, incl. own and earmarked revenues and appropriate expenditures which are not included in the budgets, consolidated
- 31 - budgetary users of local budgets performing de-centralized functions (e.g. schools, health, fire fighting, retirement homes...)
- 41 - extra-budgetary users of the State budget, including the three social security funds
- 42 - extra-budgetary users of local government (20 county road authorities).

Eurostat further enquired about the recording of the Treasury and cash-pooling system in national accounts. In the money and banking statistics, accounts of local budgets were presented as consolidated (thus excluding the transactions between the municipalities and kindergartens for instance). Following the Eurostat's inquiry, it was argued by the CNB that entries in the balance sheet that would present the unconsolidated transactions between two levels were not available. Eurostat recalled the rules for the recording of the cash pooling system and requested the Croatian statistical authorities to record those operations in the F.2 category. In addition, data reported in the ESA table 27 should be on a non-consolidated basis.

In relation to social security funds, the issue of transfers from the State Budget was discussed. According to the Croatian statistical authorities, expenditures of social security funds are financed, apart from the collected social contributions, by the State Budget, which covers the deficit to keep the budget of the social security funds balanced. It was not clear whether the additional funding from the State Budget is recorded in other accounts receivable of the social security funds and what is potentially the counterpart of the receivables, if not real cash transaction. The Croatian statistical authorities will therefore reflect on the recording of those operations in public and national accounts and inform Eurostat accordingly⁴.

As concerns the data reporting by other government bodies, Eurostat took note that four extra-budgetary units (the railway companies HŽPP (for passenger transport) and HŽI (for infrastructure), the Croatian Motorways and the Motorway Rijeka-Zagreb will be fully included into the budgetary planning and reporting system from 2020 – by submitting their financial plans (first time for the period 2020-2022) and reports on their execution to Parliament for approval, and by providing parallel financial reports also on budgetary accounting besides their business accounting. Potentially, a number of other units (port authorities, etc.) will be included later on.

⁴ After the visit, the Croatian statistical authorities clarified the following: “Please note that the health fund (HZZO) has not been part of the State Treasury from 2015 on, and since then the health contributions have not been paid into the State Treasury. The contributions for the employment service (HZZ) have been abolished. The pension contributions were treated as revenues of the State budget until 2019 (inclusive), and from 2020 on they will be reported as revenues of the pension fund (HZMO) while they will still be paid into the single account of the State Treasury. The pension contributions are not sufficient for funding all the pensions which should be financed by them according to the law, therefore the State has to provide additional funding from its resources.”

Bridge tables

Eurostat recalled the action points from the EDP dialogue visit in 2018 and asked for progress in the automation of compilation processes for the EDP/ GFS statistics in the CBS. The CBS informed that, since July 2019, there was a dedicated IT expert providing a technical support by automation of some compilation steps. Some processes, however, remain manual, including the quality checks. The Croatian statistical authorities thought that the situation should improve with the introduction of the new IT project, discussed above.

As a first step, the CBS extracts to MS Access data for nine different levels of budgetary and extra budgetary users (see above) from PR-RAS report provided by the MOF. For the EDP/ GFS presentation, data are compiled at the aggregated level so the data for individual budgetary units are not used. In the first phase, data from PR-RAS reports are converted, using the bridge tables, to ESA categories in a working template of the ESA table 2. As explained by the CBS, this is the only automated procedure. In the following stages, the CBS manually incorporates to these data various adjustments resulting from different information sources.

The first type of the adjustments is related to a more detailed breakdown of specific items of revenues/ expenditures that were previously reported in PR-RAS in a form, which was too aggregated. The relevant information is provided to the CBS by email from the MOF, which uses for this purpose additional information from the SAP IT system (in case of central government) or P-forms (local government). This is mainly the case of the revenue item 6526 'other revenues', for which a separate split is necessary in order to identify separately parafiscal charges and other sales usually reported by units. Eurostat understood that these adjustments always concerned a typical group of entities and, in order to facilitate the compilation, proposed to introduce a specific bridge table for units identified by the MOF so that these imputations could be done in a systematic and automated way.

Another type of imputations is more related to ESA adjustments, e.g. debt assumptions, guarantees, capital injections, super dividends, etc. Some of them are provided by the CNB, using the MBS.

Eurostat noticed that both types of adjustments are directly included in the input data in the working template of the ESA table 2 and, thus, they are not presented separately. Consequently, in case of any new information, an automatic update of the working template becomes difficult and time demanding. On this basis, Eurostat recommended to introduce an intermediate file or excel sheet where all adjustments/ imputations could be concentrated and updated, if relevant. The working template of the ESA table 2 would then present final data that could be automatically updated in case of any changes.

Prior to the visit, the Croatian statistical authorities provided the bridge table used for translation of PR-RAS items to ESA categories. Eurostat noticed that, in this particular case, it was not a typical exhaustive list of PR-RAS items bridged to ESA categories, but rather a list of selected PR-RAS items included in some ESA categories. The Croatian statistical authorities were therefore asked to provide a bridge table for each of the chart of accounts and FINA items to ESA categories. Furthermore, they will implement this bridge table in the excel input sheet that extracts data from MS Access, in addition to the existing bridge table currently managed in the Excel file (output sheet).

Revision policy

The Croatian statistical authorities informed Eurostat about the new version of the revision policy that was foreseen to be finalised in April 2020⁵, in line with the deadline set up within the prior commitments.

According to the existing revision policy, regular/benchmark/ad-hoc revisions of the EDP data and the underlying ESA2010 government accounts were possible in both EDP notifications usually for the last four years, with the exception of methodological changes. The revisions related to sector reclassifications affecting GDP level were included only in the October notification, taking into account the timetable of GDP revisions. The revisions with impact on the deficit (B.9) were possible in both notifications.

Eurostat recalled that EDP/ GFS data need to be up-to-date, although there might be a break in the previous time series. It was agreed that the Croatian statistical authorities would consult Eurostat regarding any change in the revision policy that may concern EDP/ GFS.

Findings and conclusions

- (4) Eurostat recommends an early involvement of the Croatian statistical authorities with respect to the ongoing IT project carried out by the MOF on the statistical and financial reporting, which is expected to become operational by mid-2021. In particular, the Croatian statistical authorities will actively collaborate in order to define the additional reporting to be included in the so-called FINA reports (financial reports on budgetary accounting) that are necessary to satisfy statistical needs. These consultations need to be carried out in time for the forthcoming Ordinance of the MOF that is expected to be released in 2020 concerning financial reporting. This reform will be the occasion to ensure that the system of financial reports on budgetary accounting, so-called FINA reporting system, encompass/comprise a closed system. Eurostat considers that this IT project and the new Ordinance should be an occasion to increase the detail of data reported, notably on the balance sheet. The Croatian statistical authorities will provide a progress report to Eurostat by the end of May 2020, indicating how a closed system could be concretely reached.

Eurostat took note of the specific difficulties arising from the SAP system used by the MOF, which records cancellation of wrong entries on debit/ credit (so-called *storno*) as matching positive entries in the credit/ debit, rather than negative (offsetting) entries on the same side, thus blurring the analytical content of the general ledger. This may interfere with the aim of establishing an effective closed system.

Deadline for the progress report: end-May 2020

Eurostat took note that four extra-budgetary units⁶ (railway companies HŽPP (for passenger transport) and HŽI (for infrastructure), the Croatian Motorways and the Motorway Rijeka-Zagreb) will be fully included into the budgetary planning and reporting system from 2020 – by submitting their financial plans (first time for the period 2020-2022) and reports on their execution to the Parliament for approval, and by providing

⁵ The Revision policy for National accounts was published on the CBS's website on 30 April 2020.

⁶ The Croatian Roads is already included in the budgetary reporting system.

parallel financial reports also on budgetary accounting besides their business accounting. Potentially, a number of other units (port authorities, etc.) will be included later on.

- (5) The Croatian statistical authorities will reflect on how to capture, in the ESA balance sheets and financial accounts, the cash pooling arrangement currently existing in Croatia, that manifests itself by the reporting of other accounts receivable in FINA balance sheets. Consistently with the recording followed in a number of countries with cash pooling, a recording of deposits (F.2) will be envisaged by the Croatian statistical authorities, in compliance with the requirement to report non-consolidated data in ESA table 27. This recording is particularly relevant for social security funds (deposits at the Treasury).

The recording of the cash pooling in the social security funds subsector will take into account the likely inclusion, within the other accounts receivable concerned, of claims related to transfer obligations of the State towards social security. The Croatian statistical authorities and Eurostat will reflect on whether this specific point may alter the analysis of this item.

Deadline: October 2020 EDP notification

- (6) Eurostat took note of the existing compilation practice at the CBS and recommends an increase in the automation of tasks. In particular: (1) the CBS should operate specific dedicated bridge tables applied to the budgetary PR-RAS data of selected budgetary units (downloaded from MS Access) to cope with the accounting practices of these selected budgetary units identified by the MOF (notably the account 6526, where revenues need to be allocated in proper ESA categories), instead of relying on the information coming from the MOF (as is currently the case), (2) the CBS should carry out ESA adjustment lines (as well as adjustments for other information such as taxes) as an intermediate step (intermediate sheet/file) within the automated compilation chain, rather than adjustments to final ESA tables (as currently the case). This aims at limiting manual interventions in the compilation chain. In general, Eurostat recommends the CBS to expand its monitoring, aside from the exploitation of the reporting levels of the aggregated budgetary units.

Deadline for progress report: April 2020 EDP notification⁷

- (7) The Croatian statistical authorities will provide to Eurostat a bridge table for each of the chart of accounts and FINA items to ESA categories. They will implement this bridge table in the excel input sheet that extracts data from MS Access, in addition to the existing bridge table currently managed in the Excel file (output sheet).

Deadline: end-May 2020⁸

- (8) Eurostat appreciated the flexibility of the current revision policy in place in Croatia in relation to the EDP/ GFS data, with its emphasis privileging accuracy and adherence to accounting rules. The Croatian statistical authorities will consult Eurostat regarding any change in revision policy that may concern EDP/GFS.

Deadline: when applicable⁹

⁷ The note was provided on 9 April 2020.

⁸ Some of the bridge tables were provided on 31 May 2020.

⁹ The draft Revision policy was provided to Eurostat for comments on 22 April 2020 and finally published on the CBS's website on 30 April 2020.

1.2.2. Compliance with Council Directive 2011/85

Introduction

The fiscal data and reconciliation table compiled according to Council Directive 2011/85 are published by the Croatian MOF. The CBS publishes data on contingent liabilities. At the time of the Eurostat's visit, data on guarantees for 2012-2017, on off-balance PPPs, liabilities of government controlled entities classified outside general government and participation of general government in the capital of corporations for 2015-2017 were published. Contingent liabilities data for 2018 were not published. Data for non-performing loans (NPLs) were not available.

