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Directorate D: Government Finance Statistics (GFS)
Unit D-3: Excessive deficit procedure (EDP) 2

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FINAL FINDINGS

Eurostat technical visit to Serbia

4-5 March 2015

EXECUTIVE SUMMARY

Eurostat carried out a technical visit to the EU candidate country Serbia on 4-5 March 2015. The main objective of the visit was to assess the state of preparedness of the Serbian statistical authorities to compile and report in the future EDP statistics, in line with ESA 2010 and the Manual on Government Deficit and Debt (MGDD) rules. In particular, the visit focused on the data sources used in Serbia to produce public finance statistics, on the institutional setup of the Serbian statistical authorities and on the treatment of a number of methodological issues which are frequently discussed in regular EDP visits to EU Member States. The visit also aimed at familiarising the Serbian statistical authorities with the structure of the EDP tables and the relevant rules for calculating government debt and deficit. The visit resulted in an extensive set of recommendations and measures to be taken by Serbia in the following period.

As regards the institutional responsibilities, it was agreed that the Statistical Office of the Republic of Serbia (SORS) would assume the responsibility for compiling and reporting EDP data to Eurostat. For this purpose, a number of action points were set to assist SORS in this process – action points aiming to enhance the cooperation between institutions, improve SORS's access to source data and also reinforce SORS's capacity and independence. It was also agreed that SORS would prepare a detailed Action Plan, which would include a medium term strategy for the transmission of EDP and GFS statistics on an ESA 2010 basis.

As a key provider of data, the Ministry of Finance (MoF) agreed to improve the quality of fiscal data (ensure complete coverage of units) and to provide data on a disaggregated level to SORS. The National Bank of Serbia (NBS) committed to continue its work on developing financial accounts and also to build up a database for trade credits and advances. Both institutions will assist SORS in any EDP-related matters, including the preparation of a detailed EDP Inventory. SORS, the MoF and the NBS will also agree between themselves which institution will be responsible for the compilation of Maastricht debt.

Eurostat presented and explained in detail the EDP tables that Member States submit as part of each EDP notification. On their side, the MoF presented the data sources currently used in Serbia for fiscal data. These presentations resulted in a fruitful discussion on how SORS could use the MoF data to fill in the EDP tables.

The above mentioned action points and measures would allow SORS to submit to Eurostat, by end October 2015, pilot EDP tables, including a completed Questionnaire table 9.1 on government guarantees.

The participants in the meeting spent considerable time on the issue of the delimitation of the general government sector. It was agreed that the Serbian statistical authorities would send to Eurostat by October 2015 a common list of general government units as well as a common list of market entities controlled by government.

Finally, a number of methodological issues were identified in the meeting and separate action points were set relating to the recording of value added taxes and corporate income taxes, the recording of EU funds in government accounts, as well as to specific government transactions such as debt cancellations, debt assumptions and capital injections.

Eurostat technical visit to Serbia 4 - 5 March 2015

AGENDA

1. **Introduction and overview of EDP statistics work** *(by Eurostat)*
2. **Institutional responsibilities for EDP/GFS data compilation and reporting**
3. **Data sources for EDP/GFS statistics** *(presentation by the Ministry of Finance of the Republic of Serbia)*
4. **Revision policy and EDP Inventory**
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6.4.10. *Others: emission trading permits, sale and lease-back operations, UMTS, securitisations, financial derivatives*

7. Other issues

7.1. ESA 2010 Transmission programme

7.2. Any other business

INTRODUCTION

Eurostat carried out a technical visit to the EU candidate country Serbia on 4-5 March 2015 with the aim to assess the preparatory work of the Serbian statistical authorities in the EDP statistical framework, as well as to review the institutional responsibilities as regards EDP compilation and reporting. In particular, the visit focused on the underlying sources and methods used in Serbia to produce public finance statistics and on the institutional setup of the Serbian statistical authorities. The visit also covered a number of methodological issues such as sector classification of public entities, definition of Maastricht debt, accrual recording, bank recapitalisations, government guarantees, debt assumptions, capital injections, dividends and PPPs.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot (Director of Directorate D "Government Finance Statistics (GFS) and quality"). Eurostat was also represented by Mr Viktor Popov (EDP desk officer for Serbia), Mr Denis Besnard and Mr Peeter Leetmaa. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Delegation of the European Union to the Republic of Serbia also participated in the meeting as observers.

Serbia was represented by the Statistical Office of the Republic of Serbia (SORS), the Ministry of Finance and the National Bank of Serbia.

With regard to procedural arrangements, the Main Conclusions and Action Points will be sent within days to Serbia for comments. Within weeks, the Provisional Findings will be sent to Serbia in draft form for review. After this, Final Findings will be sent to Serbia and published on the website of Eurostat.

