

**Inventory of the methods, procedures and sources
used for the compilation of deficit and debt data and
the underlying government sector accounts
according to ESA2010**

Croatia

April 2016

Background

Compilation and publishing of the Inventory of the methods, procedures and sources used to compile actual deficit and debt data is foreseen by Council Regulation 479/2009, as amended.

According to Article 8.1: *“The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording.”*

In line with the provisions of the Regulation set up in Article 9, *“Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data”*.

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States. This version introduces references to the ESA2010 as well as some updates of the relevant topics mirroring the changes introduced by the ESA2010.

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Annex I – List general government units

Annex II – Data flowchart of EDP processes

Annex III - Agreement on cooperation

A. Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

This chapter provides a summary description on the general government sector components and specifies institutional responsibilities and basic data sources used for EDP tables and for the compilation of general government national accounts. Special attention is given to EDP tables: detailed description of components of the working balance and the transition into B.9 (net lending/net borrowing); compilation of Maastricht debt and of stock-flow adjustments; explanation of the link between EDP table 2 and 3, balancing process and statistical discrepancies.

1. General Government

This section describes the coverage of the General Government sector and the sub-sectors for Croatia.

The Croatian Bureau of Statistics (further in text DZS) is responsible for defining, managing and publishing the Official Sector Classification under the ESA 2010 methodology. DZS is running sector classification database in the Statistical Business Register. The Subcommittee on Sector Classification, established under the Agreement on cooperation which was signed (the first one in 2007, the current one in 2013) among the Croatian Bureau of Statistics (Državni zavod za statistiku, DZS), the Croatian National Bank (Hrvatska narodna banka, HNB) and the Ministry of Finance (here abbreviated as MF), is responsible for sector classification of all institutional units in Croatian economy, as well as for delineation of general government sector.

The general government sector is composed by three sub-sectors: S.1311, S.1313 and S.1314.

1.1. Central government subsector (S.1311)

The main units of the central government sub-sector are ministries, bodies like the State Audit Office and agencies accountable to the Parliament (Hrvatski sabor). This sub-sector includes also budget users (such as law courts, hospitals and universities), agencies responsible to ministries and non-market public corporations; the Croatian Railways Infrastructure (Hrvatske željeznice infrastruktura, HŽI), the Croatian Radio Television (Hrvatska radio-televizija, HRT), the Croatian Motorways Ltd. (Hrvatske autoceste, HAC) and the Motorway Rijeka - Zagreb (Auto-cesta Rijeka Zagreb, ARZ). The central government sub-sector includes extra-budgetary users such as the Croatian Waters (Hrvatske vode, here abbreviated as HV), the Fund for Environmental Protection and Energy Efficiency (Fond za zaštitu okoliša i energetske učinkovitost, FZEOU), the Croatian Roads (Hrvatske ceste, HC), the Croatian Privatization Fund (Hrvatski fond za privatizaciju, HFP) until 31 March 2011, the Agency for Management of the Public Property (Agencija za upravljanje državnom imovinom, AUDIO) until 30 September 2013 and Restructuring and Sale Centre (Centar za restrukturiranje i prodaju, CERP) and State Property Management Administration (Državni ured za upravljanje državnom imovinom, DUUDI) since 1 October 2013, State Agency for Deposit Insurance and Bank Resolution (Državna agencija za osiguranje štednih uloga i sanaciju banaka, DAB), Croatian Energy Regulatory Agency (Hrvatska energetska regulatorna agencija, HERA),

Croatian Energy Market Operator (Hrvatski operator tržišta energije, HROTE), Croatian Regulatory Authority for Network Industries (Hrvatska regulatorna agencija za mrežne djelatnosti, HAKOM) and Croatian Bank for Reconstruction and Development (Hrvatska banka za obnovu i razvitak, HBOR).

The list of all units included in this sub-sector is available on DZS web site.

1.2. State government subsector (S.1312)

Not applicable.

1.3. Local government subsector (S.1313)

The local government subsector includes the total coverage of budgets of local units (City of Zagreb, 20 counties, 428 municipalities, and 127 cities) and their budgetary users (e.g. hospitals, schools, kindergartens) and extra-budgetary users - county road authorities.

The list of all units included in this sub-sector is available on DZS web site.

1.4. Social security funds subsector (S.1314)

The sub-sector social security funds include three units: The Croatian Pension Insurance Administration (Hrvatski zavod za mirovinsko osiguranje, HZMO), the Croatian Institute for Health Insurance (Hrvatski zavod za zdravstveno osiguranje, HZZO) and the Croatian Employment Service (Hrvatski zavod za zapošljavanje, HZZ).

Further details relating to practical aspects of sector classification for individual units into general government sector could be found in Chapter B, section 1.

2. Institutional arrangements

This section provides general information on institutional arrangements relating to the production and dissemination of government deficit and debt statistics:

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA2010 Transmission Programme;
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables;
- general overview about bookkeeping system used by public units, internal quality checks and external auditing;
- communication between individual national authorities involved in EDP;
- publishing of deficit and debt statistics.

Legal basis for the compilation of GFS and EDP data

Government national accounts and EDP statistics are prepared in line with relevant EU legislation and national legislation. The legal framework for the compilation of GFS and EDP data is defined by the Official Statistics Act (Zakon o službenoj statistici, Narodne novine, NN No. 103/03, 75/09 and 59/12), more precisely by Development Strategy of Official Statistics of the Republic of Croatia (Strategija razvitka službene statistike Republike Hrvatske), Programme of Statistical Activities of the Republic of Croatia (Program statističkih aktivnosti Republike Hrvatske) and the Annual implementation plan (Godišnji provedbeni plan statističkih aktivnosti Republike Hrvatske). Fiscal data of budgets and accounting data of government units are prepared according to national acts in which the collection of fiscal data is regulated, such as the Budget Act and the Ordinance on financial reporting in budgetary accounting. The responsibility for the compilation of Government Finance Statistics is specified in the Agreement on cooperation (Annex 1) signed between the DZS, HNB and MF (the first one in 2007, the current one in 2013).

2.1. Institutional responsibilities for the compilation of general government deficit and debt data

This section describes institutional responsibilities for compilation of Government Finance Statistics (national accounts for general government and EDP tables). Further related information is described in section 2.3 Communication.

National accounts data for general government are transmitted to Eurostat¹ via the following tables (see the related EU legislation)² :

Table 2 – Main aggregates of general government (annual data)

Table 6 – Financial accounts by sector (annual data)

Table 7 – Balance Sheets for financial assets and liabilities (annual data)

¹ http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:174:0001:0727:EN:PDF>

Institutional arrangements - Institutional arrangements relating to public accounts

Table 801 – Non-financial accounts by sector (quarterly)

Table 9 – Detailed Tax and Social Contribution Receipts by Type of Tax or Social Contribution and Receiving Sub-sector (annual data)

Table 11 – Expenditure of General Government by function (annual data)

Table 25 - Quarterly Non-financial Accounts of General Government

Table 26 – Balance sheets for non-financial assets (annual data)

Table 27 – Quarterly Financial Accounts of General Government

Table 28 – Quarterly Government Debt (Maastricht Debt) for General Government

Data on government deficits and debt levels are reported to Eurostat twice a year (in April and October) in EDP notification tables³.

Table 1. - Institutional responsibilities for the compilation of general government national accounts and EDP tables

Institutional responsibilities <i>(the appropriate cells are crossed)</i>		NSI	MOF	NCB	Other	
Compilation of national accounts for General Government:						
Nonfinancial accounts	annual	X				
	quarterly	X				
Financial accounts	annual			X		
	quarterly			X		
Maastricht debt	quarterly			X		
Compilation of EDP Tables:						
EDP table 1	actual data	deficit/surplus	X			
		debt			X	
		other variables	X		X	
	planned data	deficit/surplus		X		
		debt		X		
		other variables		X		
EDP table 2 (actual data)	2A central government		X			
	2B state government		-			
	2C local government		X			
	2D social security funds		X			
EDP table 3 (actual data)	3A general government		X		X	
	3B central government		X		X	
	3C state government		-		-	
	3D local government		X		X	
	3E social security funds		X		X	
EDP table 4		X		X		

3

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables

Institutional arrangements - Institutional arrangements relating to public accounts

NSI - National statistical institute including units subordinated to the NSI (the latter is to be specified in comments)

MOF – Ministry of Finance/Economy including units subordinated to the MOF (to be specified in comments)

NCB – National Central Bank

Other – other national body, to be specified in comments

General government accounts and EDP tables are compiled by DZS, HNB and MF. ESA non-financial accounts tables, EDP tables and the reporting are the responsibility of DZS in cooperation with HNB and MF. Financial accounts data and Maastricht debt compiled by HNB are used in EDP tables 1, 3 and 4. Planned figures for EDP reporting are prepared by MF. Work on each round of EDP reporting is supported by the National working group for EDP which includes experts from all the three institutions. EDP tables with annexes are transmitted to Eurostat in electronic form (via eDamis) by DZS. The same arrangements apply to April and October reporting.

The DZS have been compiling EDP data since April 2013 Notification (for the period 2009-2012) onwards and previous year's data were compiled by MF.

2.1.1 Existence of an EDP unit/department

The EDP statistics are the responsibility of the Government Accounts and EDP Unit (Odjel računa države i EDP) within National Accounts Department of DZS (the organigram of DZS - Annex 2). The Government Accounts and EDP Unit (three persons) is responsible for the compilation and transmission of ESA non-financial accounts and relevant tables for general government annually (Tables 2, 9 and 11) and quarterly (Table 25) together with the preparation of EDP tables/annexes and notification. Annual and quarterly financial accounts including calculation of Maastricht debt (Table 28) are the responsibility of the HNB.

The Government Accounts and EDP Unit is also responsible for preparing and analysing the Ministry of Finance data required for the purpose of GDP compilation (production and expenditure approach) and for providing data of the general government sector upon request to other international and national organizations (OECD, VAT Report for EU own resources, etc.).

The staff involved in GFS compilation is also engaged in work of national working groups established for EDP purpose e.g. WG for EDP, Subcommittee for sector classification.

2.1.2 Availability of resources for the compilation of GFS data

See above 2.1.1.

2.2. Institutional arrangements relating to public accounts

Generally, “public accounts” are basic source data for GFS compilation, i.e. EDP tables as well as annual and quarterly accounts for general government. Public accounts are used by public units and refer to accounting records and relating accounting outputs (e.g. financial statements) based on the accounting framework defined by a national legislation. This section provides a general overview on institutional responsibilities relating to public accounts. Further details on public accounts for individual government subsectors are described under relevant sections on data sources and EDP tables.

2.2.1 Legal / institutional framework

The accounting records and evidence of all public units which make part of the general government sector are stipulated by national legislation.

For the majority of units, which keep budgetary accountancy (and for several units – extra-budgetary users which keep other types of accounting but simultaneously compile financial reports also on budgetary accounting), they are stipulated in the Budget Act (Narodne novine - NN 87/2008, 136/12 and 15/15) as general provisions, and in subordinate legislation, the Ordinance on budgetary accounting and chart of accounts and the Ordinance on financial reporting in budget accounting.

For the non-profit organizations which, according to the ESA 2010 sector classification rules, are part of general government, the Act on financial activity and accounting of non-profit organizations (NN 121/14) and the subordinate Ordinance on reporting in non-profit accounting and on the Registry of non-profit organizations (NN No. 31/15) are relevant.

For the non-financial public corporations making part of general government sector according to ESA 2010 sector classification rules, relevant is the general Accounting Act (NN 109/07, 125/11, 54/13, 121/14 – valid until end 2015, and from the beginning of 2016 the new Accounting Act – NN 78/15), as well as subordinate legislation on financial reporting.

The Article 98 of the Budget Act:

Budgetary accounting is based on the generally accepted accounting principles: accuracy, authenticity, reliability and individual presentation of business events, and on the International Accounting Standards for the public sector. Budget accounting is kept according to the principle of double entry bookkeeping and the distribution of accounts in the chart of accounts.

The Article 104, par. 1 and 2 of the Budget Act:

The recognition of revenue and receipts and expenditure and expenses is based on the modified accrual accounting principle. The valuation of assets, liabilities and equity is performed on modified accrual principle, applying the method of historical cost.

Some relevant provisions from the Ordinance on budgetary accounting and chart of accounts:

- revenue are recognized in the reporting period in which they are received, provided that they are measurable
- expenditure are recognized when they incur in the reporting period, regardless of whether they are actually paid
- depreciation of non-financial long-term assets – not recognized as an expense; recorded as an adjustment of the value of assets in the balance sheet.

The provisions of the Budget Act are related to the state budget and the budgets of local and regional self-government units (hereinafter referred to as: the budget), and to state budget users and users of the local and regional self-government units' budgets (hereinafter referred to as: budget users). Particular provisions of the Budget Act regulate the budgetary relations and rules applied to extra-budgetary funds, companies and other legal persons in which the state or the local and regional self-government unit has a decisive influence on the

management, or on the preparation of financial plans, cash management, borrowing and issuing guarantees, accounting, producing and submitting reports and carrying out the budgetary control, which are, with regards to financing sources, included in the general budget (hereinafter referred to as: extra-budgetary users).

MF is the institution responsible for bookkeeping standards used by public units, designing of financial statements, as well as for data collection and processing (performed for MF by the Financial Agency – FINA), however the internal quality, consistency checks and validation, are within the responsibility of each institutional unit.

2.2.2 Auditing of public accounts

2.2.2.1 General government units

The State Audit Office is responsible for auditing all the units which are comprised in the general budget according to the general budget definition in the Budget Act (the central budget – which includes the state budget and the financial plans of extra-budgetary users of the state budget - and the local and regional self-government units' budgets and extra-budgetary users of local and regional self-government units). This coverage is similar but not identical to the general government coverage under ESA 2010 methodology. According to the Act on the State Audit Office (NN 80/11), the audit of the Annual Report on the State Budget execution is obligatory performed every year. This audit includes checking of functioning of the internal financial controls system in planning and execution of the state budget, conformity of procedures of budget proposal preparation and drafting of legal acts, as well as the execution of revenue and receipts, expenditure and outlays related to the plan. Besides this, individual subjects from the general government sector chosen by the criteria established by law are audited. This audit includes checking of authenticity and credibility of financial statements, execution of expenditure and outlays in accordance with planned purposes and checking of conformity of activity with legal acts. (For companies making part of general government according to ESA 2010, please see the answer under 2.2.2.2, point 2.)

For each audited unit all the revenue and receipts, respectively expenditure and outlays are subject to audit, regardless to the source of financing and whether they are included in the State Treasury system or not. Audit takes place after the end of the year for which it is performed, respectively, as a rule, in the current year for the previous year. After completing of all the auditing procedures, the report is compiled on the audit performed. It includes findings and recommendations of the audit, observations of the audited unit to the findings, and the opinion on financial statements and on conformity of the unit's activities with legal acts. After finalizing, the reports are immediately delivered to the legal representative of the audited unit. After the completion of audit, the reports are published on the web pages of the State Audit Office (www.revizija.hr). Risk assessment for specific fields (e.g. revenue collection) is performed on the level of individual unit or a group of units, not on the level of general budget.