Discussion and methodological analysis

Eurostat referred to the reconciliation table, which is the description of general government units, data sources used for data compilation, and pointed out that some references to sector classification of certain units that were not updated in the version currently published on MOF's website. Furthermore, Eurostat pointed out at the fact that the most recent data on contingent liabilities for 2018 were still not published at the time of the visit and that a similar situation had already occurred one year ago. Consequently, Eurostat requested the Croatian statistical authorities to follow, in case of national publication, the publication deadlines agreed in the Task Force on the Directive, i.e. data on guarantees, non-performing loans and off-balance PPPs to be published by the end of October and data on liabilities of public corporations and participation in the capital of corporations by the end of December each year.

As regards the unavailability of data on non-performing loans, Eurostat recalled that the issue was already discussed in the previous EDP dialogue visit. The Croatian statistical authorities explained that, in the meantime, the CNB introduced and circulated a survey to estimate the value of NPLs in two highly representative entities (HBOR and HAMAG), on a test basis. Based on those data, stocks of NPLs for the period 2015-2018 were compiled and, for the first time, they will be sent to Eurostat in the December 2019 transmission. The definition of NPLs in the survey was consistent with ESA 2010 and, as explained by the Croatian statistical authorities, the stocks excluded loans recorded as capital transfers at inception and loan assets recorded in the context of guarantee calls.

It was further explained that the collection of data on NPLs might be extended to other general government units via the survey or, alternatively, as a part of a specific module of the forthcoming IT system of the budgetary and financial reporting. Eurostat enquired about the possibility of using public accounts, in particular the impairment (allowances) observed in budgetary accounts at levels 12 and 13. The results from the survey for financial institutions could potentially be combined with the provisions from balance sheets of budgetary units and grossed up appropriately in order to estimate the amounts of NPLs for general government. The Croatian statistical authorities will reflect on various possibilities of collecting data on NPLs and report to Eurostat.

Findings and conclusions

- (9) The Croatian statistical authorities will update the reconciliation table published together with the fiscal data reported according to Council Directive 2011/85. Concerning the national publication of data on contingent liabilities, the Croatian statistical authorities will follow the publication deadlines agreed with Eurostat in the Task Force on the Directive, i.e. data on guarantees, non-performing loans and off-balance PPPs by the end of October and data on liabilities of public corporations and participation in the capital of corporations by the end of December. Furthermore, they will publish the 2018 data on contingent liabilities as soon as possible.

Deadline for publication of the Directive data: as agreed in the TF on Directive

Deadline for publication of the 2018 data: as soon as possible¹⁰

- (10) The Croatian statistical authorities will provide to Eurostat the draft survey that aims at collecting data on non-performing loans (NPLs), which was already implemented on a test basis for HBOR and HAMAG.

Deadline: end-January 2020¹¹

- (11) The Croatian statistical authorities will examine the opportunity to extend the survey on NPLs to other government bodies, perhaps as part of a specific module of the forthcoming IT system of the budgetary and financial reporting. They may alternatively follow a simplified approach discussed during the meeting, i.e. using the impairment (allowances) observed in budgetary accounts at levels 12 and 13 and grossing up the results appropriately.

Deadline for the note: end-February 2020¹²

1.2.3. EDP Inventory

Introduction

The last updated version of the EDP Inventory was provided by the Croatian statistical authorities in April 2017. In 2018, Eurostat encouraged the Croatian authorities to send the updated version by November 2019 (Action point 19 of the 2018 EDP dialogue visit), which has not been provided.

Discussion and methodological analysis

Eurostat reminded the Croatian statistical authorities about a number of issues that needed to be updated in the EDP Inventory published on both national and Eurostat's websites, such as changes in the sector classification, the recording of the gross fixed capital formation, tax revenues, social contributions, etc. It was agreed that the updated version of the EDP Inventory would be provided by the end of July 2020.

Findings and conclusions

¹⁰ On 16 January 2020, the Croatian statistical authorities informed Eurostat that contingent liabilities data for 2018 were published on the CBS's website.

¹¹ The draft template was provided to Eurostat on 24 February 2020.

¹² The note was provided to Eurostat on 4 March 2020.

(12) The Croatian statistical authorities will provide to Eurostat an updated draft of the EDP Inventory by the end of July 2020.

Deadline: end-July 2020

2. Follow-up of the previous EDP dialogue visit of 8-9 November 2018 and of 13-14 December 2018

Introduction

The previous EDP dialogue visit to Croatia took place on 8-9 November 2018 (Part I) and on 13-14 December 2018 (Part II). There are still a number of partially completed action points, where the progress was insufficient, and some, which have not been addressed by the Croatian authorities at all.

Discussion and methodological analysis

Eurostat recalled a number of action points that had not been completed yet and, therefore, were to be followed up under the respective points of the agenda. Under this point, Eurostat followed up on two particular issues (action points 21 and 31 of the 2018 EDP dialogue visit).

Forced conversion of loans from CHF to EUR

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

In the meeting, the Croatian statistical authorities reported that, after the conversion, banks continued to regularly charge their claims and the level of NPLs decreased since the same contracts were covered by the new EUR foreign exchange clause. The arbitration procedures were currently ongoing and, according to the Croatian statistical authorities, no loss was finally expected. They referred to a few comparable cases in other countries, in which the Court had ruled in favour of governments (and of bank customers). Eurostat requested the Croatian statistical authorities to report back on any developments in the case, when relevant, and to send by January 2020 the legal note, which the MOF routinely attaches to bond prospectuses.

The Croatian statistical authorities were also asked to reflect on the appropriate way of recording (e.g. in ESA tables 9/6/7) the redistribution of wealth between households and financial corporations that arose from this forced conversion of bank loans from CHF to EUR in 2016, either by way of other economic flows or, alternatively, by way of transactions. In the latter case, they will further reflect on whether transactions may need to transit through government accounts (although B.9 neutral).

Agrokor Group

The Agrokor Holding was a holding of private companies involved in wide range of business activities and significantly contributing to the Croatian GDP growth and employment level. In 2017, the Holding experienced significant financial distress due to heavy indebtedness, resulting in an inability to service its loan obligations. According to the special law passed in 2017, the Holding was considered systemically important for the Croatian economy and the Court appointed a special commissioner to take control of the Group. In addition, a special Creditors' Agreement was signed in July 2018 that resulted in assuming control over the Group by largest creditors and creating Forte Nova Group, which also included HBOR, a development bank classified inside general government.

As further explained, HBOR provided several credits to the companies of the Agrokor Group over the period 2003-2016. Based on financial statements in that time, the Group was not considered as a company in financial difficulties. After the situation dramatically changed in 2017, the total HBOR's risk exposure in relation to Agrokor was 539 million HRK at the end of 2017. After concluding the Creditor's Agreement in 2018, 505 million HRK (94%) was recognised as new debt and intended to be repaid as loans. Another part of 4.5 million HRK was converted to the so-called new instruments and 34 million HRK remained under legal dispute. A negligible part of the loans (0.3 million HRK) was written-off.

Eurostat noted that, after approving the Settlement plan, some domestic financial institutions might have recovered only a part of their original claims, in particular up to 20% of the total. This however did not seem to be the case of HBOR which, according to the Annex 4 to the Settlement plan, should recover 100% of claims, guaranteed by the same value of collaterals.

Eurostat further enquired about the conversion of part of the loans to equity instruments, which should be capital injection tested, and recalled that, in this particular case of the capital injection test, apportioned losses are more relevant for this purpose than accumulated losses of the company, since the Forte Nova Group was largely private owned. It was suggested that an evaluation of HBOR's equity (AF.5/ F.5) in the Group is performed in relation to both future profits and market value.

The Croatian statistical authorities will reflect whether the capital injection test is also relevant for another six government units that received such new equity instruments. In the meeting, the information about the amount of equity stakes for those units was however not available.

Findings and conclusions

(13) The Croatian statistical authorities will continue monitoring the situation in relation to the forced conversion of bank loans from CHF to EUR in 2016 and any potential impact on net lending/ net borrowing of general government (B.9), judged unlikely by the Croatian statistical authorities at this stage, and will report to Eurostat when relevant. The Croatian statistical authorities will provide to Eurostat the legal note that the MOF routinely appends to bond prospectuses in relation to this issue.

Deadline for the legal note: end-January 2020¹³

¹³ The legal note was provided on 10 February 2020.

Deadline for reporting to Eurostat: in case of any progress

- (14) The Croatian statistical authorities will reflect on the appropriate way of recording (e.g. in ESA tables 9/6/7) the redistribution of wealth between households and financial corporations that arose from this forced conversion of bank loans from CHF to EUR in 2016, either by way of other economic flows or, alternatively, by the way of transactions. In the latter case, they will further reflect on whether transactions may need to transit through government accounts (although B.9 neutral).

Deadline for the note to Eurostat: October 2020 EDP notification

- (15) Eurostat took note of the explanations in relation to HBOR's claim (539 million HRK) on Agrokor group, which has been recently restructured. The majority of the HBOR claim became a claim on the newly created Forte Nova group, with a small part converted to equity. Eurostat noted that the Agrokor group was private and that also the Forte Nova group remains private; thus, past losses are not particularly relevant for statistical evaluation. However, Eurostat suggests that an evaluation of HBOR's equity (AF.5/ F.5) in the group is performed in relation to both future profits and market value. In addition, the Croatian statistical authorities will indicate the appropriate recording of the part of the claim under legal dispute (34 million HRK).

Deadline: October 2020 EDP notification

3. Analysis of EDP tables – follow up of the October 2019 EDP notification

Introduction

In 2018 Eurostat understood that, as concerned the compilation of financial accounts for specific other government bodies, other accounts receivable/ payable (F.8) included a balancing item so that the statistical discrepancy was reported a zero. As explained by the Croatian authorities, this practice reflected the non-availability of sufficient details, mainly on split of AF.8/ F.8 to reconcile financial and nonfinancial accounts for those units.

Under this agenda point, Eurostat also discussed the differences in the compilation of Currency and deposits (AF.2/ F.2) from the money and banking statistics (MBS) and from FINA reports. The provision of the EDP tables 3B1 and 3B2 was also followed up.

Discussion and methodological analysis

Prior to the visit, the Croatian statistical authorities completed a table, showing the reconciliation of financial and non-financial accounts for units/ groups of units in general government subsectors for 2017 and 2018. In the requested table, they were asked to explicitly show the unadjusted F.8 (without the balancing item) and the statistical discrepancy. During the meeting Eurostat noted that, for budgetary units, HROTE (Energy Market Operator), Croatian Waters and for a few others the financial account was not provided. The CNB explained that the existing compilation practice did not allow them to provide the separate financial accounts for those units, i.e. at the required level of budgetary central government (levels 12+13), even if such compilation should in principle be possible, after some adaptation. It was agreed that the CNB would repeat the exercise, reconciling for the past four years the financial accounts of budgetary central government with those that are compiled using the information from PR-RAS and/or FINA balance sheets. Eurostat thought

that this exercise might show whether the system of financial reports on budgetary accounting, so-called FINA reporting system, can be seen as a closed system.

On this basis, the Croatian statistical authorities would be able to report EDP tables 3B1 for the main entity and table 3B2 for other central government bodies in the April 2020 EDP notification. Eurostat accepted that, beginning from April 2020, the EDP table 3B1 might be compiled as a residual.

In relation to the balancing item included in F.8 for certain government units, Eurostat reiterated that this practise had to be discontinued, as already recalled in the previous 2018 EDP dialogue visit¹⁴. For this purpose, financial accounts at a disaggregated level (units/groupings of units) need to be compiled. Eurostat stressed that the adaption of the Ordinance requiring government units to report data to the MOF at the fifth level of the chart of accounts should also be considered in this respect. Eurostat also thought that it was necessary to separate the statistical discrepancy originating from different data sources and the discrepancies arising from compilation.

Prior to the visit, the Croatian statistical authorities provided a comparison of AF.2A, as reported in the MBS and in FINA. The largest difference of 492 million HRK was observed for the MOF. As explained in the meeting, the differences originate from two types of inconsistencies. First, in certain cases, an internal inconsistency in FINA reports was noticed, in particular between the obligatory part in the balance sheet and the statistical annex (memo items) used for the data compilation.

Second, there is a difference between data reported for the purpose of the money and banking statistics and, separately, for FINA reports. The Croatian MOF thought that this was the main reason for the difference of 320 million HRK out of 492 million HRK, identified for the MOF as an entity. As further explained, the difference could be eliminated by a comparison on a higher level of aggregation of central budgetary units (levels 12 and 13). Currently, the MOF submits four PR-RAS reports for the core MOF, Tax Administration, Customs Administration and for the State Budget, while in the MBS, the MOF is presented as one (consolidated) entity. The Croatian statistical authorities were therefore requested to review the analysis and report to Eurostat on the comparison for deposits (AF.2), as reported in the MBS and in FINA reports, taking into account the aggregated data across budgetary units (at levels 12+13) and the equivalent information in the MBS.

Findings and conclusions

(16) Eurostat noted that, in the presentation of financial and non-financial accounts by units or groupings of units of general government units provided for to the mission, the financial accounts for budgetary central government and for several extra-budgetary units were missing. The CNB will complete the missing data, using its existing compilation system. On this basis, the Croatian statistical authorities will report EDP tables 3B1 and 3B2 in the April 2020 EDP notification.

¹⁴ After the visit, the Croatian statistical authorities clarified: "In 2019 the new "small" survey on financial accounts was introduced for the main reclassified units (the units with highest significance) together with NFA report. This survey consists of stocks, transactions and other flows and the results were used in compilation of F.81 and F.89 (Asset and Liability) so for those units the mentioned procedure has been abandoned."

Deadline for the EDP tables 3B1 and 3B2: April 2020 EDP notification¹⁵

Deadline for the reconciliation of financial and non-financial accounts: October 2020 EDP notification

- (17) The CNB will carry out an exercise reconciling, for the past four years, the financial accounts of budgetary central government compiled on the basis of its internal system (referred to in the previous action point 16) with those compiled using the information that come from PR-RAS and/or FINA balance sheets for budgetary central government (levels 12+13). This exercise will assist also in evaluating to what extent the FINA database can be seen as a closed system or not. The results of this reconciliation will be reported to Eurostat.

Deadline: October 2020 EDP notification

- (18) As part of the exercise mentioned in the previous action point, the Croatian statistical authorities will carry out a further comparison for deposits (AF.2), as reported in the MBS and in FINA reports, taking into account the element put forward in the meeting. In particular, this exercise should encompass a direct comparison between the aggregated data across budgetary units (at levels 12+13) and the equivalent information in the MBS, which usefully allows summarising the findings and can also obviate presentational differences of bank accounts.

Deadline: April 2020 EDP notification¹⁶

- (19) Eurostat reiterated that the current practice of the CNB of performing unsubstantiated adjustments in other accounts receivable/ payable (AF.8/ F.8) – for selected “other central government bodies” – was not acceptable, as it was tantamount to hiding the statistical discrepancy within the financial accounts, when reporting the EDP and GFS tables. Furthermore, Eurostat stressed the importance of analysing separately the statistical discrepancy in data sources (hence the closed system advantage) and the discrepancies arising from compilation.

Deadline for progress report: end-February 2020

Deadline for removing the balancing adjustment: April 2020 EDP notification¹⁷

- (20) When reporting to Eurostat the EDP tables and Questionnaire relating to the EDP tables, the Croatian statistical authorities will use the adequate reporting conventions, without changing the official templates. This will help considerably reduce the time-consuming loading burden faced by Eurostat when processing EDP and GFS tables submitted by Croatia.

Deadline: each EDP notification

4. Methodological issues and recording of specific government transactions

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

¹⁵ Due to exceptional situation caused by Covid-19 pandemic and earthquake in Zagreb, it was agreed to postpone deadline for a couple of action points to May 2020.

¹⁶ The analysis was provided to Eurostat on 31 May 2020.

¹⁷ See the footnote 12.

4.1.1. Application of the market/ non-market test

Introduction

The authority responsible for the sector classification of units is the CBS. In the EDP dialogue visit in 2018, Eurostat reviewed in detail the formula of the market/ non-market test and requested the Croatian statistical authorities to investigate particular items such as scholarships, severance payments and investment maintenance.

Prior to the visit, Eurostat received an updated formula of the market/ non-market test, specifying particular items of costs and revenues from business accounts. Upon Eurostat's request, the Croatian statistical authorities provided a list of public non-financial corporations classified in S.11 with the results of the market/ non-market test for 2013-2018.

Discussion and methodological analysis

Eurostat reviewed the updated list of revenues and costs considered in the formula of the market/ non-market test that was provided before the visit. As regards the scholarships (item 265) and severance payments (item 268), it was acknowledged that, compared to the 2018 version, they were not anymore deducted from the production costs. Furthermore, Eurostat asked the Croatian statistical authorities to reconsider the recording of scholarships in GFS, currently treated as social benefits, as compensation of employees (D.1) with a parallel recording of imputed social contributions (D.612). In case the scholarships are not related to future employment but rather to a sponsorship, current transfers (D.75) might be recorded.

As concerns the investment maintenance (item 257), Eurostat argued that, if these costs were incurred to improve the production value of the asset or to prolong the life of the asset, and therefore capitalised in the value of the asset, the counterpart entry should be reflected in revenues. If so, for the purpose of the market/ non-market test, the investment maintenance should be excluded from both sides - the sales and production costs. In the Croatian case, Eurostat did not observe such adjustment in sales. During the discussion, the Croatian statistical authorities could not confirm that a counterpart entry to investment maintenance is recorded as part of revenue (thus preventing an existence of a closed system) and committed to investigate the issue for the October 2020 EDP notification. The formula of the 50% test would be adapted accordingly, if considered relevant.

Eurostat recalled the action point of the 2018 EDP dialogue visit, according to which the CBS should, as a practical solution, reclassify a unit that failed the 50% test in two consecutive years, unless good reasons would exist for awaiting another year. Prior to the visit, the Croatian statistical authorities sent a list of government controlled non-financial corporations classified in S.11 with the results of the market/ non-market test for 2013-2018. Based on the results, Eurostat noted that the rule was mostly followed. However, it was observed that several units showing results of the market/ non-market test below 50% for several years remained classified outside general government due to one or two inconsecutive years when the test only slightly exceeded 50%. This was mainly the case of *Dalma d.d.*, *Inovativni Zadar d.o.o.*, *Odvodnija Opuzen d.o.o.* and *Terra tehnopolis d.o.o.*

Eurostat did not agree with such an approach and recalled that the result of the market/ non-market test above 50% is not a sufficient condition to be market. As a general rule, units with

the market/ non-market test oscillating around 50% should be considered as non-market and the unit falling below 50% in one year could be reclassified immediately if it is judged unlikely that the test turns back above 50% in subsequent years. By the same logic, units initially judged to be non-market, but whose results of the market/ non-market test move slightly above 50% for some years, should remain inside general government. On this basis, the Croatian statistical authorities were requested to reclassify the identified units inside general government for the October 2020 EDP notification.

Furthermore, Eurostat pointed out at several units in the list, for which the market/ non-market test was not calculated due to the fact that production costs or sales were reported by those units as zero in GFI-POD reports. Eurostat considered that these units probably did not comply with the 50% test and had to be reclassified inside general government, unless there were other justified reasons for not doing so. For the units recording zero sales, the market test was zero. For the units reporting zero production costs, it was questionable whether the reported sales did not in fact represent reductions in inventories or disposal of (fixed) assets. The Croatian statistical authorities were concerned about the constant reclassifications for fairly small amounts, bringing instability to the compilation system. Eurostat recalled that a systematic approach for routine reclassifications needed to be introduced to the statistical system. It was also agreed that the units would be reclassified in October 2020 for 2017-2018 and, for the previous years, deficit and debt would be impacted by imputation of a macroeconomic adjustment, given that the impact is very small, using the first year where the qualitative or quantitative test indicate that each unit is non-market. Those units will then to be reported as part of general government for those years, for statistical purposes.

In this context, the Croatian statistical authorities pointed out at the problem of identification of publicly controlled entities in the Statistical Business Register administered by the CBS. Eurostat understood that information kept in the Business Register is not regularly updated and, therefore, cannot be usefully utilised for the purpose of sector classification of units. This was, for instance, the case of the company *Odvodnja Novigrad, d.o.o.* that is currently a private unit, incorrectly however kept in the list of government controlled entities according to the Business Register. The solution proposed in the meeting foresaw a collection of information from various sources, namely from the Ministry of State Property in case of strategic companies, from the Restructuring and Sale Centre (CERP) for minor ownerships and other relevant information from Court Registers. Data are usually available on a quarterly basis and provide an overview for cases of privatisations, acquisition of equities or other sales/acquisitions impacting the government control. Eurostat requested the CBS to investigate and report on this possibility.

Eurostat continued in reviewing the list of government controlled corporations classified in S.11, provided prior to the visit, and enquired about the units in liquidation (containing '*u stečaju*' in the title¹⁸). According to rules, in the case of a public unit under a liquidation process, the reclassification in government should be undertaken in the year when the unit fails the 50 % criterion for the first time. The Croatian statistical authorities thought that some of those entities might have continued in the new business, after liquidation of the

¹⁸ The Croatian statistical authorities explained later on that the term '*u stečaju*' means in fact 'in bankruptcy', i.e. the process at the court caused by insolvency of a unit. After this process, a unit may continue to exist in some cases, if re-structuring is successfully performed. '*Likvidacija*' is explained as a process of terminating an enterprise, which depends just on stakeholders' decision, not necessarily based on operating problems.

predecessor, but, nevertheless, they committed to analyse those cases on a regular basis and reclassify them inside general government, if relevant.

Eurostat also enquired about the units that, according to their titles, seemed to be involved in development activities ('*razvoj*'). Eurostat recalled that those units might not comply with the definition of an institutional unit, due to the absence of autonomy of decision in performing their development and financing activities for public purposes and, therefore, should be seen as ancillary units consolidated with government. The Croatian statistical authorities will verify those entities on a systematic basis, before sending the Questionnaire on government controlled entities to Eurostat.