2.2.2.2 Public units, not part of general government

According to the provisions of the Act on the State Audit Office, the responsibility of the Office comprises auditing of:

- revenue and expenditure of the government,
- financial statements and financial transactions of:

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- units of the government sector,
- units of local and regional self-government,
- legal persons financed from the budget,
- legal persons founded by the Republic of Croatia or by units of local and regional self-government, companies and other legal persons in which the Republic of Croatia respectively the units of local and regional self-government own the majority of shares/stakes, and
- use of EU funds and the funds of other international organizations/institutions for financing of public needs.

According to the said Act, the audit of the Report on the State Budget execution is performed every year, while the audit of other units follows the annual plan which is passed by the Head State Auditor.

Concerning public corporations, the Act on Audit (NN 146/05, 139/08 and 144/12) regulates the audit of financial statements and consolidated financial statements of the obliged persons, it defines the persons authorized to perform audit services, the conditions for performing the services and other topics concerning audit. The audit of annual financial statements is regulated in the provisions of the Accounting Act (NN 109/07, 125/11, 54/13, 121/14 - valid until end 2015, and from the beginning of 2016 the new Accounting Act NN 78/15) and the Act on Audit. According to Article 17 of the Accounting Act valid until end 2015, subject to audit are annual financial statements and consolidated annual financial statements of large and medium-size entrepreneurs and of the entrepreneurs whose shares or debt securities are either quoted or in preparation to be quoted on an organized securities market. Subject to audit are also annual financial statements of entrepreneurs for whom it is enacted by special legal acts governing their operations. According to the provisions of Article 6a of the Act on Audit, subject to audit are also annual separate and consolidated financial statements of all the joint stock companies, limited partnerships and limited liability companies whose separate, respectively consolidated, total revenue in the year preceding the year of audit exceeds 30 million of HRK, unless they are subject to audit according to provisions of Article 17 paragraph 1 and 2 of the Act on Accounting. Article 20 of the new Accounting Act stipulates the coverage for audit as follows: annual non-consolidated and consolidated financial statements of subjects of public interest, large and medium-sized entrepreneurs not of public interest, entrepreneurs which are head companies of large and medium groups unless they are subject to audit according to the previous said, non-consolidated and consolidated annual financial statements of joint stock companies, limited partnerships and limited liability companies whose non-consolidated, respectively consolidated data in the year preceding the year of audit exceed thresholds for two of the three conditions (total assets over HRK 15 million, total revenue over HRK 30 million, average number of employees in the business year over 25), annual non-consolidated and consolidated financial statements of entrepreneurs who submitted request for quotation, annual financial statements of entrepreneurs who participated in mergers respectively in splitting by taking over, or as newly founded companies.

The State Audit Office performs financial audit and efficiency audit of companies according to its work programme and plan, depending on: risk assessment, financial significance of the entity, results of previous audit, collected information on operating of entity, and other criteria set by internal acts of the Office. In auditing of companies, the State Audit Office mainly focuses on auditing of companies with majority ownership of government and companies of strategic and special importance for the Republic of Croatia (e.g. HRT, HŽI, HAC, HC,

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Croatian electric power industry (Hrvatska elektroprivreda, HEP) and Croatian Post (Hrvatska pošta, HP).

The scope of auditing is defined according to significance criterion and to risk assessment of possible occurrence of irregularities and they do not include all the accounts. However, they comprise description of all more significant shortcomings. Legal acts as well as documents and information on companies' operation are studied and analysed for collection of audit evidence. The functioning of internal control system is assessed in order to determine the audit approach. The data of financial statements are compared to the data from the previous period and to the financial plan data, in order to assess the scope of risk. Subsequently, the financial records and the accounting documents that make proof on business events occurred are checked. The consistency of implementation of laws, other legal acts, rules, procedures and internal acts is analysed. Appropriate analytical procedures are applied for calculation and analysis of significant indicators, relations and trends. Detailed check is performed for items of significant value on specific accounts, while the items of less significant value are tested using the sampling method.

If financial audit is performed in companies, it begins in October, and in an ideal case it ends one month after the annual financial statements is submitted to the Financial Agency (Financijska agencija FINA). The reports on audits performed are available on the web pages of the State Audit Office, after an audit is completed. The reports include, besides the general data on the company, also the targets, scope, methods and procedures of audit, the description of irregularities identified, together with recommendations given and the opinion on the financial statements and on operations.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

2.3. Communication

2.3.1 Communication between actors involved in EDP

2.3.1.1 Agreement on co-operation

The first Agreement on cooperation in the field of the statistics of the National Accounts of General Government and related statistics was concluded in December 2007 between HNB, MF and DZS. It was signed by the heads of the institutions (the Governor of HNB, the Minister of Finance and the Director of DZS). The new Agreement, aligned with the European Code of Practice and Eurostat recommendations, was signed between DZS, HNB and MF - also by the heads of the institutions - in July 2013. It has formalized the new distribution of responsibilities described in point 2.1. It will be revised and amended when necessary, in case of changes in EU or national legislation or in methodology.

The inter-institutional Committee for managing implementation of the Agreement has been established. It has among its tasks also the keeping the Agreement up-to-date by reviewing it at least once a year, respectively when necessary, and proposing amendments to the body text of Agreement or enacting amendments to the Annexes of Agreement (in which some specific details on datasets, contact persons for data delivery and participation in working groups are comprised). The Agreement (without Annexes) is published, temporarily only in Croatian language, on the web pages of all the three institutions: <http://www.dzs.hr> (Released data-Institutional cooperation); <http://www.hnb.hr/statistika> (Sporazumi o suradnji), <http://www.mfin.hr/hr/statistika-i-izvjesca> (Sporazum o suradnji na području statistike nacionalnih računa opće države i s njom povezanih statistika).

According to the Annex 3 to the Agreement on cooperation, at present there are the following inter-institutional working bodies established besides the Committee for managing the implementation of the Agreement: the Sub-committee for sector classification (for making decisions on sector classification of institutional units), the Sub-committee for national accounts (for solving open issues in national accounts) and the Working group for Fiscal Notification (for providing compatibility of the Fiscal Notification tables). The leadership of all the bodies is with the DZS. The initiative for the meetings is assigned to the body leader and also the minutes of the meetings are in the responsibility of DZS.

The DZS as well as HNB were consulted by MF e.g. at last revision of the budgetary Chart of Accounts and of budgetary financial statements which took place in 2014 (application since 2015).

2.3.1.2 Access to data sources based on public accounts

The public accounts data comprising financial statements of budgets and budgetary and extra-budgetary users, and those of non-profit organizations, which are collected and warehoused for MF by FINA, are delivered by MF to DZS on CDs (MS Access). The rest of the public accounts data (various types of MF analytical data) are generally delivered in MS Excel, through e-mail and in a part parallel in print accompanied by a letter.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

For the content of the financial statements comprised on CD, each reporting unit is responsible itself. In case other data are delivered parallel on paper, they are accompanied by a signed letter.

2.3.2 Publication of deficit and debt statistics

2.3.2.1 Publication of EDP data

In October 2013, for the first time, DZS published the EDP tables with a press release and a press conference. The EDP tables are published after validation process by Eurostat. The complete set of EDP tables in Excel format is available on DZS web site (<http://www.dzs.hr> Priopćenja – Nacionalni računi).

The EDP reports of the Republic of Croatia compiled in the years 2005-2012 and in spring 2013 under the provisions of the Pre-accession Fiscal Surveillance Procedure were not published.

2.3.2.2 Publication of underlying government ESA2010 accounts

ESA 2010 accounts of the general government sector (tables 2, 9 and 11), and quarterly general government non-financial accounts (table 25) are prepared and transmitted by DZS to Eurostat according to derogations. Tables 2 and 9 are nationally published on DZS web site.

Annual and quarterly financial accounts (tables 6, 7 and 27) and quarterly Maastricht debt (table 28) are prepared and transmitted to Eurostat by HNB and published (except table 27) all together with methodology on HNB web site (<http://www.hnb.hr/statistika/e-statistika-financijskih-racuna.htm>).

3. EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA2010based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

3.1. EDP table 1

EDP table 1 provides the core, summary information for the reporting period, as requested by the related EU legislation⁴: net borrowing(-)/net lending(+)(B.9) for general government sector and its subsectors, outstanding amount of Maastricht debt by instruments, Gross Domestic Product (GDP), gross fixed capital formation (GFCF) for GG sector and data on interest expenditure (D.41) .

This section focuses on Maastricht debt only. A detailed description of B.9 calculation and data sources for individual subsectors is covered under section 3.2.

3.1.1 Compilation of Maastricht debt

3.1.1.1 Specification of debt instruments

Currency and deposits do not exist as a debt instrument in Croatia. Short term debt securities consist of Treasury bills issued by the Ministry of Finance. Regarding currency structure, the Ministry of Finance issues Treasury bills in HRK, indexed to EUR and in EUR. Usual maturities are: 91, 182 and 364 days. Treasury bills are issued just on resident market and the main creditors are banks (S.122), Money Market Funds (S.123) and non-MMF investment funds (S.124). Intra-governmental holdings of AF.3 instruments have not been recognized until now. Debt level valuation is face value i.e. total amount of discount or premium is included in the stock data. Long term debt securities consists of bonds issued domestically and abroad and Treasury bills with more than one year of original maturity (i.e. zero coupon bonds, but national wording is Treasury bills) issued by the Ministry of Finance. Regarding currency structure, bonds issued on domestic market are denominated in HRK or indexed to EUR; foreign issuances are denominated mostly in EUR. Also, 5 bonds issued on the US market with initial denomination in USD are hedged against exchange rate movements by contracting cross currency swaps agreements. After SWAP valuation has been used for the debt stock. Usual maturities for bonds are: 5 and 10 years. Main domestic creditors are pension funds, banks and insurance companies (S.129, S.122 and S.128). Long term Treasury bills are issued in HRK, indexed to EUR and in EUR. Usual maturities are: 546 and 728 days. Main domestic creditors are pension funds and banks (S.129 and S.122). Both instruments are valued at nominal value. By definition, values do not include accrued interest.

Loans category includes all types of loans given by domestic credit institutions and Croatian bank for Reconstruction and Development (HBOR) and also all loans given by non-resident institutions. Loans also include assumed state-guaranteed loans given to institutional units outside general government sector whose guarantees were activated within a period of three years (MGDD 3rd call rule) and those who have been contractually assumed by government.

⁴ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:069:0101:0101:EN:PDF>

Factoring without recourse made by domestic banks with suppliers of goods and services to general government units is included in the Maastricht debt data. Intergovernmental lending (AF.4) have been recognized and the EDP debt is consolidated.

3.1.1.2 Data sources used for the compilation of Maastricht debt

The primary data source for domestic and external debt, in the part that relates to treasury bills, bonds (domestic and international issuance) and foreign loans, are MF and other units of government authorities system, units of local and regional self-government, non-financial corporations classified in the general government sector according to ESA 2010 rules and the HNB in the part relating to loans of resident banks and HBOR given to general government units. These main data sources provide for full ESA 2010 coverage of debt instruments and of general government institutional units.

The MF provides monthly data on issued debt securities and taken foreign loans (approximately 10 days after the end of reporting month) and the Monetary and Banking Statistics Collecting System of the HNB (reporting is on the level of institutional unit) provides monthly data on loans from domestic credit institutions, HBOR and HNB (preliminary data 6 days and final data 42 days after the end of reporting month).

The MF also provides documentation on issued state guarantees and the Monetary and Banking Statistics Collecting System of the HNB provides monthly data on stock of general government guaranteed debt of institutional units outside general government. The MF provides monthly data on guarantee calls, which is used for monitoring the number of calls for decision making on debt assumption according to 3rd call rule and it also provides documentation in case of contractual debt assumption.

The timeliness of data sources provides for actual data to be used for the compilation of Maastricht debt for the April EDP notification, so the revision after the first notification is done only exceptionally.

3.1.1.3 Amendments to basic data sources

Concerning debt assumption according to 3rd call rule, the amount of debt assumed corresponds to total amount of guaranteed debt of specific institutional unit and the time of recording is the month of the 3rd call. In case that the statistical recording in national accounts is done before recording in the budgetary/public accounts, the amount of assumed guaranteed debt is added to debt data from primary sources and the stock of government guaranteed debt is reduced by the same amount. In case of contractual debt assumption, the time of statistical recording is the month of conclusion of the contract i.e. when contract takes effect. If the time of recording of the assumption in the Monetary and Banking Statistics Collecting System of the HNB does not correspond to the time when the contract is concluded, a Questionnaire is sent to the bank to provide for data on the guaranteed loan in question.

3.1.1.4 Consolidation of Maastricht debt

Currently we do not dispose with data on inter/intra governmental holdings of AF.3, but in the HNB, at the moment, securities holdings statistics database is developing so we plan to include data into EDP debt calculation as soon as data would be available.

Intra-governmental lending (AF.4) have been recognized so the EDP debt is consolidated for this instrument.

3.2. Central Government sub-sector, EDP table 2A and 3B

Information provided in this section refers to data sources available for the Central Government (S.1311), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1311, and explains the adjustments made in order to comply with ESA2010.

3.2.1. Data sources for main Central Government unit: “The State”

This section describes data sources available and used for compilation of national accounts and EDP tables for the main Central Government unit:

- Basic data sources
- Complementary data sources used for the purpose of special ESA2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

The key data for calculating B.9 of S.1311 are data from financial reports – Profit and loss accounts which are based on modified accrual basis or so called mixed accounting basis and Balance sheets. This source is already available for the April notification but as a preliminary. The same data are used for production accounts of GDP calculation at the activity level and are on very detailed level. Since the beginning of 2015, the profit-loss account of budgetary units contains over 1.000 items.

Table 2 – Availability and use of basic source data for the main central government unit

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>		<i>cross appropriate cells</i>		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
C	A	T+70	T+7	(3) Current and capital revenue and expenditure and financial transactions	x	x	x
				(4) Balance sheets			
				Financial Statements			
M	A	T+70	T+7	(5) Profit and loss accounts		x	x
M	A	T+70	T+7	(6) Balance sheets		x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	A	T+85	T+12	(9) Other: INV-P		x	
A	M	T+10	T+2	(10) CNB's Monetary and Banking Statistics System		x	x
A	M	T+45	T+3	(11) CNB's External debt Statistics System		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2): M - monthly, Q - quarterly, A - annual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.2.1.1 Details of the basic data sources

Data sources used for compilation of national accounts

The basic data sources consist of financial reports provided by the FINA, the statistical data provided by MF and the Tax Administration data. The reporting follows the National Chart of Accounts, which is common for both central and local government. The data on non-profit institutions and on enterprises (which are part of the general government) are also provided by the FINA and they follow special charts of accounts.

The financial reports of budgetary users provide information at the four-digit level book-keeping records, plus additional breakdown on the five-digit level for a number of accounts in obligatory additional data. For statistical purposes, five-digit level is needed (e.g. sector counterparts of the transactions are available at the fifth digit only).

For the compilation of national accounts, the bridge table from transactions in public accounts to ESA revenue/expenditure components is used. As mentioned above, with this, all budgetary units at the central government level are included.

Data of the central budget as the basic data source for the main entity are available at the basic level of accounts.

With central budget data at basic accounts it is possible to distinguish all important flows including intra-government flows and transactions with other sectors of national accounts as well as to solve problems of non-financial versus financial transactions.

Main data sources for compilation of financial accounts for central government are Ministry of Finance reports of budgets, budgetary users and extra-budgetary users (so called FINA reports), MF metadata reports of issued debt securities, HNB System for Monetary and Banking Statistics and HBOR, HNB External debt statistics and MF EU flows analytical report.

Working balance (WB)

The working balance - current revenue and expenditure balance (including capital transactions) of the central budget (the State budget) is shown in the first line of EDP T2A and the figure is on a cash basis. The data originate from the system of the State Treasury and they are comprised in annual reports on budget execution, which are voted by the Parliament.

3.2.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a basic data source for non-financial accounts or for financial accounts compilation.

3.2.1.3 Supplementary data sources and analytical information

This section describes supplementary data sources used to amend basic data sources when compiling national accounts. In order to meet ESA2010 requirements, supplementary data could be used for e.g. for accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

Supplementary data sources are used for time-adjusted calculation of taxes. The state owned Financial Agency (FINA) maintains, on behalf of MF, quarterly and annual databases of financial reports with detailed information on the revenue and expenses of public units. All public entities, including units not covered by the State Treasury accounting system for budgetary units, are obliged by law to provide detailed accounting information to FINA. Besides the financial reports, data on tax revenues cash flow performed in HRK through FINA are also available in the FINA databases, reported in P-1 and P-2 monthly reports and cover most of General Government units. These reports are delivered to DZS by MF, and besides that also additional data on other forms of tax collection (e.g. foreign currency). These estimates satisfy the direct information criteria for taxes set out in Article 3 of Commission Regulation (EC) No 264/2000.

Tax revenue obtained from the FINA database represents the amounts of cash received in the period. In the annual and quarterly accounts of General Government, certain taxes (which are specified in the National Tax List) are converted to an accruals basis by time adjusting the receipts using the average delay between the time that tax liabilities are incurred by the tax payer and the time they are paid. These accrual adjustments are made separately for each of the above-mentioned taxes using specific time adjustments.

3.2.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

For calculating gross fixed capital formation (GFCF), the supplementary source is the Survey on Gross Fixed Capital Formation (INV-P) and data are available approximately 12 months after the end of the year. The survey on GFCF includes all legal units as investors with 10 or more persons in paid employment, except general government units, which are included regardless of the number of employees. The Survey has three separate sets of data: acquisitions of new assets, acquisitions of existing assets and disposals of existing assets. Due to conceptual differences between budget statistics and national accounts in GFCF, the survey is an important source for improvement of bridge tables between public and national accounts, as well as for calculating the discrepancy between cash and accrual data. This is particularly relevant for important direct budgetary units at the central government level and for balancing flows with other sectors, because in public accounts GFCF data include subsidies and intra-government flows. Also, for the Ministry of Defence, all non-military GFCF according to GFCF survey are excluded from intermediate consumption. However, the weakness is that the survey data can be used only with rather big delay in EDP reporting (t+20 months). Data on accrued interest (D.41 Uses) on HBOR loans given to general government units are provided by HBOR in form of a Questionnaire defined by HNB on a quarterly basis. Monthly data on payments to EU Budget and receipts from EU Funds are provided by the Ministry of Finance on a quarterly basis.

3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts

Supplementary data sources available for financial accounts compilation are: HBOR, banks, DZS, MF and HNB Statistical systems for MFI, HBOR, non MMF investment funds, insurance corporations and pension funds as well as external debt statistics.

Monthly data on payments to EU Budget and receipts from EU Funds are provided by the Ministry of Finance on a quarterly basis. Quarterly cash and time adjusted cash data for taxes D.2 and D.5 (see explanation under 3.2.1.3) for calculation of other accounts receivable (F.89 and AF.89) in financial accounts is provided to HNB by DZS on quarterly basis. Also in case of contractual debt assumption where the time of statistical recording is different from recording in bank's business accounts, and consequently in the Monetary and Banking Statistics Collecting System of HNB, a Questionnaire is sent to the banks to provide for data on the loan in question. HNB Statistical systems for MFI (banks, Money Market Funds and HNB), HBOR, non-Money Market Funds investment funds, insurance corporations, pension funds and external debt statistics are used for sector distribution of debt holdings

3.2.1.4 Extra-budgetary accounts (EBA)

Usually, not all flows of a non-financial nature are recorded in the so called budgetary accounts which enter the WB, as reported in the first line of EDP table 2. Some funds could be put aside as reserves, special purpose funds and are booked in so called “extra-budgetary accounts” - EBA. In some cases, according to national legislation, transactions which are not scrutinized by budgetary rules can be booked in EBA and not in ordinary budgetary accounts. It is very important that all non-financial flows of the main entity, including those entering EBA, are appropriately incorporated into calculations of deficit.

Not relevant.

Non-financial flows recorded in EBA

Not relevant.

Financial flows recorded in EBA

Not relevant.

3.2.2 Data sources for other Central Government units

This section describes data sources available and used for compilation of national accounts and EDP tables for other Central Government units (those not reported in the working balance in EDP T2A).

Table 3 – Availability and use of basic source data for other central government units:

Available source data				Source Data Accounting	Source data used for compilation of	
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			B.9 (NFA)	B.9f (FA)
		First results	Final data			
1	2	3	4	5	7	8
		<i>T + days</i>	<i>T+months</i>			
				Budget Reporting		
				(1) Current revenue and expenditure		
				(2) Current and capital revenue and expenditure		
				(3) Current and capital revenue and expenditure and financial transactions		
				(4) Balance sheets		
				Financial Statements		
A	A	T+75	T+7	(5) Profit and loss accounts	x	x
A	A	T+75	T+7	(6) Balance sheets	x	x
				(7) Cash flow statement		
				Other Reporting		
				(8) Statistical surveys		
A	A	T+85	T+12	(9) Other: INV-P	x	

See notes to table 2, on the used abbreviations.

The extra-budgetary funds at the central government level are HV, FZEOU, HC, DAB and CERP. These units have complete set of annual accounting data and balance sheets but they apply different accounting principles. All the units except HV (applying non-profit accounting) and HC (applying business accounting) apply budgetary accounting, which means modified accrual principle. However, the mentioned two units are obliged to submit financial reports on budgetary accountancy besides the reports on their own accountancy principle. From the beginning of 2016, HV should change their accounting system to budgetary accounting, according to the amended Ordinance on the Chart of Accounts and Budgetary Accounting. With bridge tables between accounting data and national accounts all categories and components of ESA expenditure and revenue are estimated for these units. Data sources for these extra-budgetary funds are complete but sometimes additional clarification of specific transactions is needed.

Besides extra-budgetary funds mentioned above, the units reported under the item of other central government bodies, are non-market public corporations (see table 3): HŽI, HRT, HAC; HROTE and HBOR. Their financial reports are based on accrual accounting principle. DZS receives directly 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.

3.2.2.1 Details of the basic data sources

For non-market public corporations calculation of all ESA revenue and expenditure is done separately according to accrual profit and loss accounts. Available data sources are complete and sometimes, with some direct additional information from accounting department of those units, complete non-financial expenditure and revenue data can be calculated on accrual basis.

3.2.2.2 Statistical surveys used as a basic data source

Not applicable.

3.2.2.3 Supplementary data sources and analytical information

This section describes supplementary data sources which are used to amend basic data sources while compiling national accounts. In order to meet ESA2010 requirements, supplementary data could be used for, e.g., accrual adjustments, reclassification of specific transactions, consolidation, amendments of revenue and expenditure structure, amendments of structure of assets and liabilities, identification of a counterpart sector, etc.

3.2.2.3.1 Supplementary data sources used for the compilation of non-financial accounts

Please see the description under chapter 3.2.1.3.1.

3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts

Supplementary data sources which are available in financial accounts on a regular basis are banking statistics, investment fund statistics and International Investment Positions and Balance of Payments statistics, securities statistics.

Please see the description under chapter 3.2.1.3.2.

3.2.3 EDP table 2A

This section provides detailed information on individual lines reported in EDP T2A.

3.2.3.1 Working balance - use for the compilation of national accounts

The figure of the working balance in the first line of EDP T2A is according to the central budget balance of current and capital revenue and expenditure.

3.2.3.2 Legal basis of the working balance

The figure as reported in the working balance of EDP T2A refers to current and capital revenue and expenditure balance - deficit (surplus) of the central budget (the State budget - Državni proračun Republike Hrvatske) – for the historical data from the reports on the State budget execution, for the planned data from the State budget, respectively from its amendments. The State budget as a whole is regulated by the Budget Act. The budget is voted by the Croatian Parliament (Hrvatski sabor) before the beginning of the new budget year, and possible later amendments are voted as well. The annual report on execution of the State budget is prepared by the Ministry of Finance and submitted to the Government of the Republic of Croatia by 1 May for the previous year, and the Government submits the report to the Parliament by 1 June. The report is also voted by the Parliament. Every year the report on budget execution is audited by the State Audit Office (Državni ured za reviziju) and the audit report is submitted to the Parliament also by 1 June. The audit reports are publicly available in Croatian language, at the webpage www.revizija.hr. Due to the stipulated auditing deadlines, there might be possibility of changes impacting B.9 or B.9f between the spring (preliminary) data and the data for autumn Fiscal Notification.

3.2.3.3 Coverage of units in the working balance

Two adjustment lines due to sector delimitation appear in EDP T2. The purpose of the first adjustment is to exclude flows relating to units which do not belong to the government sector (or to the particular subsector) according to ESA2010 definition. The second adjustment refers to B.9 of other units which are classified within the particular government subsector, but related inflows/outflows are not included in the working balance.

3.2.3.3.1 Units to be classified outside the subsector, but reported in the WB

Not relevant.

3.2.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Please see explanation in sections 3.2.2 "Data sources for other Central Government units B". The impact of methodological imputations for those units such as debt assumptions and capital injections are reported separately under other adjustments in EDP table 2.

3.2.3.4 Accounting basis of the working balance

As mentioned in section 3.2.1, the figure as reported in the working balance of EDP T2A refers to current deficit (surplus) of the central budget (Državni proračun Republike Hrvatske) and transactions are shown according to the cash principle.

3.2.3.4.1 Accrual adjustment relating to interest D.41, as reported in EDP T2

As interest expenditure is booked in the central budget (WB) on cash basis, adjustment to accrual value is done by using accrued interest data calculated by HNB. Accrued interest (D.41U) is calculated for total set of central government debt instruments bearing interest. It is calculated individually for each security according to its original repayment schedule. For securities issued below/above nominal value, the discount is shown as positive and the premium as negative increase of interest. For data on loans given by resident credit institutions HNB uses its Monetary and Banking Statistics Collecting System which provides full coverage of institutional units for central government subsector according to official ESA 2010 sector classification (available on DZS website) and the full coverage of financial instruments as for debt stock. Data on accrued interest on HBOR loans given to central government units are provided to HNB directly by HBOR. For accrual interest on loans given by non-resident units HNB uses its External debt statistics that is based on direct reporting from the Ministry of Finance.

In the reporting period 2010-2014 interest payments (cash basis) in the central budget working balance also include interest payments of social security funds as all of them were part of central budget at that time. In the WB it is not possible to separate interest payments of S.1311 and S.1314.

The line Difference between interest paid and accrued (T2A) covers interest paid by the units of the central government contained in the WB minus accrued interest (D.41_Uses) of the same coverage, while the other part of the total accrued interest of S.1311 (i.e. of other institutional units that are part of ESA 2010 S.1311 and are not in WB) are recorded under line Net borrowing or net lending of other central government bodies.

3.2.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2

In EDP T2A accrual receivable adjustments are reported for taxes on production and imports (1), current taxes on income, wealth, etc. (2), own income (3) and for EU flows (4). Taxes on production and imports: cash data in the central budget (WB) are adjusted for the TAC difference according to monthly data collected by FINA.

In EDP T2A accrual payable adjustments are reported for intermediate consumption (1), compensation of employees (2) and for gross fixed capital formation (3). Adjustment for gross fixed capital formation is estimated with statistical survey data.

3.2.3.4.3 Other accrual adjustments in EDP T2

No other accrual adjustments.

3.2.3.5 *Completeness of non-financial flows covered in the working balance*

The adjustment "Non-financial transactions not included in the working balance" comprises the imputation of sojourn tax (income of tourist offices which are not part of general government) as tax revenue with related subsidy expenditure. It is a re-routing transaction.

3.2.3.6 Financial transactions included in the working balance

According to the available information, the total amount for the two budget activities that FNOI receives is used for the payment of the tranches of the bonds. Therefore, this amount is expressed in the EDP table 2A as "financial transactions included in the working balance". Reduction of expenses on this basis is related to a simultaneous increase in expenditure (capital transfers to households) on the basis of issuing the global bonds in 2014 (earlier in 2010).

3.2.3.7 Other adjustments reported in EDP T2

Other adjustments are:

(1) The item "debt assumptions", showing the capital transfer associated to debt assumptions benefiting 3.Maj Shipyard (2010), Brodo-Šplit Shipyard, Brodo-Trogir Shipyard, Kraljeвица Shipyard, Uljanik Shipyard (2011) and HŽ Passenger Transport Limited Liability Company (2013).

(2) The item "guarantees called less repayments", showing the impact of calls on guarantees. Guarantees called are recorded as capital transfer expenditure net of repayments by the debtor. Guarantees being systematically called three years in a row lead to a debt assumption in national accounts: the whole outstanding amount of debt guaranteed though not yet called at the end of third year is booked as a capital transfer.

(3) The item "capital injections", referring to conversions of claims into acquisition of equity in loss-making companies recorded as capital transfers in national accounts.

(4) Debt repayments to the London Club made by entities outside the general government sector (while the whole amount of the London Club debt was reported as government debt) recorded as a capital transfer from the private sector to government for the part paid by entities outside the general government sector with a positive impact on deficit.

(5) The item "compensations made to pensioners", relating to the time of recording of a pension debt of government from 1993-1998, resulting from improper calculation of old-age pensions, disabled pensions and family pensions. The issue was a subject of controversy and was raised to the level of the Constitutional Court, which in its decision of 12 May 1998 stated that the above mentioned calculation of pensions was not in line with the Constitution of the Republic of Croatia. In accordance with the Constitutional Court Decision, the issue of compensation to pensioners was addressed by two acts: the Act on the transfer of State budget resources to pension and disability insurance funds, and on adjustment of pensions from 1998, and the Act on the increase of pensions for the purpose of eliminating differences in the levels of pensions realised in different periods of time from 2000. The obligation relating to the amounts to be paid to each pension beneficiary was settled by a third act: the Act on the enforcement of the decision of the constitutional court of the Republic of Croatia of 12 May 1998 from 2004. None of the above mentioned laws stated the final liability towards the pensioners with certainty, but only partial amounts of the full pension liability were referred to. Based on the available at that time information on the case, Eurostat decided that since not a single legislative act has determined, with certainty, the total financial debt of the Government, the expenditure should be recorded according to cash principle in repayment period, based on the amortisation schedule for period 1998 – 2013 sent to Eurostat by the Ministry of Finance.

It should be emphasized that the last instalment of compensation was paid off in December 2013.