Further, Eurostat inquired about the significantly high results of the market/ non-market test for the company *Drzavne Nekretnine d.o.o.* reaching more than 500% for the period 2014-2018. During the discussion, it was clarified that the entity is involved in activities related to renting government building to the private sector. Eurostat considered that the entity was as a government agent acting on behalf of government and has to be reclassified inside general government for the October 2020 EDP notification.

Eurostat followed up on the introduction of a new survey, discussed already in the 2018 EDP dialogue visit, which would collect information on qualitative criteria to verify the sector classification of units, whose only or major client is government. The Croatian statistical authorities informed that the Subcommittee for Sector Classification had developed such a survey and its introduction was planned to be carried out in two phases. After completion of the first phase, a population of entities controlled by general government units was identified, by collecting information on government ownerships, acquisition/sales of equities, on tendering procedures, etc. In the second phase, almost two thousands of these identified entities will be further surveyed to collect information on qualitative criteria in order to update the list of public corporations in the Statistical Business Register and to collect other relevant information for EDP/ GFS compilation (e.g. capital injections).

Findings and conclusions

(21) The Croatian statistical authorities will consider the appropriate statistical recording of scholarships (item 265), currently recorded as social benefits, by recording compensation of employees (D.1) as well as imputed social contributions (D.612) in GFS tables. Alternatively, a miscellaneous current transfer (D.75) may be envisaged, but not intermediate consumption (P.2). It has been clarified that scholarships, as well as severance payments (item 268), are not excluded anymore from the production costs in the market/ non-market test.

Deadline for analysis: October 2020 EDP notification

(22) The Croatian statistical authorities will clarify the exact treatment of investment maintenance (item 257) in PR-RAS as well as in GFI-POD/ GFI-NPF reports, seemingly reported within production costs and, at the same time, within gross fixed capital formation (being capitalised). They will thus clarify whether, in these reports, these amounts are also recorded as part of revenue (for consistency reasons) or not (thus preventing a closed system). Based on their analysis, they will either amend the market/ non-market test by mid-2020 or confirm the current formula, respectively.

Deadline for analysis: April 2020 EDP notification

Deadline for application of any updated 50% test: October 2020 EDP notification

- (23) The Croatian statistical authorities will reclassify the units with the results of the market/ non-market test below 50% (including those with zero sales), as observed for the years 2017-2018, in time for the October 2020 EDP notification, unless there are good reasons not to do so, e.g. those entities are judged to be ancillary units of public corporations classified outside general government. For previous years, Eurostat agreed that a macroeconomic adjustment to debt and deficit (in EDP as well as in GFS) would be sufficient, given that their impact is very small, using the first year where the qualitative or quantitative test indicate that each unit is non-market. Those units are then to be reported as part of general government for those years, for statistical purposes.

Eurostat recalled that the result of the market/ non-market test above 50% is not a sufficient condition for an entity to be market but a necessary condition, such that units oscillating around 50% should be considered as non-market and that a unit falling below 50% in one year could be reclassified immediately if it is judged unlikely that the test bounces back above 50% in subsequent years. Furthermore, units initially judged to be non-market, but whose results of the market/ non-market test move slightly above 50% for some years, should remain inside general government. Accordingly, the Croatian statistical authorities will apply those rules for the decisions on the sector classification of units.

Deadline: October 2020 EDP notification

- (24) Eurostat recommends that the CBS strengthens the information contained by the Statistical Business Register, on the basis, for instance, of collecting more systematically court registries or information from the privatisation agency or from the agency for sale and restructuring, with a view to facilitate the classification work of the EDP/GFS team (identifying private vs. public control, NACE, subsectors of control, direct control). The CBS should send a note to Eurostat on the progress made.

Deadline: end-June 2020

- (25) The Croatian statistical authorities will reclassify the unit *Drzavne Nekretnine d.o.o.* inside general government, despite its high ratio in the market /non-market test, given that this unit is de facto an ancillary unit of government, engaging in renting government building to the private sector on behalf of government.

Deadline: October 2020 EDP notification

- (26) The Croatian statistical authorities will systematically verify the units that contain in their names the reference to liquidation (*'u stečaju'*) or to development activities (*'razvoj'*), before sending the questionnaire on public corporations to Eurostat.

Deadline: continuous

- (27) In relation to the qualitative criteria, Eurostat took note that a first questionnaire to gather the ownership structure has been circulated (phase 1) and that a second questionnaire, run by the CNB, designed to collect information on qualitative criteria (main clients, etc.) will be sent to Eurostat for comments prior circulating to the units concerned (phase 2). This survey may be the occasion for collecting specific information relevant for GFS/ EDP compilation, such as capital injections.

Deadline: end-March 2020

4.1.2. Sector classification of specific units (units engaged in financial activities, public holdings, utility companies, public transport companies, etc.)

Introduction

Eurostat followed up on the reclassification of the passenger railway company *HZ Putnicki Prijevoz* (HZPP) inside general government for the years before 2015. The sector classification of the *Zagrebacki Elektricni Tramvaj* (ZET) was also discussed under this agenda point.

Discussion and methodological analysis

The passenger railway company HZPP was reclassified inside general government in the April 2019 EDP notification for the period 2015-2018. The reclassification for the previous years has not been implemented. As explained by the Croatian statistical authorities in the meeting, the main reason was the unavailability of relevant information from administrative data sources for past years, while data from money and banking statistics for the period 2010-2018 were available. For this purpose, ad-hoc reports were introduced to collect relevant data for EDP/ GFS compilation, although, the results could not be used before October 2020. It was also remarked that, starting in 2020, the HZPP would become an extra budgetary unit included in the budgetary reporting, which will facilitate the data availability.

Further, Eurostat enquired about the sector classification of the ZET, which is the public transport company operating buses, trams and funicular in Zagreb. The transport services are financed from tickets, from the budget of the City of Zagreb through subsidies as well as other revenue. In 2018, the company was separated from the *Zagrebacki Holding* that is in charge of utility services in Zagreb (gas, heating, parking, waste disposal, graveyards, etc.). The result of the market/ non-market test was therefore available for ZET as a separate company only for the year 2018 and showed a result of 36.7%. Eurostat considered unlikely that the market/ non-market test of the company would exceed 50% in next years due to significant financing from local budget and, therefore, recommended to reclassify the ZET inside general government already in the April 2020 EDP notification, unless other justified reasons existed for not doing so. Eurostat agreed with a simplified recording taking into account the debt impact, via other changes in volume of debt of approximately 939 million HRK in 2018, unless the reclassification inside government of the non-market local KAU corresponding to ZET for years prior 2018 is deemed preferable by the CBS. In October 2020, the entity should be reclassified on a full basis.

Findings and conclusions

(28) In relation to HZPP railway company, which was reclassified inside S.13 from 2015 in the April 2019 EDP notification, the Croatian statistical authorities agreed to carry out the reclassification for previous years in time for the benchmark revision (including on an estimation basis).

Deadline: October 2020 EDP notification

(29) Concerning *Zagrebacki Elektricni Tramvaj* (ZET), the company notably running the Zagreb tramway, the Croatian statistical authorities explained that it was split from a broader group, *Zagrebacki Holding*, from 2018 onwards. It exhibits a market/ non-market test much below 50% due to the level of subsidies received. Eurostat recommended the unit be reclassified without waiting - unless there are concrete elements pointing to that the fact that the ratio will recover substantially during 2019 or 2020 - given the very low likelihood of the market/ non-market test bouncing up above 50% and also given qualitative criteria considerations, in time for the October 2020 EDP notification on a full basis, but also for the April 2020 EDP notification on a simplified basis in EDP/ GFS. This implies recording an other change in volume (K.61) in debt of approximately 939 million HRK in 2018, unless the reclassification inside government of the non-market local KAU corresponding to ZET for years prior 2018 is deemed preferable by the CBS.

*Deadline: October 2020 EDP notification (full reclassification) and April 2020 EDP notification (simplified basis)*¹⁹

4.1.3. Government controlled entities classified outside general government (public corporations)

Introduction

The Croatian statistical authorities sent to Eurostat the Questionnaire on government controlled entities classified outside general government in December 2019, reporting data for 2018. The list included 762 units, of which seven units classified in the financial corporations sector (S.12). No government controlled entity was classified in S.15 and S.2. Out of 762 units, 41 units report liabilities more than 0.01% of GDP, i.e. 35 040 million HRK or 9.16% of GDP, respectively.

Discussion and methodological analysis

Under this agenda point, Eurostat followed up on three action points of the 2018 EDP dialogue visit. In relation to units with NACE 70 (Head offices, management consultancy activities) classified in S.11, Eurostat took note that some units were already reclassified inside general government in both April and October 2019 EDP notifications. However, it was noted that some development agencies remained still on the list such as *Inovativni Zadar d.o.o.*, *Agencija za Razvoj Varazdinske Zupanije*, *Agencija za Razvoj Investicije Grada Vinkovaca*, etc. Eurostat specifically enquired about the *Duro Dakovic Grupa d.d.*, reported also in the Questionnaire table 9 as receiving government guarantees and in table 10.2 as a public unit incurring losses. The Croatian statistical authorities thought that the holding company had become mostly private and should be removed from the list of government controlled entities. The Croatian statistical authorities committed to review the list of entities under NACE 70 in time for the October 2020 EDP notification.

Eurostat observed no progress on the action point 47 of the 2018 EDP dialogue visit, as regards the sector classification of units under NACE 72 (Scientific research and

¹⁹ The ZET was reclassified inside general government for the years 2018 and 2019 in the April 2020 EDP notification.

development activities) and decided to retain the action point, including the analysis to be sent to Eurostat for the October 2020 EDP notification.

The classification of units in NACE 84 (Public administration and defence) was also discussed in the previous visit in 2018 (action point 50). As a follow up, the Croatian statistical authorities provided an analysis of *Hrvatske vode Jadranski project d.o.o.*, *Vizir d.o.o.* and *Hrvatske vode-Hidrotehnicki objekti d.o.o.* that concluded that all three units should remain classified outside general government. Eurostat recalled that units under NACE 84 were to be classified in S.13 by definition (ESA 2010 3.84) and asked the Croatian statistical authorities to review the sector classification of the three units in question.

Findings and conclusions

(30) The Croatian statistical authorities will review the units with NACE 70 (head offices) that are currently classified outside general government. They will in particular remove *Duro Dakovic Grupa* from the list of public corporations, the unit being private, and they will amend the NACE of *Vodoprivreda Vinikovci*, notably.

Deadline: October 2020 EDP notification

(31) The Croatian statistical authorities will review the sector classification of units under NACE 72 (research institutes) that are currently classified outside GG.

Deadline: October 2020 EDP notification

(32) The Croatian statistical authorities will review the three units with NACE 84 (public administration) currently classified outside GG. The Croatian statistical authorities will change the NACE codes of *Hrvatske vode*.