(6) The item “FNOI's Global Bond”, referring to the debt of the Republic of Croatia emergence by the Law on compensation of expropriated property during Yugoslav communist regime from 1996, which determined that all real-estate, that cannot be compensated to their former owners in kind, should be indemnified through various modalities in cash and in the Global Bond (issued in 4 series A, B, C and D) shares. The repayments of the debt are recorded as a capital transfer to households at the time of the issuance of each bond series. Any further transaction related to the bonds would be recorded as a financial transaction.

(7) The item “capital transfers to households”, referring to a gift to war veterans based on the Government Decision from 1996 which resulted in transfer from the State Budget to HBOR and commercial banks for the purpose to stimulate employment of demobilized soldiers of the Croatian Army via special lending programme and Government Decision from 2011 when the Government decided for the first time to use a possibility to write-off matured and un-matured claims related to the Lending programme for the employment of demobilized soldiers of the Croatian Army.

(8) Statistical ‘On-Balance treatment’ of two cases, Zagreb Airport and Bina Istra. The non-financial asset of Zagreb Airport is recorded on balance sheet of government and the imputed debt related to Gross Fixed Capital Formation is included in government debt as well as the non-financial assets of the motorway company Bina Istra (concessionaire for building and operating the road/motorway network „Istarski ipsilon - Istrian Y“).

(9) Super-dividend test for all payments from Croatian National Bank to State Budget was performed in accordance with MGDD's definitions for period 2011-2015. The test showed existence of super-dividend in 2012 and in 2015 and thus, in national accounts, revenues of central government have been revised (decreased) for amounts with corresponding equity withdrawal (F.5A (-)). Also, after performing super dividend test on other units, company HALMED also showed super dividend in 2015.

(10) Trading with emission permits via general government is relevant from January 2015 when the first auction of the permits was held by the Environmental Protection and Energy Efficiency Fund. The data on all conducted auctions in 2015 (date of auction, number of permits issued on each auction and average prices by each auction) were supplied by the Environmental Protection and Energy Efficiency Fund as well as the number of permits surrendered on 30 April 2015. The number of permits surrendered (8.966.208 permits) was greater than stock of permits auctioned (4.025.000 permits) by the date of surrender. Consequently, receipts from auctions until surrender date are considered as tax revenues, while rest of the amount is recorded as financial transaction. Please see under chapter 7.9.

3.2.3.8 Net lending/net borrowing of central government

As explained above the final figure of B.9 for subsector central government in the last line in EDP T2A is calculated from individual financial reports i.e. profit-loss accounts and liabilities report. On the other hand, other approach where all relevant adjustments are made to deficit in the working balance (central budget), is also used. Finally these two approaches are compared and adjusted to comply with the ESA 2010 definition of B.9.

Data sources for other Central Government units, annual accounting data and balance sheet data are exhaustive and available for all units within central government. Data are regularly audited by the State Audit office as already explained in detail in chapter 2.2.2. The results of audited financial statements and financial reports are available to GFS compilers when they are published by the State Audit office on its website.

The accounting basis is mixed for central government units and extra budgetary units and accrual for public corporations. Cash/accrual adjustments are important for data in the central budget (WB) for main components of revenue (taxes, social contributions, EU flows) and expenditure (intermediate consumption, compensation of employees, transfers and gross fixed capital formation).

3.2.4 EDP table 3B

3.2.4.1 Transactions in financial assets and liabilities

Financial accounts are used in compilation of EDP T3, with some data sources being common for both EDP T3 and financial accounts.

Table 4. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities						
Source Data	F.2	F.3	F.4	F.5	F.6	F.7	F.8	F.2	F.3	F.4	F.5	F.6	F.7	F.8
	Calculation of transactions													
Transaction data (integrated in public accounts)			X	X	X		X		X	X			X	
Other transaction data														
Stock data	X													X
	Calculation of stocks													
Transaction data			X	X	X		X							
Stock data	X								X	X			X	X

Assets F2: Data from the Monetary and Banking Statistics and HBOR Collecting System of HNB are used. Data include deposits by institutions in central government held with central bank, other MFIs and HBOR. Net transactions are calculated as difference between stocks less exchange rate adjustments and other changes in volume. Stocks are valued at nominal value and include accrued interest. Deposits denominated in foreign currencies are converted into national currency at mid-point exchange rate on the last day in reference year calculated by HNB.

Assets F3: Data from the Monetary and Banking Statistics and HBOR Collecting System of HNB are used for HBOR's (S.1311) holdings of F.3.

Currently we do not dispose with data on governmental holdings of AF.3 of other sectors, but in the HNB, at the moment, securities holdings statistics database is developing and data will be included in EDP statistics as soon as data would be available.

Assets F4: Data on transactions are available on annual basis from financial reports databases that are managed by FINA for MF.

Assets F5: Data from MF on equity acquisitions and disposals are used. The reported data are at the level of each individual transaction on which capital injection test is conducted (as described in MGDD) and that is used to calculate financial transactions (F.5_A) as well capital transfer (D.99) in consultation with DZS. This process provides consistency between NFA and FA.

Other financial assets (F1, F6): SDRs are held only by central bank. Data for F61 are obtained from main MF reports that are managed by FINA.

Assets F.7: Cross currency SWAP contracted on government bonds are recorded on net basis according to ESA2010 paragraph 5.229. The net interest flows resulting from swap agreements for central government bonds issued abroad are reported under this line. The government uses currency swap operations for protection against USD/EUR exchange rate changes, for bonds originally issued in USD at the USA market. Both flows from swaps are calculated using swap information, so the difference between amounts received on USD and payable on EUR debt is reported for this position. Conversion in HRK was done by monthly midpoint exchange rates.

Other liabilities in financial derivatives (F71): As we used net recording principle for financial derivatives, according to ESA2010 paragraph 5.229 no recording was done on the liability side.

Other accounts receivable (F8): It is calculated as difference between cash and time adjusted cash for taxes (D.2 and D.5) compiled by DZS and adjusted for other accounts receivable for public corporations that are part of general government sector (HAC, ARZ, HRT and HŽI) and eventually adjusted for time differences between the issuance of debt security and cash receipts.

Other accounts payable (F8): Transactions are calculated from stock data. Main data sources are financial reports that are managed by FINA for MF for liabilities for goods and services received but not yet paid (trade credits), and other liabilities (to employees, to households, for subsidies, for penalties etc.). This item also includes stock and transactions resulting from transfer of pension obligation from II to I pillar at the end of June 2014. Related transaction amount is also recorded in NFA as revenue linearly distributed over 30 years period so the consistency was respected. The item is also adjusted for other liabilities of public corporations that are part of general government sector (HAC, ARZ, HRT and HŽI) and until now all receipts from EU funds for beneficiaries outside of General government sector were recorded as transactions and stocks under this position.

3.2.4.2 Other stock-flow adjustments

Under "Issuance above/below nominal value", a difference between the value of discount/premium of central government debt instruments at the time of issuance and the

value of paid discount/premium is reported. Central government issues short-term and long-term Treasury bills of the Ministry of Finance only with discount and some long-term bonds with discount and some with premium.

Under "Difference between interests accrued and paid" a difference between interest accrued and paid for all central government debt instruments (AF.31, AF.32, AF.41 and AF.42) is reported. Interest accrued and paid for debt securities is calculated individually for each security according to its original repayment schedule. For securities issued below nominal value discount is shown as increase of interest and for securities issued above nominal value premium is shown as negative increase of interest. For data on loans given by resident and non-resident credit institutions, the Croatian National Bank uses its Monetary and Banking Statistics Collecting System and the System for collecting variables of Profit and Loss Account of domestic banks, which provides full coverage of institutional units for central government subsector and the same coverage of financial instruments as for debt stock.

There are no cases reported under the item "Redemptions of debt above/below nominal value" because no redemption occurred.

Data sources for the calculation of the item "Appreciation/depreciation of foreign currency debt" are the same as for the calculation of stocks for each Maastricht debt instrument for central government units (AF.31, AF.32, AF.41 and AF.42). Short term debt securities consist of Treasury bills issued by the Ministry of Finance. Although Treasury bills are issued just on resident market, they are either denominated in HRK or indexed to EUR or issued in EUR. Long term debt securities consists of bonds issued domestically and abroad and Treasury bills with more than one year of original maturity issued by the Ministry of Finance only on resident market. Long term Treasury bills are issued in HRK and in EUR. Bonds issued on domestic market are denominated in HRK or indexed to EUR, while foreign issuances are denominated mostly in EUR. Also, 5 bonds issued on the US market with initial denomination in USD are hedged against exchange rate movements by contracting cross currency swaps agreements. Loans given to central government units by domestic credit institutions and Croatian bank for Reconstruction and Development (HBOR) are either denominated in HRK or indexed to foreign currency (mainly EUR), while loans given by non-resident institutions are all denominated in foreign currency (mainly EUR).

Recent cases reported in the item "Changes in sector classifications" occurred due to revision of the official sector classification of general government which resulted in changes of sector (i.e. were reclassified inside or outside central government subsector) for 347 institutional units. The largest entity reclassified outside S.1311 (to S.15) is Croatian Catholic University as of December 2010, reducing the debt (AF.4) of S.1311 by HRK 80.2 million. This unit is not controlled by S.13. The largest entity reclassified outside S.1313 (to S.11) is GARA SECUNDUS limited liability company as of December 2010, reducing the debt (AF.4) of S.1313 by HRK 11.2 million. This unit is not controlled by S.13 and it is a market producer. Other changes in volume" occurred in 2010 when HNB replaced the old Monetary and Banking Statistics Collecting System with the new one that enabled full coverage of institutional units according to ESA 2010 sector classification

3.2.4.3 Balancing of non-financial and financial accounts, transactions in F.8

This section aims at describing of techniques and methods for balancing non-financial and financial accounts applied generally for the whole general government sector.

Allocation of discrepancy B.9 vs B.9f

The analysis of the observed difference in B.9f and B.9 at the level of individual unit is done for the important ones e.g. HAC, HŽI, without allocation of the observed difference.

Changes to intermediate data

Counterpart data are not used to obtain the final statistics in NFA. Counterpart data are not used to obtain the final statistics in FA. Counterpart data are used only where no other data is available. The discrepancy is not allocated at the final stage.

Complementary elements on stocks

The discrepancy is not allocated in financial instruments.

Accruals

Ex-post monitoring

There are no mechanisms to launch an enquiry when discrepancies are too high.

3.3. State government sub-sector, EDP table 2B and 3C

The state government subsector (S.1312) is not applicable.

3.4. Local government sub-sector, EDP table 2C and 3D

3.4.1 Data sources for Local Government main unit

**Table 5 – Availability and use of basic source data for main local government units:
Budgets and budgetary users at local level**

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>		<i>cross appropriate cells</i>		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
M	A	T+70	T+7	(5) Profit and loss accounts	x	x	x
M	A	T+70	T+7	(6) Balance sheets	x	x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	A	T+85	T+12	(9) Other: INV-P		x	
A	M	T+10	T+2	(10) CNB's Monetary and Banking Statistics System		x	x
A	M	T+45	T+3	(11) CNB's External debt Statistics System		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2): M - monthly, Q - quarterly, A - annual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.4.1.1 Details of the basic data sources

Main data sources for the compilation of non-financial accounts for local government subsector are FINA financial reports (profit-loss account) for all units. This also relates to County road administration, hospitals and other units. Main data sources for the compilation of financial accounts for local government subsector are Ministry of Finance reports of local

governments' budgets, local governments' budgetary users, MF metadata reports of local government debt securities, the Monetary and Banking Statistics Collecting System of HNB and HNB External debt statistics.

3.4.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a data source for compilation of non-financial and financial accounts.

3.4.1.3 Supplementary data sources and analytical information

3.4.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

Basic data sources for non-financial accounts are complete and no supplementary sources are used.

3.4.1.3.2 Supplementary data sources used for the compilation of financial accounts

Data on accrued interest (D.41 Uses) on HBOR loans given to local government units are provided by HBOR in form of a Questionnaire on a quarterly basis. Quarterly TAC data (see explanation under 3.2.1.3) for calculation of other accounts receivable (F.89) is provided by National Accounts Department of DZS. HNB Statistical systems for investment funds, insurance corporations and pension funds are used for sector distribution of debt holdings.

3.4.2 Data sources for other Local Government units

Please see under chapter 3.4.1.1.

3.4.2.1 Details of the basic data sources

3.4.2.2 Statistical surveys used as a basic data source

3.4.2.3 Supplementary data sources and analytical information

3.4.3 EDP table 2C

3.4.3.1 Working balance - use for the compilation of national accounts

For the working balance of the local government subsector, data on current and capital revenue and expenditure balance - deficit (surplus) from financial reports of local and regional self-government units' (counties, cities, communities) budgets are used. It should be noted that the local health institutions' transactions have been in 2015 for the first time as a whole included in the local government working balance.

3.4.3.2 Legal basis of the working balance

The obligation to submit financial reports for the said local units' budgets (as well as for their and for the State budget's budgetary and extra-budgetary users) is stipulated in the Budget Act and also in the Ordinance on financial reporting in budgetary accounting. The financial reports are verified by the responsible person (head) of the local unit.

3.4.3.3 Coverage of units in the working balance

The coverage of units in the working balance is complete.

3.4.3.3.1 Units to be classified outside the subsector, but reported in the WB

Not applicable

3.4.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Hospitals and other local units are added to WB. For year 2015 the audited working balance includes the hospitals so there is no need to add them under this item.

3.4.3.4 Accounting basis of the working balance

The working balance is calculated on a mixed basis. It means revenue is presented according to cash principle, while expenditure is presented according to the accrual principle. See chapter 3.2.1.

3.4.3.4.1. Accrual adjustments relating to interest D.41, as reported in EDP T2C

As interest expenditure in the working balance of local governments' budgets is on cash basis, adjustment to accrual value is done by using accrued interest data D.41 as calculated by HNB. HNB calculates accrued interest (D.41Uses) for total set of local government debt instruments bearing interest. It is calculated individually for each security according to its original repayment schedule. For securities issued below nominal value, a discount is shown as increase of interest. For data on loans given by resident and non-resident credit institutions, HNB uses its Monetary and Banking Statistics Collecting System and the System for collecting variables of Profit and Loss Account of domestic banks, which provides full coverage of institutional units for local government subsector and the same coverage of financial instruments as for debt stock. Data on accrued interest on HBOR loans given to local government units are provided to HNB directly by HBOR.

The line "Difference between interest paid and accrued" shows adjustment only for local government units covered in the WB, while accrued interest of other institutional units that are part of ESA2010 local government subsector are recorded under the line "Net borrowing or net lending of other local government bodies".

3.4.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2C

Adjustment for accruals is done on taxes on production and import, current taxes on income and part of some units' own income, which is not included in the WB.

3.4.3.4.3 Other accrual adjustments in EDP T2

Not applicable.

3.4.3.5 Completeness of non-financial flows covered in the working balance

This line includes the imputation of sojourn tax (income of tourist offices which are not part of general government) as tax revenue with related subsidy expenditure as required by Eurostat.

3.4.3.6 Financial transactions included in the working balance

Not relevant.