Deadline: October 2020 EDP notification

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

The time adjusted cash method is applied to the main tax categories. For VAT, certain excise duties, taxes on insurance premiums and for the personal income tax (PIT), the time lag of one month is used and in case of the corporate income tax (CIT), the time lag of four months is applied. Due to a longer time lag, time adjusted cash is not implemented for CIT in the April notification because data are not yet available for first four months of the current year.

Discussion and methodological analysis

Taxes

Eurostat pointed out at the fact that no liabilities related to taxes were reported in the Questionnaire table 5. In the qualitative Questionnaire on taxes and social contributions, some partial information in relation to VAT is provided, according to which the Tax Administration is obliged to settle the VAT refunds within 30 days from the date of

submission of the VAT return (or within 90 days in exceptional cases). The Croatian statistical authorities confirmed that, in principle, separate data on VAT payments and VAT refunds are available. In case of CIT, advance payments might be distinguished from final settlements that are due for payment four months after the current year.

Eurostat took note that, in the October 2019 EDP notification, the Croatian authorities changed the data source for the recording of accrual tax revenues. Instead of P1/P2 forms, data coming from PR-RAS/ SAP were used for the calculation of time-adjusted taxes for the years 2015-2018. It was clarified that the PR-RAS is a quarterly financial report coming from the accounting system of budgetary and extra-budgetary users of the State budget, local budgets and their budgetary and extra-budgetary users. The accounting basis is a modified accrual principle. The SAP is an IT system of the State Treasury that includes a narrower group of units, i.e. only the State budget and its budgetary users. The accounting basis is cash.

The main reason for the change was a different coverage of units (favouring PR-RAS) and the absence of certain tax transactions in P1/P2 forms, compared to PR-RAS/ SAP, such as tax settlements in kind and in foreign currency. It was confirmed that, following this change, the primary source for tax revenues would be the PR-RAS/ SAP reports, while the P1/ P2 forms would be used for obtaining the structure of individual tax categories that are not available in PR-RAS/ SAP.

Eurostat enquired about the revision of tax revenues for the years before 2015. According to the Croatian statistical authorities, the reconstruction of time series backwards is more demanding due to some unexplained deviations between those data sources and missing electronic data sources for those years. Nevertheless, they committed to revise the data series for the benchmark revision in 2020 at the latest.

Furthermore, due to limited progress on the issue, Eurostat decided to retain the action point 56 from the 2018 EDP dialogue visit, according to which the Croatian statistical authorities have to analyse the 40 largest para-fiscal charges currently recorded as sales. The charges meeting the definition of tax revenues would be reclassified accordingly, in time for the benchmark revision.

Social contributions

In the April 2019 EDP notification, social contributions for the years 2015-2018 were recorded according to the time adjusted cash method for the first time. Before, they were reported cash. Similarly to taxes, accrual social contributions for the years 2015-2018 were recorded using PR-RAS/ SAP reports rather than P1/ P2 forms that were, due to data coverage, considered not appropriate for this purpose. The Croatian statistical authorities clarified that obtaining data for the years before 2015 would be more demanding, including the split to Employers' actual social contributions (D.611) and Households' actual social contributions (D.613) that was currently not available. In that case, Eurostat accepted applying, in the absence of cash information, a proportional hypothesis for the split of D.611 and D.613, taking however into account changes in rates in the past, as appropriate.

Eurostat enquired about the time lag applied for the accrual recording of social contributions. The Croatian statistical authorities clarified that households' social contributions are deducted

at the moment of the payment of wages, i.e. with a one month time lag, and are therefore paid without delay, unless wages are themselves delayed. The consistency of recording for social contributions between the revenue and the expenditure sides is thus ensured. Eurostat invited the Croatian statistical authorities to enquire whether a similar consistency applies for taxes (e.g. taxes on production, CIT, etc.).

Eurostat noticed increased amounts in compulsory actual social contributions by self-employed (D.613cs) in the years 2016-2018 and asked the Croatian statistical authorities to investigate the issue and to correct the data, if deemed necessary.

Findings and conclusions

(33) The Croatian Tax authority will provide to the CBS the detail of monthly tax receipts, separating advances, net payments and refunds, by main categories of taxes (VAT, CIT, PIT). On this basis, the Croatian statistical authorities will report other accounts payable (AF.8/ F.8pay) relating to taxes, separately from receivables, in the EDP Questionnaire table 5 as well as in EDP tables 2 and 3. The information reported in the Questionnaire on taxes and social contributions will be corrected accordingly.

Deadline: April 2020 EDP notification for EDP tables, end-June 2020 for the questionnaire on taxes and social contributions²⁰

(34) In relation to the accrual recording of taxes, Eurostat welcomed the recent use of the PR-RAS data, replacing the P1/P2 reports, for the past four years and recommended to the Croatian statistical authorities to implement this change also for the years prior 2015.

Deadline: April 2020 EDP notification²¹

(35) Eurostat recalls the action point 56 from the 2018 EDP dialogue visit, according to which the Croatian statistical authorities will analyse the 40 largest para-fiscal charges currently recorded as sales. The charges meeting the definition of tax revenues will be reclassified accordingly, in time for the benchmark revision.

Deadline: October 2020 EDP notification

(36) Concerning the recording of social contributions on an accrual basis, Eurostat welcomed the recent change of data source to PR-RAS. Similarly to tax revenues, it recommended to implement this improvement also for the years prior 2015, applying, in the absence of cash information, a proportional hypothesis for the split of D.611 and D.613 (taking into account changes in rates in the past, as appropriate).

Deadline: October 2020 EDP notification

(37) Eurostat understands that social contributions are paid without delay in Croatia (unless wages are themselves delayed) such that there is consistency of recording for social contributions between the revenue and the expenditure sides. Eurostat invites the Croatian statistical authorities to enquire whether a similar consistency applies for taxes (e.g. taxes on production, CIT, etc.).

Deadline for analysis: October 2020 EDP notification

²⁰ The note was provided on 6 April 2020.

²¹ The note was provided on 6 April 2020.

(38) Eurostat reiterated the need to investigate, and if necessary to correct, the increased amounts observed in compulsory actual social contributions by self-employed (D.613cs) in 2016-2018.

*Deadline: April 2020 EDP notification*²²

4.2.2. Interest and consolidated interest

Introduction

Treasury bills are generally issued at discount (in 2019, there was also issuance at premium), while bonds are mainly issued with coupon. Some central and local government bonds are issued at discount and with coupon and also at premium and coupon.

Prior to the visit, the Croatian authorities provided a table on the recording of interest for the period 2012-2018.

Discussion and methodological analysis

In the meeting, Eurostat reviewed the table on interest completed for the years 2012-2018. Eurostat appreciated the fact that the data covered the whole general government, which was not usually observed in other countries. Small inconsistencies between the table and the EDP table 3A were noticed as regards the *Discounts/ premium at issuance* and the *Change in coupons and amortisation of discount/ premium*. The Croatian statistical authorities clarified that the difference was the coupon sold, reported in a separate line 5, however, those operations were not common and concerned small amounts. In general, it was noted that secondary market activities were negligible.

Eurostat enquired about the consolidation of 10 billion HRK in government bonds for 2018. The Croatian statistical authorities clarified that the transaction was in fact the purchase of debt securities issued by Treasury by other government bodies, in particular the public development bank HBOR and the Deposit Insurance Agency (DAB). From a general government perspective, the operation should be seen as bonds repurchase and consolidated in central government. Thus, the consolidation seemed to be enforced and imputed in the interest table as well as in EDP table 3. The Croatian statistical authorities committed to report details in a note to be sent to Eurostat.

Furthermore, valuation of debt securities in ESA table 27 and ESA table 28/ EDP tables was discussed. The Croatian statistical authorities clarified that the market value for reporting in ESA table 27/ table 7 was not available and, therefore, as a proxy, a discounted value of bonds plus accumulated discounts until the reporting date was used, which is in fact equivalent to the nominal value. Eurostat considered this approach as inappropriate and encouraged to use in financial accounts the market value, as required by ESA 2010.

In relation to the adjustment of interest, the Croatian statistical authorities explained that the difference between EDP table 2A and EDP table 3B referred to (i) other government bodies not included in the EDP table 2A and to (ii) adjustment for premium at inception and

²² The note was provided on 6 April 2020.

discount at redemption that are included in the working balance in EDP table 2A. Eurostat took note of the explanations.

Findings and conclusions

(39) Eurostat appreciated the work done by the Croatian statistical authorities on the ad-hoc table on interest, notably its wide coverage (general government). The Croatian statistical authorities will reflect on the limited adjustments necessary to ensure full consistency between this interest table and the EDP table 3A. They will report on the method used for carrying out consolidation that is de facto enforced when compiling the interest table as well as in EDP table 3, as purchases of treasury bills/ bonds by government units on the secondary market are de facto bond repurchases from a general government perspective.

Deadline: October 2020 EDP notification

(40) Eurostat pointed out at the incorrect valuation of debt securities in ESA accounts (ESA table 27, ESA table 7) and encouraged the CNB to use the market value instead of the nominal value for the compilation of ESA balance sheets and financial accounts (on both the asset and liability sides), as required by ESA 2010.

Deadline for progress report: October 2020 EDP notification

4.2.3. EU flows

Introduction

EU flows are channelled through the National Fund (NF), which is part of the MOF. The main data source is therefore the NF that provides data to CBS and CNB on a quarterly basis. Data 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 enables to distinguish government from non-government final beneficiaries.

Discussion and methodological analysis

In the Questionnaire table 6, Eurostat observed a significant increase in the stock of receivables related to EU flows of 5.2 billion HRK at the end of 2018 and sought for an explanation. According to the Croatian statistical authorities, the accumulated stock was a result of significant spending of EU grants pre-financed from own resources of government, not received however from the EU due to postponed submission of claims. It was considered that the stock of receivables in normal circumstances should be less than 4 billion HRK. The postponed refunds from the EU were expected to be received in 2019 and, therefore, the stock of F.8 receivable reported in the Questionnaire table 6 should significantly decrease for the year 2019 to be reported in April 2020. Eurostat took note of it and committed to follow up in the April 2020 EDP notification.

It was explained further that, in financial accounts, EU funds received by government are recorded in currency and deposits (F.2) and other accounts payable (F.8L). For this purpose,

the MOF keeps five different bank accounts in the CNB, i.e. outside the Treasury. The disbursement of funds enters public accounts as transfers (current or capital) that can be distinguished depending on whether the final beneficiary is a general government unit or classified outside S.13. Concerning the time of recording, the Croatian statistical authorities clarified that revenue in national accounts is recorded at the time of transfer from the State Treasury to a final beneficiary, rather than at the time of the EU financed expenditure. This was however considered by the Croatian statistical authorities as a reasonable proxy, since the time lag observed between the time of expenditure and the time of transfer was small. Eurostat took note of the explanation and requested the Croatian statistical authorities to monitor the time lag and report to Eurostat in case of significant changes in the time lag.