3.4.3.7 Other adjustments reported in EDP T2C

According to the PPP test defined in the MGDD, since 2009, the PPP project Sportski grad - Lora in Split has been recorded on-balance sheet of the local government.

There was an increase in revenue of the City of Zagreb, due to the recording of HRK 519.7 million on the basis of a court decision (the judicial decision of the Administrative Court in Zagreb, USI-3295/12-27, of 13 November 2013). The figure is included in the working balance for 2013 thus excluded in other adjustments, due to the fact that it is already included in previous years' revenue in ESA table 2. The amount was not previously included in WB and all adjustments concerning taxes were done under other accounts receivable for years before.

3.4.3.8 Net lending/net borrowing of local government

Net lending/net borrowing calculation at the local level of government is similar to the central government level, that means is calculated from individual financial reports i.e. profit-loss accounts and liabilities report for all units which, according to official sector classification, belong under S.1313.

3.4.4 EDP table 3D

3.4.4.1 Transactions in financial assets and liabilities

Table 6. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities						
Source Data	F.2	F.3	F.4	F.5	F.6	F.7	F.8	F.2	F.3	F.4	F.5	F.6	F.7	F.8
	Calculation of transactions													
Transaction data (integrated in public accounts)			X	X	X		X		X	X				
Other transaction data														
Stock data	X													X
	Calculation of stocks													
Transaction data			X	X	X		X							
Stock data	X								X	X				X

Assets F2: Data from the Monetary and Banking Statistics Collecting System of HNB are used. Data include deposits by institutions in local government held with banks, central bank and HBOR. Transactions are calculated as difference between stocks. Stocks are valued at nominal value. Deposits denominated in foreign currencies are converted to national currency at mid-exchange rate on the last day in reference year calculated by HNB.

Assets F3: Data from the Monetary and Banking Statistics and HBOR Collecting System of HNB are used for S.1313 holdings of F3 issued by of S.122.

Assets F4: Data from financial reports, collected and kept by FINA for MF, are used.

Assets F5: Data from financial reports, collected and kept by FINA for MF, are used. Other financial assets (F1, F6): SDRs are held only by central bank. Data for F6 are obtained from MF.

Assets F7: There were no transactions in financial derivatives on the asset side.

Other accounts receivable (F8): National Accounts Department of DZS provides cash and time adjusted cash data for taxes (D.2 and D.5) and the time adjustment is calculated by HNB.

Other accounts payable (F8): Transactions are calculated from stock data. Data source are financial reports, collected and kept by FINA for MF. It includes liabilities for goods and services received but not yet paid (trade credits), and other liabilities (to employees, to households, for subsidies, for penalties etc.). Also, this item includes correction of the recording in the financial reports for Grad Zagreb for period 2008-2013 that was agreed with

Eurostat about treatment on Court decision on Income tax from 2013 in favour of Grad Zagreb.

3.4.4.2 Other stock-flow adjustments

Under "Issuance above/below nominal value", a difference between the value of discount of local government debt instruments at the time of issuance and the value of paid discount is reported. Local government units issue some bonds with a discount. No issuance of local government bonds with premium occurred.

Under "Difference between interests accrued and paid" a difference between interest accrued and paid for all local government debt instruments (AF.32, AF.41 and AF.42) is reported. The interest (D.41 Uses) is calculated on an accrual basis for all instruments bearing interest. Interest accrued and paid for debt securities is calculated individually for each security according to its original repayment schedule. For securities issued below nominal value, a discount is shown linearly as increase of interest. For data on loans given by resident and non-resident credit institutions, HNB uses its Monetary and Banking Statistics Collecting System and the System for collecting variables of Profit and Loss Account of domestic banks, which provides full coverage of institutional units for local government subsector and the same coverage of financial instruments as for debt stock.

There are no cases reported on the item "Redemptions of debt above/below nominal value" because no redemption occurred.

The data sources for the calculation of the item "Appreciation/depreciation of foreign currency debt" are the same as for calculation of stocks for each Maastricht debt instrument for local government units (AF.32, AF.41 and AF.42). The local government subsector does not issue short term debt securities. Long term debt securities include only bonds issued domestically by local government units which are either denominated in HRK or indexed to EUR. Loans given to local government units by domestic credit institutions and HBOR are either denominated in HRK or indexed to foreign currency (mainly EUR), while loans given by non-resident institutions are all denominated in foreign currency (mainly EUR).

Recent cases reported in the item "Changes in sector classifications" occurred due to revision of the official sector classification of general government which resulted in changes of the sector (reclassification inside or outside local government subsector) for a number of institutional units.

Recent cases reported in the item "Other volume changes in financial liabilities" occurred because HNB switched to the Monetary and Banking Statistics Collecting System which enabled full coverage of institutional units by ESA 2010 of local government subsector.

3.5. Social security sub-sector, EDP table 2D and 3E

3.5.1 Data sources for Social Security Funds main unit

**Table 7 – Availability and use of basic source data for social security funds:
HZZO, HZMO and HZZ**

Available source data	Source Data Accounting	Source data used for compilation of
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Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>		<i>cross appropriate cells</i>		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
C	A	T+70	T+7	(3) Current and capital revenue and expenditure and financial transactions	x	x	x
				(4) Balance sheets			
				Financial Statements			
M	A	T+70	T+7	(5) Profit and loss accounts	x	x	x
M	A	T+70	T+7	(6) Balance sheets	x	x	x
				(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	A	T+85	T+12	(9) Other: INV-P		x	
A	M	T+10	T+2	(10) CNB's Monetary and Banking Statistics System		x	x
A	M	T+45	T+3	(11) CNB's External debt Statistics System		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2): M - monthly, Q - quarterly, A - annual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6,7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.5.1.1 Details of the basic data sources

There are three units in this subsector: the Croatian Health Insurance Fund (Hrvatski zavod za zdravstveno osiguranje, HZZO), the Croatian Pension Insurance Institute (Hrvatski zavod za mirovinsko osiguranje, HZMO) and the Croatian Employment Service (Hrvatski zavod za zapošljavanje, HZZ).

The main data sources for the compilation of financial accounts for social security funds' subsector are MF reports of social security funds' budgets, the Monetary and Banking Statistics Collecting System of HNB and HNB External debt statistics.

3.5.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a basic data source for compilation of non-financial and financial accounts.

3.5.1.3 Supplementary data sources and analytical information

3.5.1.3.1 Supplementary data sources used for the compilation of non-financial accounts

No supplementary data needed.

EDP tables and data sources - Social security sub-sector, EDP table 2D and 3E

3.5.1.3.2 Supplementary data sources used for the compilation of financial accounts

Currently there is no need for use of supplementary data sources.

3.5.2 Data sources for other Social Security units

Not applicable.

3.5.2.1 Details of the basic data sources

3.5.2.2 Statistical surveys used as a basic data source

3.5.2.3 Supplementary data sources and analytical information

3.5.2.4 Extra-budgetary accounts

This section provides information on the so called "extra-budgetary accounts" of the main local government entities, i.e. about flows, which are not recorded in budgetary accounts which enter the WB, as reported in the first line of EDP table 2.

Non-financial flows recorded in EBA

Not applicable.

Financial flows recorded in EBA

Not applicable.

3.5.3 EDP table 2D

3.5.3.1 Working balance - use for national accounts compilation

The first line of EDP T2D is according to the HZZO, HZMO and HZZ budgets balance of current and capital revenue and expenditure. As all the transactions of the HZMO and HZZ are included in the State Treasury (which is keeping the accounts of the State budget), their working balance is considered as zero. HZZO was included with its transactions in the State Treasury until the end of 2014, after which it operates outside of the Treasury as an extra-budgetary user of central government with its own financial plan.

3.5.3.2 Legal basis of the working balance

The obligation to submit the financial plan and the report on its execution to the Parliament and to submit financial reports is stipulated in the Budget Act and in subordinate acts.

3.5.3.3 Coverage of units in the working balance

The coverage is complete and consists of three units: HZZO, HZMO and HZZ

3.5.3.3.1 Units to be classified outside the subsector, but reported in the WB

Not applicable.

3.5.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Not applicable.

3.5.3.4 Accounting basis of the working balance

3.5.3.4.1 Accrual adjustments relating to interest D.41, as reported in EP T2D

The accrual adjustments relating to interest D.41 for subsector S.1314 is done in EDP T2A, as social security funds in period 2010-2014 were part of central budget working balance. From the beginning of 2015, HZZO is separated from the State Budget and consequently the accrual an adjustment relating to interest D.41 of HZZO is shown in EDP T2D but for HZMO and HZZ remains as for the previous period.

3.5.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2D

Other accounts payable are standard accrued adjustments for intermediate consumption, compensation of employees, social benefits in cash and in kind, GFCF due to unpaid accounts at the end of the year by HZZO.

3.5.3.4.3 Other accrual adjustments in EDP T2D

No other accrual adjustments.

3.5.3.5 Completeness of non-financial flows covered in the working balance

Non-financial flows are complete in the working balance.

3.5.3.6 Financial transactions included in the working balance

Not relevant.

3.5.3.7 Other adjustments reported in EDP T2D

Not relevant.

3.5.3.8 Net lending/net borrowing of social security funds

According to Eurostat recommendations, the social security funds data were artificially extracted into the separate subsector S.1314 (HZZO, HZMO and HZZ), for the first time in October 2013 EDP Notification although at that time the funds were integral part of the State Budget of Republic of Croatia. HZZO is primarily financed from the contributions and from the State budget. The transfers from the State budget in 2013 significantly increased in relation to 2012. This was the result of the settlement of obligations of institutions in the health sector in rehabilitation and the HZZO. The rehabilitation is based on the Law on the Rehabilitation of Public Institutions and the Decisions of the Croatian Government for rehabilitation of health institutions and HZZO. From the beginning of 2015, HZZO is separated from the State Budget while HZMO and HZZ remain within State budget.

3.5.4 EDP table 3E

3.5.4.1 Transactions in financial assets and liabilities

Table 8. Data used for compilation of transactions and of stocks of financial assets and liabilities

	Assets							Liabilities						
Source Data	F.2	F.3	F.4	F.5	F.6	F.7	F.8	F.2	F.3	F.4	F.5	F.6	F.7	F.8
	Calculation of transactions													
Transaction data (integrated in public accounts)			x	x	x		x		x	x				
Other transaction data														
Stock data	x													x
	Calculation of stocks													
Transaction data			x	x	x		x							
Stock data	x								x	x				x

Assets F2: Data from the Monetary and Banking Statistics Collecting System of HNB are used. Data include deposits by institutions classified as S1314 held with banks, central bank and HBOR. Transactions are calculated as difference between stocks. Stocks are valued at nominal value. Deposits denominated in foreign currencies are converted to national currency at mid-exchange rate on the last day in reference year calculated by HNB.

Assets F3: Data from the Monetary and Banking Statistics and HBOR Collecting System of HNB are used for S.1314 holdings of F3 issued by of S.122.

Assets F4: Data from financial reports, collected and kept by FINA for MF, are used.

Assets F5: Data from financial reports, collected and kept by FINA for MF, are used.

Other financial assets (F1, F6): SDRs are held only by central bank. Data for F6 are obtained from MF. Assets F7: There were no transactions in financial derivatives on the asset side.

Other accounts payable (F8): Transactions are calculated from stock data. Data from financial reports, collected and kept by FINA for MF, are used. This item includes liabilities for goods and services received but not yet paid (trade credits), and other liabilities (to employees, to households, for subsidies, for penalties etc.).

3.5.4.2 Other stock-flow adjustments

There are no cases reported on the item "Issuance above/below nominal value" for social security funds subsector, because S.1314 currently does not have issued debt securities.

Under "Difference between interests accrued and paid" a difference between interest accrued and paid for all social security funds' debt instruments (AF.41 and AF.42) is reported.

Calculated interest (D.41 Uses) is on accrual basis. Currently social security funds have only domestic loans, so HNB uses its Monetary and Banking Statistics Collecting System and the System for collecting variables of Profit and Loss Account of domestic banks, which provides full coverage of institutional units for social security funds subsector and the same coverage of financial instruments as for debt stock.

There are no cases reported on the item interest flow attributable to swaps and FRAs.

There are no cases reported on the item "Redemptions of debt above/below nominal value" because no redemption occurred.

The data sources for the calculation of the item "Appreciation/depreciation of foreign currency debt" are the same as for calculation of stocks for each Maastricht debt instrument for social security funds (AF.41 and AF.42). The S.1314 subsector currently does not have issued securities and loans given by non-resident institutions. Loans given to S.1314 units by domestic credit institutions and HBOR are either denominated in HRK or indexed to foreign currency.

There are no cases reported in the item "Changes in sector classifications".

Recent cases reported in the item "Other volume changes in financial liabilities" occurred because HNB switched to the New Monetary and Banking Statistics Collecting System in which HZZO, HZMO and HZZ which constitute S.1314 were extracted from S.1311 to S.1314 in 2010.

3.6. Link between EDP T2 and related EDP T3

The monitoring of the link between the individual adjustments in EDP T2 and the related transactions reported in EDP T3 is important for the assessment of GFS data quality.

It is not expected that the adjustments from EDP T2 would be clearly identified in EDT3.

- First, this is due to different coverage of units, because the adjustments in EDP T2 should refer only to the main entity reported in the WB, while transactions in EDP T3 reflect the whole subsector.
- Second, due to the accounting basis and coverage of transactions reported in the WB. For the former, if the WB is on accrual basis, theoretically there is no need for adjustments in other accounts receivable/payable F.8 in EDP T2, but it should be ensured that the accrual recordings in non-financial accounts are linked to transactions in F.8 reported in EDP T3 and in FA. For the latter (coverage of transactions), the WB balance as reported in EDP T2 typically does not cover all financial flows, since some are booked in the so called extra-budgetary accounts of the main entity.
- Third, adjustments/transactions reported in EDP T2A are non-consolidated, since they refer to the main entity only, as recorded in the working balance (e.g. loans, other accounts receivable/payable, etc.), while financial transactions recorded in EDP T3 refer to the whole subsector and they are consolidated.

As far as specific imputations are concerned, such as debt cancellation, debt assumption etc., which are reported in EDP T2, these should be reflected also in financial accounts and EDP T3 under the related financial instrument.

Therefore, in order to ensure consistency between non-financial and financial accounts and quality of GFS data, statisticians are to be able to explain and to quantify a link between flows reported in EDP T2 and EDP T3.

3.6.1 Coverage of units

The same register of units is used for non-financial and financial accounts compilations, and for EDP tables 2 and 3.

The subcommittee on Sector Classification, consisting of DZS, HNB and MF representatives, performs sector classification of all institutional units in Croatian economy, as well as delineation of general government sector. Delineation of the general government sector is regularly maintained and updated by the Business Register of DZS, and according to the Agreement on Cooperation, in this field as well as in others, DZS is the institution responsible for the decision in case of different opinions – on its own or in consultation with Eurostat. HNB receives daily update of the whole sector classification database for the purpose of producing statistics according to ESA 2010 and EDP. See chapter 5 for details.

3.6.2 Financial transactions

Financial transactions which are excluded from the WB are exceptional and only relevant for WB at central government level as explained in chapter 3.2.3.6.

Since all issues are discussed in Subcommittee on EDP there is no inconsistency in this respect between NFA and FA.