Separately, Eurostat discussed the recording of the so-called EU financial instruments. The financial instruments such as loans, equity injections, etc. are normally distributed through government units HBOR and HAMAG. Until 2018, the disbursement of EU financial instruments was included in the working balance in EDP table 2A and neutralised by an other adjustment, to ensure a neutral impact on B.9. From 2020 onwards, flows relating to EU financial instruments would not be included in the working balance anymore. Eurostat further enquired about the recording of losses on EU financial instruments. It was explained that while the program on loans to SMEs had existed for a longer time, bigger loans started to be provided only recently and, therefore, no write-offs on financial instruments were observed up to date. Nevertheless, information on write-offs were systematically collected and, in this context, an amendment to accounting rules was introduced that allowed to record impairment of claims in case of lack of expected recoveries.

The Croatian statistical authorities committed to transmit to Eurostat the data on EU flows (commonly reported to the ECB through the table 1b) within the extended template of the ESA table 2 (in addition to the two variables currently reported).

Findings and conclusions

(41) Eurostat verified that the main rules in relation to EU grants recording are broadly followed. The EU revenue is however not recorded at time of EU financed expenditure but rather at time of transfer by the National Fund (department of the MOF), which is deemed a reasonable proxy by the Croatian statistical authorities. The Croatian statistical authorities will monitor this time lag and will report to Eurostat any significant changes in the lag.

Eurostat took note that the large increase in receivables towards the EU observed over 2015-2018 largely resulted from temporary factors that postponed significant refunds from the EU from the end of 2018 to the beginning of 2019. Accordingly, a significant reduction in other accounts receivable (F.8rec) is expected in the data reported for 2019.

Eurostat also took note that the rules on the recording of EU financial instruments were mostly followed and that no losses had been incurred up to now. The National Fund has satisfactory detailed data in order to implement proper ESA recording (i.e. recording a revenue from the EU neutralising the capital expenditure on the loss). Eurostat also took note that payments relating to EU financial instruments will not be transiting through the working balance anymore from 2020.

Deadline: continuous

(42) The Croatian statistical authorities will report to Eurostat the data on EU flows (commonly reported to the ECB through the table 1b) within the extended template of the ESA table 2 (in addition to the two variables currently reported).

Deadline: April 2020 EDP notification

4.2.4. Military expenditure

Introduction

The data for acquisition of military equipment are provided by the Ministry of Defence and by the MOF. Previously, it was clarified by the Croatian statistical authorities that pre-payments for deliveries of military equipment are carried out within the same year and, therefore, no adjustments are imputed in national accounts.

Discussion and methodological analysis

Eurostat followed up on two action points from the 2018 EDP dialogue visit. First, the Croatian statistical authorities confirmed that *Agencija Alan*, a government agency involved in the import and export of defence equipment, was reclassified inside general government for the whole time series. Second, in relation to gross fixed capital formation, it was clarified that 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 a single exception in 2014, where pre-payments were recorded in public accounts (PR-RAS) in the last quarter of 2014 and the delivery took place in 2015. The complete information about the recording in public accounts was however not available and the Croatian statistical authorities will contact the Ministry of Defence in this regard.

The Croatian statistical authorities will also clarify with the Ministry of Defence whether long-term trade advances or credits might be used for the acquisition of military equipment such as the deliveries of helicopters or similar significant acquisitions of military equipment. Eurostat took note that this information would be systematically collected via a survey on long-term trade credits in the future.

Findings and conclusions

(43) The Croatian statistical authorities will seek confirmation from the Croatian Ministry of Defence on whether past contracts for big deliveries encompassed long-term trade advances/credits. Eurostat took note that, for future contracts, these data will be collected as a part of the survey on long-term trade credits launched by the MOF. Furthermore, the recording of military expenditure in 2014 will be verified.

Deadline: October 2020

4.2.5. Gross Fixed Capital Formation (GFCF)

Introduction

The recording of GFCF was extensively discussed in the EDP dialogue visit in 2018. As a conclusion, the Croatian statistical authorities were requested to reflect on using administrative data sources for the GFCF recording, instead of a statistical survey that provided results of lower quality and with a considerable delay.

Discussion and methodological analysis

The Croatian statistical authorities recalled that, in the October 2019 EDP notification, they changed the data source for the compilation of GFCF. Consequently, for the years 2017 and 2018, instead of the statistical survey INVp, that was commonly available in the t+3 years period, they used data from FINA, i.e. from administrative data sources for the first time. The intention was to continue in using PR-RAS in the future and, at the same time, replace the data for previous years, i.e. before 2017, using the same data source.

For this purpose, the MOF carried out an exercise reconciling data for 2016 from the two data sources and identified a list of conceptual differences, relating to government units keeping budgetary accounting. On that basis, in May 2019 the MOF disseminated instructions and a bridge table for these units in order to improve consistency of their INV-p reports with financial reports.

Further analyses showed that, while the differences for 2017 and 2018 were negligible so that PR-RAS could be used for the GFCF calculation, data for 2015 and 2016 showed significant deviations. Further analysis has to be thus carried out, before revising the data in the April 2020 EDP notification.

During the discussion, it was also mentioned that, starting in 2020, GFI-POD reports used by corporations would be adapted, e.g. by entering new positions in order to better reflect statistical needs, mainly for the GFCF calculation and for the purpose of the market/ non-market test.

Findings and conclusions

(44) The Croatian statistical authorities will review the gross fixed capital formation (GFCF) data for 2015-2016, aiming at substituting INVp data by PR-RAS, consistently with the approach followed for years 2017-2018. The Croatian statistical authorities intend to more systematically use FINA source data for historical years at the occasion of the forthcoming benchmark/ major revision of October 2020.

Deadline: April 2020 EDP notification for years 2015-2016 and October 2020 EDP notification for previous years²³

4.3. Recording of specific government transactions

4.3.1. Guarantees

Introduction

²³ The GFCF for 2016 was revised in the April 2020 EDP notification, based on the change of data sources, as agreed with Eurostat.

The data on guarantees are mainly provided by the MOF, CNB (using the money and banking statistics) and by the HBOR (the Croatian development bank classified inside S.13). Prior to the visit, the Croatian statistical authorities provided a detailed list of government guarantees provided to public and private entities, including those provided by the HBOR, for the period 2015-2018.

Discussion and methodological analysis

Eurostat reviewed the list of guarantees sent before the visit and appreciated the detail of the information provided. The Croatian authorities informed Eurostat that data on guarantees would be corrected in the April 2020 EDP notification due to the consolidation of the guarantees provided to newly reclassified entities inside general government. The data reported in the context of the supplementary questionnaire on contingent liabilities reported to Eurostat by the end of December 2019 would then be consistent with the Questionnaire table 9.

A further discussion focused on the recording of government guarantees provided to shipyards in 2018 (already discussed in the EDP dialogue visit in 2018) and, in particular, Eurostat followed up on the related operations carried out in 2019. In 2018, the Croatian statistical authorities recorded a cash call on the guarantee provided by government to three shipyards *Uljanik d.d.*, *Uljanik Brodogradiliste d.d.* and *3. Maj Brodogradiliste d.d.* for an amount of 2530 million HRK, with a negative impact on deficit. The remaining part of the guarantee, for an amount of 2037 million HRK, was recorded as debt assumption, with a counterpart in loan assets, thus without an impact on the deficit. The recording of the latter was justified by a partial recovery of the government guarantee that was expected from the sale of the dredger ship considered as collateral for government. The construction of the ship was finalised at approximately 85% at the end of 2018, however, no official assessment of the value was available at the time of the October 2019 EDP notification. Some recoveries for the government of uncertain value were therefore expected in the future in relation to the collateral.

Concerning the operations carried out in 2019, the Croatian statistical authorities explained that two additional cash calls followed in the first quarter for an amount of 580 million HRK and in the second quarter for 1400 million HRK. These operations reduced the government debt, already assumed in national accounts, and impacted negatively the government deficit in ESA table 25. No operation relating to the government claim (AF.4A) was recorded in this relation. The Croatian statistical authorities noted that, following the cash calls, creditors' claims seemed not to have decreased, despite the fact that the two payments of government were understood to have redeemed these claims. Eurostat requested to investigate the recording in public and national accounts of this issue that might imply a downward revision in debt by 2 billion HRK. In the fourth quarter, the Commercial Court decided on the sale of the dredger ship in an auction, including setting the minimum sale price at 85% of its value (approximately 720 million HRK) and the order of creditors that were to be compensated from proceeds. According to the information available at that time, government, as one of the creditors, was entitled to receive approximately 500 million HRK in the fourth quarter of 2019 or first quarter of 2020.

Eurostat recommended to record the reduction in the value of the government claim (AF.4A) recorded in 2018 (2037 million HRK) to approximately 500 million HRK, which was the

estimated residual value of the ship at the time of the meeting, by way of transactions. In addition, the capital transfer expenditure of 1400 million HRK recorded in 2019Q2 (in addition to 580 million HRK in Q1) will be adjusted to approximately 1 billion HRK, in order to reflect the claim de facto held by government (500 million HRK) on the residual value of the ship that is acquired by a private buyer. As a result, the total guarantee calls/deficit impact would amount to 4 billion HRK net of recoveries, with 2530 million HRK paid out in 2018 and 1980 million HRK in 2019, and 500 million HRK recovered at the end of 2019 or at the beginning of 2020.

Findings and conclusions

(45) The Croatian statistical authorities will report in the April 2020 EDP notification an adapted table 9 of the Questionnaire related to EDP tables, so to remove the guarantees provided to the units reclassified inside general government in April and October 2019, as the table 9 should be reported consolidated. The data reported in the context of the supplementary questionnaire on contingent liabilities reported to Eurostat by the end of December 2019 will be consistent with the Questionnaire table 9.²⁴

Deadline: April 2020 EDP notification

(46) In relation to the guarantee on shipyards, Eurostat recommended that the Croatian statistical authorities adjust the capital transfer expenditure of 1.4 billion HRK recorded in 2019Q2 (in addition to 0.6 billion HRK in Q1) to 1 billion HRK, in order to reflect the claim de facto held by government (500 million HRK) on the residual value of the ship that is acquired by a private buyer. This value was finally established in November 2019 by means of a court decision. The Croatian statistical authorities would enquire on the reason why the claims held by creditors of shipyards that were subject to the government guarantees seem not to have materially decreased, despite the fact that the two payments of government were understood to have redeemed these claims. This may imply that the debt would be revised downwards by 2 billion HRK. The Croatian statistical authorities will also ensure that the claim that was booked as a government asset in 2018 (2 billion HRK) is reduced to 500 million HRK (estimated residual value of the ship at the time of the meeting), by way of transactions. As a result, the shipyards guarantee calls would have amounted to 4 billion HRK net of recoveries, with 2.5 billion HRK paid out in 2018 and 2 billion HRK in 2019, and 0.5 billion collateral realised at the end of 2019 or beginning of 2020.

*Deadline: April 2020 EDP notification*²⁵

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

Introduction

²⁴ The data on guarantees were corrected in the April 2020 EDP notification.