4. Revision policy used for annual GFS

3.6.3 Adjustments for accrued interest D.41

The adjustment in EDP T2 for accrued interest refers only to interest expenditure while there is no adjustment for interest revenue. The sources for interest revenue are FINA financial statements of budgetary users on cash basis and non-market public corporations on accrual basis.

The same value of accrual adjustment for interest expenditure is in EDP T2A-D and T3A-E (for details please see explanations under 3.2.3.4.1, 3.4.3.4.1, 3.5.3.4.1, 3.2.4.2, 3.4.4.2 and 3.5.4.2).

3.6.4 Other accounts receivable/payable F.8

Financial transactions in other accounts receivable (F.8A) consist of difference between taxes calculated on time adjusted cash basis and actual cash tax receipts for D.2 and D.5. DZS sends these data to HNB on a regular basis for central and local government. For central government, transactions in other accounts receivable for corporations (HŽI, HAC, and ARZ) that are classified in central government are added. Those transactions are compiled from FINA reports for corporations, and for HBOR from HNB reporting system. Further adjustments on this instrument relate to differences in timing of issues of securities and cash receipts. Also advances for military equipment are added, the data being received on annual basis from the Ministry of Defence.

Financial transactions in other accounts payable (F.8L) consist of transactions in other accounts payable of budgetary and extra-budgetary government units for central and local government, EU flows, lump sum payment for transfer from second pillar to first pillar, emission trading allowances, transactions in other accounts payable from corporations (HŽI, HAC, ARZ) that are classified in central government, but are not in the budget and submit financial reports for corporations, correction for factoring instruments in other liabilities that are already included in EDP debt through HNB reporting system. The data source for transactions in other accounts payable of budgetary and extra-budgetary central and local government units and of big units that are classified in central government but not in budget are two types of FINA reports: FINA reports for budgets, budgetary users and extra-budgetary users and FINA reports for corporations. Data sources for HBOR are HNB's reporting system. Data on EU flows are received quarterly from the National fund which is integral unit within MF. Data source for lump sum payment for transfer from second pillar to first pillar and data on emission trading allowances is also MF.

3.6.5 Other adjustments/imputations

There are methodological adjustments reported under the heading “other adjustments” in EDP T2 reflected in EDP T3 such as debt assumption, guarantees called, capital injections and PPPs.

Since those issues are discussed in Subcommittee on EDP, the amounts are identical in EDP tables 2 and 3.

Concerning imputations, there is just one case, the PPP case of Zagreb Airport, whose asset is imputed in financial accounts as well as in GFCF in non-financial accounts.

3.7. General comments on data sources

There are some changes in the accounting rules for budgetary users since the beginning of 2015. The new Ordinance on budgetary accounting and on the Chart of Accounts stipulates recording of capital transfers expenditure and subsidies on an accrual basis.

3.8. EDP table 4

Table 4 – The statements on the provision of additional data contained in the Council minutes of 23/11/1993 request the submission of trade credits and advances, amounts outstanding in the government debt from the financing of public undertakings, differences between the face value and the present value of government debt and GNI at market prices.

3.8.1 Trade credits and advances

The data source for stocks of liabilities in trade credits and advances (AF.81L) payable is MF, i.e. Balance sheet reports (FINA database) of budgets, budgetary and extra budgetary users and Balance sheet of public corporations that are part of central government subsector, both collected by FINA.

Trade credits comprise the stock data on liabilities for acquisition of non-financial assets and liabilities for material expenditure. Transactions in trade credits, reported in the line “net incurrence of other accounts payable (F.8)” in EDP T3, are calculated from stock data of liabilities in trade credits and advances. Thus, consistency between data in EDP T4 and T3 on trade credits and advances has been ensured by using the same data sources for completing both tables.

3.8.2 Amount outstanding in the government debt from the financing of public undertakings

Not relevant.

4. Revision policy used for annual GFS

4. Revision policy used for annual GFS

This section relates to the revision policy concerning annual non-financial and financial government accounts. It describes the country policy for revisions with and without impact on the deficit (non-financial accounts for general government) and debt (financial accounts for general government).

4.1. Existence of a revision policy in your country

There is a draft document of the revision policy related to the EDP data in Croatia. Shortly described, regular/benchmark/ad-hoc revisions of the EDP data and the underlying ESA2010 government accounts are possible in both EDP notifications usually for the last four years with the exception of methodological changes and improvements which are included in all years. Reclassifications of units affecting GDP level are included only in the October notification taking into account the timetable of GDP revisions. There is a draft of general revision policy which would assure the consistency between government accounts and other national accounts tables.

Final data for the previous year are available for the October EDP notification except for GFCF data which are final in t+15 months.

4.1.1 Relating to deficit and non-financial accounts

The revisions with an impact on the deficit (B.9) are possible in both notifications. Example of GFCF is explained in 4.3. The revisions with no material impact on the deficit (B.9) are possible only in October notification, as a result of possible improved bridge tables between elements in data sources and national accounts.

As required by Eurostat, the income of tourist offices not part of general government is re-routed through the government accounts as tax revenue (sojourn tax) with related subsidy expenditure.

4.1.2 Relating to debt and financial accounts

The revision procedure is the same regardless of whether the impact on B.9f and debt is material or not. All reporting years would be revised, in both April and October EDP notifications, if there were evident reasons for revision.

The revisions in the financial accounts of the General Government are mainly driven by revisions in data sources, namely, in monetary and financial statistics, balance of payments and international investment positions, securities issues statistics, securities holdings statistics and statistics from the Central Balance-Sheet Database.

4.2. Reasons for other than ordinary revisions

New or improved data detail or new information or facts which were not available in the past are the reasons for other than routine revisions. As an example there is the case of new survey among domestic banks on loans. The survey has shown that after statistical debt assumption,

4.Revision policy used for annual GFS

particularly in 2010 and 2011, government has still been providing guarantees on new loans to units whose guaranteed debt was statistically assumed. New guarantees, whose debt was statistically assumed due to the 3rd call rule, have been already included in EDP debt and financial accounts (+ F.4_L) but not in non-financial accounts, so now we have also included it in capital transfers (D.9_U) which result in decrease of statistical discrepancy. Those kinds of revisions are usually done for the whole period under revision, which means the last four years.

4.3. Timetable for finalising and revising the accounts

The ESA transmission programme is followed. Non-financial accounts by subsectors, for all subsectors, are usually revised twice - once because all data sources for the previous year are available already for the October EDP notification, except for GFCF data, and for the second time when GFCF data are available in t+15 months.

Financial accounts are usually revised for the October EDP notification, because the whole set of data sources for the previous year is available.

B. Methodological issues

5. Sector delimitation – practical aspects

5.1. Sector classification of units

General government is defined by ESA2010 §2.111 as "... institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth". Moreover, §20.05 specifies that the general government sector "consists of all government units and all non-market non-profits institutions (NPIs) that are controlled by government units. It also comprises other non-market as identified in paragraphs 20.18 to 20.39".

It is necessary to determine:

- a. if it is an institutional unit (ESA2010 2.12 describes the rules according to which an entity can be considered as an institutional unit)
- b. if it is a public institutional unit (ESA 2010 §20.18 and MGDD I.2.3 – define the notion of control by the government over an entity as "the ability to determine the general policy or programme of that entity"... According to the list of criteria listed in ESA 2010 §20.309)
- c. if it is a non-market public institutional unit - reference to "Market-non-market delineation" (ESA 2010 §20.19 to §20.28 and MGDD I.2.4)"

The national Subcommittee for sector classification, consisting of representatives of DZS, HNB and MF, was set up with the aim of providing methodology for sector classification and discussing qualitative aspects and borderline cases. Delimitation of the general government sector is regularly maintained and updated by the Statistical Business Register of DZS. The Statistical Business Register (Statistički poslovni registar, SPR) comprises total population of all institutional units in Republic of Croatia and it is updated on daily basis and publicly available on DZS web page.

The general government subsectors include ministries, agencies etc. and budgetary users such as hospitals, schools etc., non-profit organizations and public corporations which are identified as non-market producers as well as some specific units involved in financial activities e.g. HBOR and DAB. All public corporations which are classified outside of S.13 are regularly tested i.e. those with total liabilities larger than 0.01% of GDP-a are tested every year for the period of three years and the results are submitted to Eurostat in the Questionnaire on government controlled units; and those with total liabilities below 0.01% are tested every three years for the period of three years with the exception in case there is additional information. In the latter cases, the additional information is used to decide if the unit should be included or not in S.13

5.1.1 Criteria used for sector classification of new units

There are special algorithms integrated in the SPR for primary classification of new units. The algorithms take into account the following criteria: NACE code, legal status and ownership.

Sector delimitation – practical aspects - Existence and classification of specific units

After the financial reports of “new units” are available, the 50% rule is applied and the sector code is updated if the results are different than those given by the algorithm.

5.1.2 Updating of the register

Please see above under chapter 5.1.

5.1.3 Consistency between different data sources concerning classification of units

The basic data source concerning institutional classification for national accounts, statistical survey and other statistics is the business register.

The same sector classification database is used for the purpose of producing statistics according to ESA 2010 and EDP i.e. for non-financial accounts and financial accounts. HNB receives daily update of the whole sector classification database for the purpose of producing statistics according to ESA2010 and EDP.

5.2. Existence and classification of specific units

1. Non-profit institutions (NPI)

Non-profit institutions controlled (owned) by the general government sector are included in the general government sector e.g. Fund for financing decommissioning of the Nuclear Power Plant Krško.

2. Quasi-corporations

Not relevant.

3. Infrastructure companies

Hrvatske željeznice infrastruktura (HŽI), Hrvatske autoceste (HAC) and Auto-cesta Rijeka Zagreb (ARZ) are included in the central government sector (S.1311) as non-market producers and Hrvatske ceste (HC) is besides that also an extra-budgetary user of the State budget. The reason for including them in the sector of general government was the substantial transfers to those units from central government. All other infrastructure companies (e.g. public utility companies, ports etc.) are classified in the sector of public non-financial corporations (S.11001) as market producers.

4. Universities, schools

Universities are classified within the central government (S.1311) and primary and secondary schools are within the local government (S.1313).

5. Public TV and radio

Hrvatska radio televizija (HRT) is included in the sub-sector of central government since RTV fee is treated as tax.

6. Public hospital

All public hospitals are included in the general government.

7. SPE/SPV

Not relevant.

8. Specific public units involved in financial activities

The Croatian Privatization Fund (Hrvatski fond za privatizaciju, HPF) was the institutional unit involved in privatization until 31 March 2011, then the Agency for Management of the Public Property (Agencija za upravljanje državnom imovinom, AUDIO) until 30 September 2013, substituted since 1 October 2013 by two new public units: Restructuring and Sale Centre (Centar za restrukturiranje i prodaju – CERP) as an extra-budgetary user of the State budget, and the State Property Management Administration, DUUDI) included in the State budget. All mentioned units are classified in the subsector of central government (S.1311).

The Croatian Bank for Reconstruction and Development (Hrvatska banka za obnovu i razvitak, HBOR) is classified in the central government subsector (S.1311) as a unit which is controlled by the state and has all the features of a "captive financial institution", which means that the unit deals with a limited range of activities set out by the state as part of the policy objectives, the state significantly influences both the assets and the liabilities of the unit and the unit is not behaving as market entity, e.g., market rate of capital return is not expected.

The State agency for deposit insurance and bank rehabilitation (Državna agencija za osiguranje štednih uloga i sanaciju banaka, DAB) is an institutional unit classified in the subsector central government (S.1311) with two main functions - the first is engagement in bank rehabilitation and the second is providing deposit insurance which facilitates functioning of banking market.

9. Other specific units

Not relevant.

6. Time of recording

This section describes the time of recording for taxes and social contributions, EU flows, military expenditure, interest and other transactions (subsidies, current and capital transfers and financial transactions).

The time of recording is defined in ESA2010 §1.101. It is the accrual basis, meaning when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.

6.1. Taxes and social contributions

Council Regulation 2516/2000 amended the Regulation on European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and clarified the rules concerning both the time of recording and the amounts to be recorded.

6.1.1 Taxes

This section describes the methods of recording of taxes on an accrual basis. The time of recording of taxes is defined in ESA2010 §4.26 and §4.82 as the time "...when the activities, transactions or other events occur which create the liabilities to pay taxes".

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

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

6.1.2 Social contributions

The time of recording of social contributions is defined in ESA2010 §4.94 as "... the time when the work that gives rise to the liability to pay the contribution is carried out..." for employers and employees social contributions, and as "... when the liabilities to pay are created" for self-employed and non-employed persons.

The information on the amounts of social contributions collected from employers, employees, self-employed and unemployed is obtained directly from the Ministry of Finance and represents the amounts actually collected i.e. the cash contributions received by three Social Insurance Funds (HZZO, HZMO, and HZZ). Since there is a very little delay between the accrual and payment of social contribution liabilities, the amounts obtained from MF are used without adjustment.

Interests on late payments are recorded under interest revenue.

6.2. EU flows

The issue of recording EU flows is important for national accounts, especially government accounts, because – due to the institutional arrangements – in general all amounts transit via government accounts. In order to avoid potential effects on the level of government deficits, countries have to eliminate these flows from public accounts. Eurostat, after the consultation with Member States, released a decision in February 2005. The ESA2010 Manual on government deficit and debt Chapter II. 6 "*Grants from the EU budget*" provide further details concerning the recording of these flows.

6.2.1 General questions

National Fund (NF) is the central authority established as treasury in beneficiary country through which the EU pre-accession funds are channelled. National Fund organizes and manages the bank accounts, submits requests for funds from European Commission, endorses the transfer of funds to operational structure or final beneficiaries and is responsible to National Authorising Officer. The NF is also a certifying authority for the SCF programmes 2007-2013. NF in the Republic of Croatia is an organizational unit within the Ministry of Finance and consequently classified in S.1311.

The source of data for EU flows is NF which sends data regularly on quarterly basis to DZS and HNB. 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.

All receipts to HNB accounts are recorded as central government deposits and are neutralized in financial accounts through increase in other accounts payable.

The amounts from the following funds are entering the working balance with zero effect on working balance since the expenditure and revenue are recorded at the same time; the European Agricultural Fund for Rural Development (EAFRD), The European Fisheries fund

(EEF) the European Regional Development Fund (ERDF), the European Social Fund (ESF), Cohesion Fund), except for the European Agricultural Guarantee Fund (EAGF) where the revenues are recorded upon the reimbursement from the EC. Usually the expenditure are recorded in the first half of the year and reimbursed from the EC/revenues within two months; the effect is zero on annual basis.

Pre-accession funds are held on a separate bank account of the National Fund, not part of the budget accounts, which allows the Ministry of Finance to correctly neutralise the EU flows in the working balance. These data are also submitted to DZS and HNB on quarterly basis within the same channel as EU funds.

6.2.2 Cash and Schengen facility:

The time of recording of payments received by the beneficiary Member States through Schengen and Transitional Facilities would be accounted according to the Eurostat decision on EU flows, while the time of recording of Cash-flow Facility is when the transfers are to be made by the Commission. In practice, in this particular case, the amounts would be recorded as revenue in the years in which they were received by the beneficiary countries.

Please see chapter 6.2.1. EU flows receivable are first recorded on a special bank account and are in the central budget included in a year when the amounts are used. Republic of Croatia accessed EU in July 2013 and has started receiving cash through Schengen facility from 2013 up to now the amount of HRK 915 million, of which is used until September 2015 just the amount HRK 109 million has been used. In national accounts the amounts are the same as in the central budget. Like the pre-accession funds, the Transition Facility is also held on the separate account of the NF.

6.2.3 Jeremie/Jessica

The European Commission and the European Investment Bank Group and other International Financial Institutions on financial engineering in cohesion policy, the European Commission drew up new initiatives for improving access to finance of European corporations. These initiatives require the involvement of EU governments (as in the case for other cohesion and structural policy instruments). EU Member States implement the JEREMIE and JESSICA initiatives by establishing a Holding Fund funded through their Structural Fund receipts from the European Commission and national contributions. The Holding Fund (HF) can be managed either by the EIF or by other financial institutions, according to the EU Structural Funds legislation applicable. In this context, the "Managing Authorities" can award management either directly to the EIF or any national institution which benefits from public procurement exemption under national law through a grant agreement, or indirectly by way of tender to a financial institution through a service contract. Holding Funds can be set up either as "*ring-fenced blocks of finance*" or as bank accounts managed by the Holding Fund manager on behalf of and in the name of the Managing Authority, or as an independent legal entity (Special Purpose Vehicle – SPV).

Jeremie/Jessica is not relevant in Croatia.

6.2.4 Market Regulatory Agencies

Market regulatory agencies are bodies whose intervention activities are mostly characterised by buying and selling products, often on behalf of the EU, with an aim to stabilize prices and to maintain purchasing prices to farmers at a sufficiently high level: they offer buying

Time of recording - EU flows

agricultural products from domestic producers at a predetermined price (often higher than "market" prices) and reselling them usually at a lower price later on and occasionally arranging for giving them away free of charge. These agencies can be involved in storing agricultural inventories, or in arranging for storage, as well as in distributing subsidies.

The question is whether the principle of re-arranging EU transactions would also apply to the recording of changes in inventories (P.52) arising from the interventions of agricultural market regulatory agencies in the market. According to the guidance, in those circumstances where a market regulatory agency acting on behalf of the EU is classified inside general government, the creation of a unit in S.11 is recommended in order to capture the changes in agricultural inventories, and to avoid that such changes in inventories are recorded in national government accounts (as changes in government inventories, with an impact on the government deficit/surplus) or in the rest of the world accounts (as exports and imports). The unit to be created to capture these changes in inventories is a quasi-corporation, rather than a notional unit, in order to ensure an equality of treatment with cases where market regulatory agencies are classified outside government. This is also appropriate because any temporary difference in value arising from changes in market value of these inventories not yet covered by subsidies is likely to be small and on average zero.

[There are no MRAs in Croatia.](#)

6.3. Military expenditure

The ESA2010 principle on accrual recording, when applied to military expenditure, is generally the time when the economic ownership of the good occurs, which is usually when delivered.

ESA 2010 paragraphs 20.190-20.192 define the rules for the statistical recording of military equipment. Chapter II.5 in Part II of the ESA 2010 MGDD details the rules concerning the recording of military expenditure.

6.3.1 Types of contracts

The data sources used for compilation of military equipment expenditure are Ministry of Defence and Ministry of Finance. The pre-payments for deliveries of military equipment are made within the same year as a rule. No adjustments are made to the cash paid, as the whole amount has to be paid within 60 days with an exception in 2014, where pre-payments were in the last quarter of 2014 and the delivery took place in 2015.

6.3.2 Borderline cases

No borderline cases identified.

6.3.3 Recording in national accounts

Regardless of the type of contract used by military forces for the procurement of military equipment, the financial statements of the Ministry of Defence are on so called "modified accrual basis".

6.4. Interest

This part aims at describing accrual adjustment for interest.

ESA2010 paragraph 20.178 reads: "In the system, interest is recorded on an accrual basis, i.e. interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding"

ESA2010 MGDD part II, chapter II.4 is dealing with some practical aspects of the recording of interest.

6.4.1 Interest expenditure

Table 1 Availability and basis of data on interest

Instrument	S.1311		S.1312		S.1313		S.1314	
	State	OCGB	Main unit	OSGB	Main unit	OLGB	Main unit	OSSB
Deposits (AF.2)	M	M	M	M	M	M	M	M
Debt Securities (AF.3)	A	A	M	M	A	A	A	M
Loans (AF.4)	A	A	M	M	A	A	A	M
Other accounts receivable (AF.8)	A	A	M	M	A	A	A	M

Cash/accrual (A), M (not applicable) or L (not available)

Currency and deposits do not exist as debt instruments in Croatia. The sources of primary data for debt securities are general government units that issue them (the Ministry of Finance for S.1311 and units of local and regional self-government for S.1313). Interest (D.41 Uses) is calculated on an accrual basis for all instruments bearing interest (AF.31, AF.32, AF.41 and AF.42). Information on interest is available for each debt instrument and for each subsector of general government. For bonds issued with coupon, accrued interest is calculated using day count convention (Real by Real number of days). For debt securities issued with discount or premium (recorded as negative expenditure) the difference between face and redemption value is spread over time using compound method and day count convention Real by 360. All Treasury bills are issued with discount, while bonds are mainly issued with coupon. However, there are some central and local government bonds that are issued with discount and coupon and some central government bonds issued with premium and coupon. For data on loans, as of December 2010, the Croatian National Bank uses the New Monetary and Banking Statistics Collecting System and the New System for collecting variables of Profit and Loss Account of domestic banks, which provide full coverage of institutional units for general government sector and the same coverage of financial instruments as for debt stock. Data on accrued interest (D.41 Uses) on HBOR loans given to general government units are provided by HBOR in form of a Questionnaire defined by HNB on a quarterly basis.

6.4.2 Interest Revenue

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

6.4.3 Consolidation

Currently we do not dispose with data on inter/intra governmental holdings of AF.3, but in the HNB, at the moment, securities holdings statistics database is developing so we plan to include data into EDP debt calculation as soon as data would be available.

Time of recording -Time of recording of other transactions

Intra-governmental lending (AF.4) have been recognized, so the consolidation of interest is carried out for this instrument within central government subsector and on general government level between subsectors. Data sources used for consolidation of interest are the same as for compilation of financial accounts (see under chapters 3.2., 3.4. and 3.5.).

6.4.4 Recording of discounts and premiums on government securities

The adjustments in tables 2 are done under item Difference between accrued and cash (treatment of discount/premium in a Working balance). Interest (D.41 Uses) is calculated on an accrual basis for the whole set of instruments bearing interest (AF.31, AF.32, AF.41 and AF.42). For bonds issued with coupon accrued interest is calculated using day count convention (Real by Real number of days). For debt securities issued with discount or premium (recorded as negative expenditure) the difference between face and redemption value is spread over life time of instrument using compound method and day count convention Real by 360. Net interest payments resulting from SWAP contracts are included in total accrued interest. All Treasury bills are issued with discount, while bonds are mainly issued with coupon. However, there are some central and local government bonds that are issued with discount and coupon and some central government bonds issued with premium and coupon. So far, the entities reported under "other government bodies" in EDP tables 2 have no debt issued above/below par.

6.5. Time of recording of other transactions

Public accounting rules in Croatia are based on the modified accrual principle. Revenue and expenditure in budgetary accounting are recorded by applying modified accrual principle. Modified accrual principle implies, among others, that revenue are recorded in the reporting period in which they become available, provided that they are measurable, and the expenditure are recorded based on occurrence of transactions (obligations), independently of their payment.

For units with cash accounting revenue data (budgetary users at the central and local level) different accrual adjustments are made. Balance sheet adjustments of accounts payable to accrual value are used. For revenue components accrual adjustments cover main taxes and EU flows adjustments. In Croatia, there is a very little delay between the accrual and payment of social contribution liabilities so the amounts obtained from the Ministry of Finance are used without adjustment. GFCF is calculated on the basis of annual statistical survey on accrual basis. Interest is calculated by HNB on the accrual basis.

For public corporations no adjustments are needed since their accounting data is on accrual basis.

7. Specific government transactions

Methodological rules applicable for recording of specific government transactions are set up in the Manual on Government Deficit and Debt (implementation of ESA2010), 2013 edition⁵.

7.1. Guarantees, debt assumptions

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is normally recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to a one-off increase of government debt as well as of deficit. The accounting rules are explained in the Chapter VII.4 on Government guarantees of the ESA2010 Manual on government deficit and debt. This chapter describes also specific cases and related treatment in national accounts.

7.1.1 Guarantees on borrowing

7.1.1.1 *New guarantees provided*

The main data source for new guarantees provided by the central government is the Ministry of Finance. For 2014, data on new guarantees issued during the year (only to units outside general government sector, excluding guarantees to units whose debt is already recorded as debt assumption) are not cleared for non-activated loans since the data are not available. For the period up to 2013, data are aggregated i.e. not cleared of new guarantees provided to the general government sector units and units whose debt has been statistically assumed by the government and of not activated loan.

For 2015 data are on new guarantees provided by central government to units outside general government sector on loans that have been activated, excluding guarantees to units whose debt is already recorded as debt assumption.

Recording in public accounts

In public accounts, new guarantees provided are recorded off-balance sheet.

Recording in national accounts

In national accounts, new guarantees provided are recorded off-balance sheet

7.1.1.2 *Treatment of guarantees called*

Recording in public accounts

In public accounts, guarantees called are recorded as lending (acquisition of financial assets – loans to original debtors); since 2015 according to the amended Ordinance on budgetary

⁵ http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-GQ-13-006/EN/KS-GQ-13-006-EN.PDF

Specific government transactions - Guarantees, debt assumptions

accounting and chart of accounts, new accounts have been introduced which provide distinction between these loans and other types of loans given.

Recording in national accounts

Guarantees called are recorded as capital transfer expenditure. Guarantees being systematically called during three years lead to a debt assumption in national accounts: the whole outstanding amount of debt guaranteed at the end of the first month in which a guarantee call occurs in the third year is booked as a capital transfer, for the total amount.

7.1.1.3 Treatment of repayments related to guarantees called

Recording in public accounts

In public accounts, repayments related to guarantees called are recorded as disposals of financial assets - loans; since 2015 according to the amended Ordinance on budgetary accounting and chart of accounts, new accounts have been established which provide distinction of these transactions from other transactions in assets disposals.

Recording in national accounts

Repayments by debtors are booked as capital transfer revenue.

7.1.1.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any

Not applicable.

7.1.1.5 Data sources

The primary data source for guarantees issued by central government is the Ministry of Finance. MF reports on guarantees issued by central government to HNB. Source for stocks of government guaranteed debt is HNB's Monetary and Banking and HBOR Statistics Collecting System and External Debt and International Investment Position Statistics Division of HNB.

7.1.2 Guarantees on assets

Guarantees on assets do not exist.

7.1.2.1 New guarantees provided

Recording in public accounts

Recording in national accounts

7.1.2.2 Treatment of guarantees called

Recording in public accounts

Recording in national accounts

7.1.2.3 Treatment of repayments related to guarantees called

Recording in public accounts

Recording in national accounts

7.1.2.4 Treatment of write-offs

7.1.2.5 Data sources

7.1.3. Standardized Guarantees

Standardised guarantees do not exist for the time being.

7.2. Claims, debt cancellations and debt write-offs

Providing loan capital is generally a financial transaction not impacting the net borrowing/net lending (B.9). Government, as a lender, is expecting that the debtor will be in a position to repay the loans, according to a schedule agreed at inception. However, if the loan is non-recoverable, the recording of government expenditure might be considered. The related accounting rules are set up in ESA2010 and further clarified in the Chapter III.2 on Capital injections and Chapter VII.2 on Debt assumption and cancellation of the ESA2010 Manual on government deficit and debt.

7.2.1 New lending

The main data source for loans granted by the central government (State budget) is the Ministry of Finance. MF reports to HNB on gross transactions on quarterly basis. Data on stocks are not available. However, data on transactions are too aggregated without possibility to detect creditor unit, without details on beneficiary and instrument specifications. Data on interest are not reported. There are no data on recoverability of loans.

Guarantees called are in budgetary bookkeeping recognized as loans, while in national accounts are booked as non-financial transactions (+D.9U/-F2A).

For the moment, the national EDP working group has not identified any provision of loan as capital transfer, according to capital injection test.

Data source on HBOR's lending is the HNB's Monetary and Banking Statistics Collecting System. Net transactions are calculated from stocks, exchange rate adjustments (ERA) and other changes by debtor subsector, disaggregated into short-term and long-term loans.

For other units classified in general government, part of central government, local government and social security funds, data on stocks are available on aggregate level through FINA reports on annual basis, but without detail on beneficiary, interests and recoverability of loans.

7.2.2 Debt cancellations

The matured and un-matured claims of the Lending program for the employment of demobilized soldiers for beneficiaries who are still alive are treated as debt cancellations –

capital transfers to households. As well, capital transfers to sports clubs are included in EDP notification according to the Government Decision on the transfer of taxes and other public duties receivables from the Ministry of Finance based on Sport Act (Official Gazette No. 71/2006, 124/2010, 124/2011, 86/2012, 94/2013) Art. 42 paragraph 1). Debt cancellation is relevant for the years 2011 and 2012.

7.2.3 Repayments of claims

Repayments of claims are not relevant.

7.2.4 Debt write-offs

Debt write-offs refer to matured and un-matured claims for the beneficiaries (who are not alive) of the Lending program for the employment of demobilized soldiers.

7.2.5 Sale of claims

Sales of claims are not relevant.

7.3. Capital injections in public corporations

Government capital injections are transactions which occur when governments provide assets (in cash or in kind) to public corporations (or assume liabilities), in their capacity of owner / shareholder, with an aim to capitalize or recapitalize them. The accounting rules are set out in ESA2010 paragraphs 20.197-20.203 and clarified in the Chapter III.2 on Capital injections of the ESA2010 Manual on government deficit and debt. These chapters devote considerable space to set the operational rules for the recording of capital injections in national accounts either as transactions in equity (financial transaction = financing = “below-the-line”), or as capital transfers (non-financial transaction = expenditure = “above-the-line”).

It is recalled that the MGDD also indicates that payments by government to public units, structured in the legal form of a loan or a bond, might be considered in specific circumstances as capital injections, and to be classified in certain cases as a non-financial transaction (predominantly capital transfer D.9); cf. MGDD III.2.3.2.2.

Individual unit level data on capital injections are available on request from the Ministry of Finance and are checked with the accounting data in DZS. For companies with current losses equity injections are in national accounts treated as capital transfers. At the central government level the capital injection test is applied for all amounts.

Data on individual transactions for budgetary central government are provided by Ministry of Finance on quarterly basis. Data consists of financial cash transactions on accounts 53- Expenses for equity investments in corporations and 83-Receipts from sale of equity stakes in corporations from Chart of accounts from level 13 of budgetary central government. For each transaction on account 53- Expenses for equity investments in corporations, capital injection test is performed on individual basis and treatment in national accounts is agreed on national EDP Working group. For other units classified in general government, part of central government, local government and social security funds, the data are available on aggregated level through financial reports on quarterly basis, collected by FINA. The same accounts are used in the calculation but it is not possible to make individual capital injection testing. Those transactions are considered financial transactions, unless specific questions have been raised. HNB processes the data, and presents results to the EDP working group which then makes

Specific government transactions - Capital injections in public corporations

final decision based on profit and loss account of company in question, and whether there are private units involved.