²⁵ In the April 2020 EDP notification, a cash guarantee call (F.2) of 2 billion HRK was recorded with a counter part in the repayment of debt (F.4L). The recording of expenditure (D.9pay) of 1.5 billion HRK implied a partial cancellation of the government claim (F.4A), so that the stock of AF.4L at the end of 2019 was 502 million HRK, following the decision of the Commercial Court on the sale of ship in December 2019.

In central government, loans are mainly provided by budgetary central government and by the development banks HBOR and HAMAG. The Croatian MOF provides information to the CNB on gross transactions on a quarterly basis. Data on stocks are not available. The main data source on HBOR's lending is the money and banking statistics of the CNB. Prior to the visit, the Croatian statistical authorities sent a table with debt assumptions for 2015-2018.

Discussion and methodological analysis

Eurostat recalled discussions from the previous EDP dialogue visit in 2018 that concerned the reporting of net transactions in loans in EDP table 3 and Questionnaire table 8. The Croatian statistical authorities do not report the increase and decrease in loans (F.4A) for the loans provided by the budgetary central government and the HBOR. Details on the final beneficiary or on recoverability of loans are not available either, which might imply that the capital injection test is not regularly performed. In the meeting, the Croatian statistical authorities argued that a specific survey was introduced in 2019 for the first time and circulated to the HBOR and HAMAG, with the aim to identify data on increases and decreases for EDP reporting purposes (and not commonly presented in business accounts of those units). In the future, there is an intention to include the loan template in the new IT system for financial reporting, as discussed under point 1.2 Data sources. It was agreed that a draft survey would be sent to Eurostat for comments by the end of January 2020.

Furthermore, Eurostat enquired about cases of debt assumption. As explained in the meeting, the main information sources is the Croatian MOF and money and banking statistics of the CNB. At a local government level, no detailed information about debt assumptions is available. The cash calls are recorded in the Chart of Accounts under a specific code 51633 *Dani zajmovi tuzemnim trgovačkim društvima izvan javnog sektora po protestiranim jamstvima* and under several similar codes, depending on the beneficiary type/ sector. If local government authorities report guarantee calls, such cases might be followed up on a case-by-case basis. The Croatian statistical authorities committed to investigate whether the Chart of Accounts could provide specific information on cases of debt assumptions that would potentially be included in the new IT system on financial and budgetary reporting.

Findings and conclusions

(47) The Croatian statistical authorities will investigate if the Chart of Accounts could support information in relation to debt assumptions (information that would be collected through the new IT system of the budgetary financial reporting), notably for local government.

Deadline: June 2020

(48) The Croatian statistical authorities will send to Eurostat, for comments, the new loan reporting template prepared by the CNB that could eventually be inserted as part of the reporting requirements in the new IT system of the budgetary financial reporting (see the action point 2). This would help distinguish acquisitions from redemptions of loans, which is necessary for the reporting in EDP Table 3/ Table 2 and Questionnaire table 8. Such reporting is particularly important for HBOR operations.

Deadline: end-January 2020²⁶

4.3.3. Capital injections in public corporations

Introduction

Prior to the visit, the Croatian statistical authorities provided to Eurostat a detailed list of capital injections provided by government to public corporations for the years 2015-2018.

Discussion and methodological analysis

First, Eurostat reviewed the list of capital injections and enquired about the case of *Petrokemija* where, after a series of capital transfers, the capital injection in 2018 was apportioned to a capital transfer of 129 million HRK and an equity injection of 70 million HRK. As explained in the meeting, *Petrokemija* was a public corporation receiving loans from HBOR that were recorded as capital transfers over 2016-2017. In 2018, in the context of privatisation and restructuring process, *Petrokemija* was recapitalised by a consortium of public and private investors for a total amount of 450 million HRK. The capital injection of 70 million HRK pertaining to the *Fond za financiranje razgradnje NEK* (FFRNEK) classified in S.1311 was recorded as a financial transaction (F.5). Following the capital injection, government participation in the capital of *Petrokemija* dropped from 81.6% to 45.1%, thus *Petrokemija* becoming a private corporation.

Eurostat recalled the concept of apportioned losses and, in application of the rule, requested the Croatian statistical authorities to investigate whether the total amount of capital transfers of 525 million EUR recorded over the period 2016-2018 exceeded the apportioned accumulated losses of *Petrokemija*. In such a case, the recording of the capital injection of 70 million HRK as a financial transaction (F.5) would be justified. In addition, Eurostat took note that the capital injection of 70 million HRK was carried out on a similar basis as private investors and the company is quoted on the financial markets.

Further, Eurostat examined the reporting of capital injections in the Questionnaire table 10 and pointed out at the inconsistency in the reporting of 'Capital injections into international organisations' (item A.1.2a) in table 10.1A for an amount of 196 million HRK, which seemed to include the capital injection of FFRNEK described above, and 'Equity acquisitions, other' in item B.2.3.2 of table 10.1B for an amount of 126 million HRK in 2018. The Croatian statistical authorities committed to verify the consistency of the above in the April 2020 EDP notification.

Findings and conclusions

(49) Eurostat took note that the capital injection into *Petrokemija* for an amount of 525 million HRK was recorded as a capital transfer over 2016-2018. The Croatian statistical authorities will confirm that these injections exceeded the apportioned losses. As a result, the additional 70 million HRK injected, as a second step, together with the private

²⁶ The draft loan reporting template was provided to Eurostat on 24 February 2020 and a follow up note on 26 June 2020.

investor (300 million HRK) in 2018, would be correctly recorded as transactions in equity, in application of the rules.

Deadline: end-February 2020²⁷

- (50) The Croatian statistical authorities will verify the consistency between item B.2.3.2 of Table 10.1B (126 million HRK in 2018) and item A.1.2a of Table 10.1A (196 million HRK).

Deadline: April 2020 EDP notification

4.3.4. Dividends, super dividends

Introduction

Prior to the visit, the Croatian statistical authorities provided a list of dividends received by government in the period 2015-2018 and the operating profit of individual companies.

Discussion and methodological analysis

Eurostat reviewed the table of dividends and calculation of super dividends for 2015-2018 provided by the Croatian statistical authorities. By comparing the detailed calculation of super dividend in the table (25.5 million HRK) and data reported in the Questionnaire table 10.2 (20.8 million HRK), an inconsistency was identified for the super dividend paid by the CNB in 2015. In addition, the calculation of super dividends for the company CETRA D.D. could not be verified due to missing operating profit for 2017 and 2018. Eurostat pointed out at the dividends reported for the unit *Agencija Alan*, already reclassified in S.13, in the Questionnaire table 10.2, which should rather be recorded as transfers within general government (D.73). The Croatian statistical authorities will verify and correct, if relevant, all issues pointed out by Eurostat in the April 2020 EDP notification.

Findings and conclusions

- (51) The Croatian statistical authorities will verify the difference between super-dividends reported in 2015 for the CNB in the table provided prior to the visit (25.5 million HRK) and in the Questionnaire table 10.2 (20.8 million HRK). Furthermore, they will investigate the missing operating profit in the calculation of super dividend test for the company CETRA DD in 2017 and 2018. The Croatian statistical authorities will verify the recording of distributions made by Alan (classified in S.13) and undertake any necessary corrections.

Deadline: April 2020 EDP notification

4.3.5. Financial derivatives

²⁷ The note was provided on 4 March 2020. Based on the financial statements of the company *Petrokemija*, Eurostat concluded that the total amount of capital transfers of 525 million HRK recorded over 2016-2018 exceeded apportioned losses that showed 475 million HRK of accumulated losses in 2017 and thus the capital injection of 70 million HRK in 2018 was correctly recorded as a financial transaction (F.5).

Introduction

The Croatian statistical authorities mainly use cross currency swaps. The main data source for cross currency swap agreements for central government is the Croatian MOF. Prior to the visit, the Croatian statistical authorities completed a table on financial derivatives.

Discussion and methodological analysis

In the table provided before the visit, the Croatian statistical authorities reported data for cross currency swaps for the period 2015-2018. These instruments were used to hedge debt denominated in USD to EUR currency. As explained by the MOF, the cross currency swaps would terminate with the last redemption in 2020. Eurostat asked about the change in stocks of the cross currency swaps in bloc 1, from 10.1 billion HRK in 2016 to 2.0 billion HRK in 2017. The Croatian statistical authorities confirmed that in 2017 there was an unwinding of swaps for an amount of 10.4 billion HRK, implying an adjustment of 1.9 billion EUR included in the Appreciation/depreciation of foreign currency debt in the EDP table 3B. In the bloc 5, Eurostat pointed out at the unexpectedly high market value of hedging instruments, which was further explained as the stock of hedged debt. Eurostat clarified that, instead, the total value of swaps should be reported in this line and asked to correct the reporting in the next transmission of the table. In addition, in the line 'Interest on debt hedged before hedge' the USD interest on bonds should be reported, instead of inserting an additional block to the table.

Eurostat continued in the review of the table and enquired about the existence of collaterals on derivatives to be reported in the bloc 3. The Croatian statistical authorities thought that no collaterals, including debt securities or escrow accounts, were used in derivative operations, but, committed however to investigate and report back to Eurostat.

Findings and conclusions

(52) Eurostat appreciated the completion of the ad-hoc table on financial derivatives, notably its wide coverage (S.13). The Croatian statistical authorities will implement the limited adjustments discussed during the meeting. In addition, the Croatian statistical authorities will confirm the absence of any collateral received/ paid on these derivatives (cross currency swaps), either in the form of debt securities (instead of cash) or through 'escrow accounts'.

Deadline: October 2020 EDP notification

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

Introduction

Under this agenda point, Eurostat discussed the recording of public private partnerships (PPPs), concession contracts and energy performance contracts. Prior to the visit, the Croatian statistical authorities provided a note on the system and financing of EPCs together with a list of implemented EPC projects.

Discussion and methodological analysis

PPPs

In Croatia, there are in total 14 PPPs, of which 12 for an amount of 613.5 million HRK were recorded off-balance sheet for government in national accounts. Two PPPs for an amount of 1924 million HRK were recorded on-balance sheet. Those were the sports and business complex Lora in the city of Split and the Zagreb Airport. Following Eurostat's request in the 2018 EDP dialogue visit, the Croatian statistical authorities provided to Eurostat the contracts for the PPPs that were recorded off-balance sheet.

In the meeting, the Croatian statistical authorities informed Eurostat that, from 1 January 2019, the activities of the AIK Investment Agency in the field of PPP management were directly taken over by the Ministry of Economy, Entrepreneurships and Crafts. Concerning the information flow, the Croatian statistical authorities explained that an analysis of risks distribution for PPP projects was previously carried out by the AIK and further circulated to the statistical authorities, which did not receive nor read PPP contracts themselves. In the context of the coming update of the MoU, the Croatian statistical authorities planned to formalise the cooperation so that the Ministry would routinely circulate to the members of the GFS WG the necessary information. In particular, those would concern the evaluation note for the statistical treatment (off/on balance sheet) of PPPs carried out on behalf of the CBS, relevant data required for GFS/ EDP compilation and the underlying PPP contracts.