No quasi-corporations exist.

7.4. Dividends

The accounting rules are set out in ESA2010 paragraphs 20.205-20.207. It is recalled, that the ESA2010 Manual on Government Deficit and Debt chapter III.5 indicates that large and exceptional payments out of reserves which significantly reduce the own funds of the corporation should be treated as super dividends, i.e. transaction in shares and other equity (a capital withdrawal). It also sets out that the resource available for distribution by a unit (a corporation) is the *distributable income* of the unit, as defined in the ESA2010, paragraph 4.55.

Total distributions could therefore comprise one part recorded as distributed income of corporations, D.42, and another recorded as transactions in equity, F.5. The former data is reported to Eurostat in ESA2010 table 2 and table 8 within “other property income” category, and the latter is included within transactions in equity in financial accounts. Within the latter, for the benefit of analysis, one should also distinguish between amounts received from the National Central Bank, and amounts received from other public corporations.

Data on revenue from dividends and withdrawals from income are available at the central budget level from the Ministry of Finance. The super dividend test is performed by DZS on the unit level using operating profit from financial statements of corporations. There are no interim dividends identified.

At the local government level the super dividend test is not performed because of small amounts.

7.5. Privatization

The accounting rules are set out in ESA2010 paragraphs 20.210-20.213. The proceeds collected by government when disposing of shares in public corporations are often called privatization proceeds. The counterpart entity (i.e. the acquirer of shares) is the private sector. Privatization can be indirect when the proceeds are forwarded to government after the sale of a subsidiary. The MGDD chapter V.2 indicates that such indirect privatization proceeds are not government revenue. MGDD chapters V.3 and chapters V.4, respectively, provide the guidance on the treatment of privatisation proceeds from public corporations and restitution and use of vouchers for privatisation.

Specifically, chapter V.3.1 of the ESA2010 Manual on government deficit and debt mentions that in some EU Member States, holding companies have been set-up by the government to restructure the public sector with the aim of making the enterprises more competitive and profitable and, in the long run, disengaging the government. Often their main activity is to organise the privatisation efficiently and transfer the proceeds of the sale of shares to other public corporations (owned by the holding company or not), through grants, loans or capital injections.

The main issue is: what is the relevant sector classification of this sort of unit managing privatisation and possibly making grants to other enterprises? Should this activity be considered as taking place on behalf of the government?

The units involved in privatization are the Restructuring and Sale Centre (CERP) and the State Property Management Administration (DUUDI). Please see under chapter 1.1. The units are classified into the subsector central government (S.1311).

The Privatization of the Croatia Insurance Company (Croatia Osiguranje) occurred in 2014. The government sold 39% of ownership rights to a private company, for an amount of HRK 905 million. The privatization of the shipyards has been finalized in 2013, and all the major shipyards are now privatized.

The privatization income is not included in the working balance. Transactions in financial accounts, reduction in F.5_A, are recorded when the cash is paid but since there was no payment in tranches we consider F.5 as being on an accrual basis. The data sources and the process are the same as explained in chapter 7.3.

7.6. Public Private Partnerships

The term “Public-Private Partnerships” (PPPs) is widely used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific “dedicated assets”, such that the non-government unit builds a specifically designed asset to supply the service. The accounting rules are set out in ESA2010 paragraphs 20.276-20.282 and clarified in the Chapter VI.4 of the ESA2010 Manual on government deficit and debt.

The key statistical issue is the classification of the assets involved in the PPP contract – either as government assets (thereby immediately influencing government deficit and debt) or as the partner’s assets (spreading the impact on government deficit over the duration of the contract). This is an issue similar to the one of distinguishing between operating leases and finance leases, which is explained in Chapter 15 of ESA2010.

As a result of the methodological approach followed, in national accounts the assets involved in a PPP can be considered as non-government assets only if there is strong evidence that the partner is bearing most of the risk attached to the asset of the specific partnership. In this context, it was agreed among European statistical experts that, for the interpretation of risk assessment, guidance should focus on three main categories of risk: “construction risk” (covering events like late delivery, respect of specifications and additional costs), “availability risk” (covering volume and quality of output) and “demand risk” (covering variability of demand).

PPP assets are classified in the partner's balance sheet if both of the following conditions are met: the partner bears the construction risks and the partner bears at least one of either availability or demand risk, as designed in the contract.

If the conditions are not met, or *if government assumes the risks through another mechanism*, (e.g. guarantees, government financing) then the assets are to be recorded in the government's balance sheet. The treatment is in this case similar to the treatment of a financial lease in national accounts requiring the recording of government capital expenditure and borrowing. In borderline cases it is appropriate to consider other criteria, notably what happens to the asset at the end of the PPP contract.

In Croatia, first PPPs have been contracted in 2005 and presently there are in total 14 PPPs from which 13 are since 7 years in operational phase and one is in construction. The total market value is approximately EUR 360 million.

On the ground of the Public Private Partnership Act, the Agency for Public Private Partnership (Agencija za javno-privatno partnerstvo, AJPP) was established as a central

national authority in charge for evaluating, approving and monitoring the implementation of PPP projects. In March 2015, AJPP was merged into the Agency for Investments and Competitiveness, which has retained all the activities of the former AJPP. Pursuant to Article 7 of the Act on PPP, the public body shall deliver to the Agency Information on intention to implement a project.

As there is the central PPP unit, DZS receives information regarding new PPPs. Besides, the PPP unit keeps the public register of newly announced, approved and contracted PPPs. In every single PPP contract there are provisions allowing the PPP Unit to deliver the contract to DZS. Risk assessing is provided in cooperation of the PPP unit and DZS. In specific cases experts will be engaged.

7.7. Financial derivatives

This part describes the use of financial derivatives and the recording of derivative related flows in EDP tables and national accounts.

Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union does not distinguish between the ESA and EDP definition of interest. The Regulation No 549/2013 paragraph 4.47 reads: *Payment resulting from any kind of swap arrangement is recorded as a transaction in financial derivatives in the financial account, and not as interest recorded as property income. Transactions under forward rate agreements are recorded as transactions in financial derivatives in the financial account, and not recorded as property income.*

ESA2010 paragraph 20.133 specifies the treatment of so called of market swaps: *“Lump sums exchanged at inception on off-market swaps are classified as loans (AF.4) when the lump sum is received by government. Off-market swaps are partitioned in the balance sheet into a loan component and a regular, 'at-the-money' swap component.”*

Net interest transactions resulting from SWAP arrangement on external bonds were recorded under the instrument financial derivatives (F.7_L) and they are not included in D.41.

There is no difference between EDP and national accounts interest expenditure amount.

7.7.1 Types of derivatives used

Currently there are 5 central government bonds issued on the US market with initial denomination in USD that are hedged against USD exchange rate movements by contracting fixed-to-fixed cross currency swaps agreements (USD to EUR).

7.7.2 Data sources

Primary data source for cross currency swap agreements for central government external bonds is the Ministry of Finance.

7.7.3 Recording

Currently, exchange of principal and net interest payments' transactions resulting from SWAP arrangement on central government external bonds are recorded under the instrument

financial derivatives (F.7_Liability) and according to ESA10 they are not included in D.41, i.e. deficit.

There is no difference between EDP and national accounts interest expenditure amount.

7.8. Payments for the use of roads

The main issue is whether payments for road, both in the case of tolls and vignettes, should be considered as sale of services or as a tax, when the infrastructures are owned by public units. The issue is important also because the classification of payments made for the usage of roads, either as sales or taxes, influences the assessment of the 50% criterion, which is fundamental for the purpose of assessing whether a given institutional unit (in some cases, a government-controlled entity receiving the payment of the toll or vignette) is a market or a non-market producer.

Payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time for the vignette.

Motorways in Croatia are constructed and maintained by HAC (Croatian Motorways, 100% owned by government, classified as part of S.13). HAC collects tolls. In national accounts revenue from tolls are treated as market revenue. Another institutional unit, managing motorways in concession, and 100% owned by government, is ARZ (Motorway Rijeka-Zagreb), which also collects tolls. It is also classified as part of S.13.

7.9. Emission permits

There are two main trading systems, where European Union Member States can participate:

The Kyoto Protocol is a 1997 international treaty which came into force in 2005. In the treaty, most developed nations agreed to legally binding targets for their emissions of the six major greenhouse gases.[33] Emission quotas (known as "Assigned amounts", AAUs) were agreed by each participating 'Annex 1' country,

The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU's central policy instruments to meet their cap set in the Kyoto Protocol. The so-called EU emission Allowance (EUA) is traded.

The ESA2010 MGDD part VI, chapter VI.5 is dealing with the statistical recording of the emission trading allowances.

Trading with emission permits via general government is relevant from January 2015 when the first auction of the permits was held by the Environmental Protection and Energy Efficiency Fund. The statistical recording of the emission trading allowances is according to the above mentioned chapter VI.5 ESA2010 MGDD which means that receipts on the auction will not be recognized as revenue in national accounts at the moment of the auction but when the permits will be submitted using FIFO method.

7.10. Sale and leaseback operations

Government sells an asset and immediately leases it back from the purchaser. The issue is whether the sale is to be considered as a "true sale" (transaction in GFCF improving B.9) or the transaction is to be treated differently and an asset should remain on government's balance sheet.

MGDD part VI, chapter VI.2 is dealing with sale and lease back operations

[Sales and leaseback operations are not relevant.](#)

7.11. Securitisation

Securitisation is when a government unit transfers the ownership rights over financial or nonfinancial assets, or the right to receive specific future cash flows, to a special-purpose vehicle (SPV) which in exchange pays the government unit by way of financing itself by issuing, on its own account, asset backed bonds.

The classification of the proceeds received by government as disposal of an asset may lead to an impact on the government deficit, when the asset is a nonfinancial asset or if it is determined that a revenue should accrue. All securitisation of fiscal claims should be treated as borrowing, as well as all securitisation with a deferred purchase price clause and all securitisation with a clause in the contract referring to the possibility of substitution of assets. Also if the government compensates the SPV ex-post, although this was not required according to the contract, the operation should be reclassified as government borrowing.

ESA2010 paragraphs 20.260-20.271 establish securitisation operations accounting rules. The MGDD part V, chapter V.5 and the Eurostat decision of 25 June 2007, "[Securitisation operations undertaken by general government](#)" are dealing with securitisation operations.

[Securitisation is not relevant.](#)

7.12. UMTS licenses

The sale of UMTS licenses is to be recorded as the sale of a non-financial asset (the license) at the time the license is allocated. Thus, sale proceeds have a positive effect on B.9 in the year when the license is allocated. The actual payment of cash payment does not influence the recording of this transaction.

In some special cases, the sale of UMTS could be seen as a rent for the use of a non-financial asset, recorded over the life time of the license. In this case, the impact on government B.9 is spread over the duration of the license.

The ESA2010 MGDD part VI, chapter VI.1 and Eurostat decision of 14 July 2000 on the allocation of mobile phone licences (UMTS) are dealing with the sale of UMTS licenses.

[UMTS licenses are within the responsibilities of HAKOM \(Hrvatska agencija za telekomunikacije\) which limited the number of licenses to four. Issued UMTS licenses: VipNet \(10/2004\); T-Mobile \(10/2004\) and Tele2 \(12/ 2004\). UMTS licenses were sold in 2004 at the amount of HRK 264 million and in 2006 HRK 132 million. These transactions are recorded in national accounts as rent \(D.45\) spread over the life time of the license.](#)

7.13. Transactions with the Central Bank

The management of asset portfolios and interventions in foreign exchange markets for monetary policy purposes may generate capital gains for central banks which are liable to be distributed to general government. The amounts involved may sometimes be very large. Capital gains are not income in national accounts and therefore payments to government financed out of capital gains cannot be recorded as property income but have to be recorded as financial transactions.

It also proposes to apply the rules on capital injections when government makes a payment to the Central Bank. Such payments by government may be made to cover losses made by the Central Bank. Capital losses may occur due to foreign exchange holding losses. Operational losses may occur due to the fact that interest and other operational income do not cover operational costs made by the central bank. Capital losses cannot be recorded as equity injection, therefore capital gains and losses are somehow not treated symmetrically. This asymmetrical treatment is nevertheless justified for the purpose of appropriately measuring government deficit.

The distributed capital gains up to the operating profit are recorded as income in national accounts.

Payments from central bank to government up to the operating profit are recorded as income in national accounts.

7.14. Lump sum pension payments

ESA2010 paragraphs 20.273-20.275 define the accounting rules for recording of the lump sum pension payments. The related accounting rules are further described in the ESA2010 MGDD and debt Part III.6 Impact on government accounts of transfer of pension obligations.

There has been occurrence of lump sum pension payments in the second quarter of 2014. The transfer from second pension pillar to first pension pillar was recorded as pure financial transaction in 2014 with no impact on B.9 and the total of transferred funds should be linearly allocated in the next 30 years in accordance with the pensions to be paid out.

7.15. Pension schemes

The activity of HZMO is the implementation of compulsory pension insurance (first pillar) under which the insured, based on the principles of solidarity and reciprocity, ensure rights for old age, disability, and for the members of their family rights in case of death of the insured. The activities of the Institute comprise the implementation of compulsory pension insurance based on generational solidarity and procedure for children benefit.

The pension insurance is financed by: (a) Pension contributions revenue and (b) Revenue from the state budget used to cover expenses for the rights achieved under favourable conditions and special regulations, pension bonuses and deficit of compulsory pension insurance revenue based on generational solidarity resulting from the introduction of compulsory pension insurance based on individual capitalized savings (II. pillar).

Specific government transactions - Transactions with the Central Bank - Lump sum pension payments - Pension schemes

The pension system in Croatia has seen significant changes during the year 2001 and year 2002. The way pensions were financed is changed from pay-as-you go system into a mixed, state and private system. The old pay-as-you go system is still present and constitutes the first pillar. New system, defined contribution system with personal accounts, is introduced as the second pillar. Apart from these two mandatory pillars, the third pillar was introduced. It is completely voluntary and intended for all citizens who want to save additionally for their pensions.

The Croatian three pillar pension system consists of a pay-as-you-go pension scheme (first pillar), a fully-funded, mandatory, privately managed defined contribution pension scheme (second pillar) and a privately managed voluntary pension scheme (third pillar).

Under this relatively new pension system (the second pillar was introduced in 2002), one part of the social contributions (currently 5% of the gross wage) is transferred to personal accounts in a mandatory second pillar pension fund chosen by the employee. The remaining part of the social contributions (currently 15% of gross wage) is paid in the first pillar pay-as-you-go pension scheme.

Four mandatory second pillar pension funds operate currently in Croatia, covering approximately a total of 1.6 million individuals. The financial accounts of these entities are audited and publicly available on their web-sites.

The Croatian second pillar pension scheme has a broad coverage, it is a mandatory and fully funded defined contribution pension scheme, and it is classified outside the general government sector namely in S.12 while HZMO is classified in S.1314.