At the time of the meeting, there were no new PPP contracts reported by the Croatian statistical authorities, compared to the situation as of December 2018. In relation to the Square of Justice in Zagreb, the project was still in the phase of receiving approval from government.

Eurostat asked the Croatian statistical authorities to complete the missing data in the Questionnaire table 11 devoted to the PPP reporting.

Eurostat enquired about the project Zagreb Airport for a capital value of 1420 million HRK recorded on the balance sheet of government, for which data reporting in the Questionnaire table 11 was incomplete. As explained in the meeting, the construction phase of the project started in 2014 and finished in 2018. The unitary charge payments are reported a zero. In public accounts, the PPP is recorded as off balance sheet. The Croatian statistical authorities also remarked that direct data from the concessionaire were not available and, accordingly, counterpart information had to be used for the GFS/ EDP compilation. On this basis, debt was imputed (AF.4L) in government accounts for the amount of gross capital formation and the relating interest was calculated.

Eurostat noted that this arrangement is similar to a sale and lease-back operation, where the government takes an asset under a financial lease, and then leases it back to the operator under an operating lease. Consequently, the investment in the concession asset appears as gross fixed capital formation in government accounts, while interest on the financial lease appears as interest (D.41) expenditure. On the operating lease side, the government receives P.1 revenue. Such arrangement causes a negative B.9 effect during the initial investment-intensive years (high GFCF and D.41p costs), but then, gradually, operating lease revenue starts to exceed costs.

Consequently, Eurostat concluded that the Zagreb Airport contract is de facto a concession rather than a PPP and invited the CBS to flag this information in the next reporting in April 2020. In addition, the Croatian statistical authorities were invited to provide a simulation that would implement the lease and leaseback model for the Zagreb Airport, implying that imputed debt would be recognised instead of the actual debt of the concessionaire. In the April 2020 EDP notification, they will report the amount of revenue corresponding to the operating leaseback (of the on-balance sheet asset) together with the associated reduction in debt (taking into account the interest payable (D.41p) already recorded for both 2018 and 2019).

Concessions

There is an on-balance sheet concession relating to Bina Istra motorway that was already discussed in the previous mission in 2018. The government guarantees to the private operator the coverage of the operating costs plus a fixed return on investment. Some contingent liabilities exist in case of an early cancellation of the concession contract. This concession was reclassified on the government balance sheet in 2015, following the decision of the CBS. Since then, Bina Istra's actual debt was imputed inside the government debt, with implications on EDP table 2A, which shows notable positive adjustments.

Similarly to the Zagreb Airport, the Bina Istra concession can be considered as a lease and lease-back operation, where government leases an asset under a financial lease, and then rents it back to the operator under an operating lease. Also in this case, the Croatian statistical authorities follow the recording of the actual debt in national accounts rather than the imputed debt, which is lower. It was also noted that government pays regular subsidies on Bina Istra that are reclassified for the EDP/ GFS purposes as financial transactions, i.e. redemption of debt.

Eurostat requested an updated simulation of the lease and leaseback model for Bina Istra that would compare the imputed debt and the actual debt of the concessionaire, as currently recorded. Finally, the Croatian statistical authorities were encouraged to present these two cases of concession agreements in the Eurostat's Task Force on Concessions.

Energy performance contracts (EPCs)

The Croatian Real Estate Agency (APN) is responsible for the implementation of the Program of Energy Efficiency of the buildings in the public sector, including the EPCs. From a legal point of view, there is the Energy Efficiency Act that defines the main provisions of the EPC contracts. Under the scheme existing up to 2016, government co-financed EPCs through the Environmental Protection and Energy Efficiency Fund (FZOEU), classified in S.13, and provided subsidies up to 40% of eligible construction costs (recorded in PR-RAS on the account 32398, thus impacting B.9). The list of eligible cost was defined by the law and covered capitalized cost of assets, excluding the fees paid to ESCO. The total value of these EPCs is 845 million HRK in invested capital and they are currently recorded off-balance sheet.

In the new 2016-2020 scheme, a second version of the standardized EPC contract is used, promoting also the possibility of EU financed expenditure. Compared to the previous scheme, ESCO must have the ability to generate an additional profit than expected in the project documentation and can share the excess savings on better performance, which was not the

case in the previous scheme. In addition, the subsidy element paid by government on eligible costs does not exist in the current version, with the intention to replace the national co-financing with EU funds. The Croatian statistical authorities confirmed that, at the time of the meeting, there were no EPCs concluded under the new standardised contract.

Eurostat took note that, according to the Croatian statistical authorities, the new standardized contract is more in line with the Eurostat's EPC Guide, but, invited the Croatian statistical authorities to reconsider the recording of EPCs based on the previous standardized contract, due to the elements of government financing and sharing of the excess savings, as described above.

Furthermore, the Croatian statistical authorities will review one contract concluded by a local government unit that uses the new EPC standardized contract, while at the same time benefiting from subsidies by a municipality.

Findings and conclusions

- (53) The unit in charge of PPPs data collection and assessment agrees to routinely circulate to the members of the GFS WG (1) the evaluation note for the statistical treatment (off/on balance sheet) of PPPs carried out on behalf of the CBS (2) the relevant data required for GFS compilation (3) the underlying contracts (for possible cross-checking by the CBS).

Deadline for the progress report to Eurostat: April 2020 EDP notification

- (54) Eurostat took note that the Zagreb Airport contract is de facto a concession, rather than a PPP in the statistical meaning of the word (the CBS is invited to flag this in the PPP reporting), that is on government balance sheet, with an incomplete recording in deficit and debt. The Croatian statistical authorities will report, for the April 2020 EDP notification, an amount of revenue corresponding to the operating leaseback (of the on-balance sheet asset) together with the associated reduction in debt (taking into account the D.41p, already recorded, on the financial lease debt) for both 2018 and 2019.

Deadline: April 2020 EDP notification

- (55) In addition, the Croatian statistical authorities will propose to Eurostat accounting entries to be recorded implementing the lease and leaseback model for the Zagreb Airport, implying recognising an imputed debt rather than the actual debt of the concessionaire. They will do the same for the concession Bina Istra, which is another on-balance sheet concession, taking into account the specificity that this concession benefits from regular subsidies from central government. The Croatian statistical authorities will consider presenting these recording cases in the Eurostat's Task Force on Concessions.

Deadline: end-May 2020

- (56) Eurostat took note that a new EPC standardized contract is now promoted in Croatia, in order to be aligned with the Eurostat's EPC Guide. However, no new EPCs have been signed based on this contract. Eurostat invited the Croatian statistical authorities to reconsider the recording of EPCs based on the previous standardized contract (845 million HRK in invested capital) in the light of the fact that these contracts included a clause whereby excess performance is retained by the purchasing government unit and not by the EPC contractor, also taking into account that up to 40% of costs were actually

covered by government subsidies (account 32398 impacting fully B.9). These contracts are recorded currently off-balance sheet. In the new model, the excess performance will be retained by EPC contractor and no government subsidies are envisaged.

Deadline: October 2020 EDP notification

- (57) The Croatian statistical authorities will review one contract by a government unit that uses the new EPC standardized contract, benefiting from subsidies by a municipality.

Deadline: October 2020 EDP notification

4.3.7. Emission trading permits

Introduction

Eurostat followed up on the action point 81 from the previous 2018 EDP dialogue visit to Croatia, when the Croatian statistical authorities were asked to reflect on the opportunity to switch to a more appropriate recording method compared to the current quasi-cash method followed.

Discussion and methodological analysis

The Croatian statistical authorities explained that, since 2013, they followed the ‘fiffo’ accounting method, as described in the 2016 MGDD, for the recording of other taxes on production (D.29), rather than the pure cash basis applied before. In addition, they expected the result of an on-going consultation in the EDPS Working Group on this subject.

Findings and conclusions

Eurostat took note of the explanations.

4.3.8. Others: privatization, sale and leaseback operations, UMTS, securitisation

Introduction

The Croatian statistical authorities reported privatisations for 2015-2018, in particular for *Končar - elektroindustrija d.d.*, *Imperial d.d.* and *Hoteli Makarska d.d.* The privatisation receipts are not included in the working balance in the EDP table 2A.

Concerning the regulation of frequencies, it is the government agency HAKOM (*Hrvatska agencija za telekomunikacije*), which is responsible for the sale and management of licences. In the past, five sales of frequencies occurred, of which the last one was in 2015. In national accounts, sales of frequencies were recorded as financial transactions for the full amount of lump sums and allocated as rent (D.45r) over the duration of each licence.

The Croatian statistical authorities report no sale and leaseback and securitisation operations.

Discussion and methodological analysis

A discussion on privatisations, sale and leaseback operations, UMTS and securitisation did not take place due to time constraints.

5. Any other business

Introduction

In the October 2019 EDP notification, the Croatian statistical authorities were requested to change the recording of the Fund NE Krsko revenues received from the public electricity company *Hrvatska elektroprivreda* (HEP) from Current transfers (D.7) to a financial transaction. The sequence of lump sums was identified as a resource for the future financing of decommissioning costs.

Discussion and methodological analysis

In the meeting, the Croatian statistical authorities explained that the Nuclear Power Plant Krško (NPP Krsko) is owned 50:50 by the Croatian public corporation HEP and by the corresponding Slovenian company GEN. It is built on the Slovenian territory. The resources for the financing of the decommissioning of the NPP Krsko and the disposal of radioactive waste should be contributed to Fund every three months until the NPP Krsko would cease the operation in accordance with the Agreement, or until the planned amount fixed by the Decommissioning Programme in force is reached. These resources are paid to the Fund by the HEP.

Eurostat recalled the new 2019 MGDD guidance, according to which decommissioning proceeds should enter the financial accounts as a financial advance paid to government, irrespective of whether the assets are transferred to government or not at the end of the process. In case there is a clear transfer of obligation, the contributions as well as reinvested earnings (D.41, D.42) should enter the financial accounts, being B.9 neutral. In the October 2019 EDP notification, regular payments to the Fund by HEP were reclassified from D.7 to a financial transaction. However, it was not clear whether related property income (D.4) was imputed on the liability as well as on the asset side to ensure a neutral B.9 impact. The Croatian statistical authorities will investigate the issue and report to Eurostat. They will also provide the stock of other accounts payable (AF.8L) recorded in relation to decommissioning costs.

Findings and conclusions

(58) The Croatian statistical authorities will confirm that the neutralisation of the B.9 of the decommissioning Nuclear Fund carried out in the October 2019 notification in application of the new MGDD 2019 is carried out by recording the regular contributions collected in the financial accounts (F.8pay) and by imputing a D.41pay accrued on the AF.8L (matching the property income D.4rec earned on the financial assets accumulated). They will report to Eurostat the stock of AF.8L reported in ESA table 27.

Deadline: April 2020 EDP notification

EDP dialogue visit to Croatia 16-18 December 2019

Final agenda

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- 4.3.7. Emission trading permits
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5. **Any other business**

**EDP dialogue visit to Croatia
16-18 December 2019**

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