Eurostat appreciated the good co-operation with the Serbian statistical authorities as well as the documentation provided before and during the visit.

1. INTRODUCTION AND OVERVIEW OF EDP STATISTICS WORK (BY EUROSTAT)

The Director of the Eurostat's GFS Directorate briefly described the EDP-related procedures, covering in particular the following points:

- Aim of the visit (notably, to review institutional responsibilities, data sources, sector classification issues and the recording of specific government transactions under ESA 2010 rules; to present EDP tables and questionnaires and to agree on a first submission of EDP data from SORS to Eurostat);
- Legal basis for the EDP/GFS (notably ESA 2010, Council Regulation 479, as amended, MGDD, Eurostat decisions and Eurostat guidance notes on methodological issues);
- Eurostat's Inventory of EDP processes (also available in the GFS section of the Eurostat's website): EDP notifications, EDP Inventory, methodological advice to Member States, EDP dialogue visits, the EDP Statistics Working Group, ad hoc information requests by Eurostat, etc.

2. INSTITUTIONAL RESPONSIBILITIES FOR EDP/GFS DATA COMPILATION AND REPORTING

Introduction

Fiscal data in Serbia are compiled and reported by the MoF. Data are reported on the MoF website but so far, EDP tables have not been transmitted to Eurostat.

In the week before the visit, SORS sent to Eurostat an Action Plan for developing GFS in Serbia. The Action Plan included a description of the progress made on ESA tables and the plans for further data transmissions. A small section of the document was dedicated to EDP statistics but no specific measures and deadlines were indicated.

Before the visit, the Serbian statistical authorities also sent to Eurostat a first draft of a Memorandum of Understanding (MoU) signed between SORS, the MoF and the NBS.

Discussion

Eurostat appreciated the documentation provided prior to the visit and thanked the Serbian authorities for the good cooperation and for organising the meeting. Eurostat also congratulated SORS for the good work done on ESA tables within the IPA projects as well as on the implementation of ESA 2010.

Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the compilation of GFS and fiscal data. In particular, Eurostat enquired more in detail on the intention of SORS to start compiling and transmitting EDP tables in the future.

The Serbian statistical authorities described the institutional responsibilities in place for the compilation of fiscal data. Currently, the MoF is in charge of fiscal reporting and all the data are kept at the MoF. The MoF is also responsible for collecting data from the reporting entities.

SORS confirmed its willingness to take over the responsibility for compiling and reporting EDP data to Eurostat. The MoF committed to assist SORS in this process by granting to SORS full access to

data. The Serbian statistical authorities agreed to work together on the strengthening of the administrative capacity of SORS for the production of EDP statistics.

Eurostat stressed that, for a consistent compiling of GFS and EDP tables, SORS should assume full responsibility for the compilation and transmission of both GFS and EDP tables. However, it was agreed that financial accounts would continue to be under the responsibility of the NBS (*see also point 3 of this report*). In this context, Eurostat noted that it would be important that both SORS and the NBS have sufficient resources to cope with the new tasks.

The Serbian statistical authorities explained that SORS, the MoF and the NBS cooperate well among themselves and that representatives from the three institutions meet regularly to discuss on-going matters relating to the compilation of GFS. They also informed Eurostat of their intention to update the existing MoU, in view of the planned extended responsibilities of SORS.

Eurostat stressed that good cooperation between SORS and the MoF is crucial for achieving better completeness and timeliness of budgetary data. Eurostat also welcomed the existence of a MoU concluded by SORS, MF and NBS and supported the planned updating of this document. Eurostat pointed out that it is common practice in the Member States for the National Statistics Offices to sign cooperation agreements with the key co-compilers of EDP data and the main data providers. It also took the opportunity to provide some advice on how to further improve the content of the MoU. In particular, the following points were mentioned:

- The MoU should foresee the establishment of a permanent working group (including participants from the three institutions), which in fact already seems to exist in Serbia;
- The MoU should elaborate on the responsibilities and the role of each institution;
- The MoU should further reinforce the independence of SORS. In particular, the ultimate responsibility for methodological issues should rest with SORS. SORS should be the leading institution, having the final decision on the application of ESA 2010 methodology to Serbian government finance statistics (*for example, on issues related to the sector classification of institutional units*). Furthermore, the MoU should include stronger reference to the European statistical law and the revised Code of Practice in order to reflect the leading role of SORS;
- The MoU should precisely describe the information to be transmitted, together with strict deadlines. The MoU should thus strengthen the institutional arrangements regarding timeliness and completeness of data sources. In particular, the MoF should deliver to SORS complete quarterly and annual budget data (ideally without any adjustments and consolidation) for Central Government, Local Government and Social Security Funds;
- The MoU should clearly mention that all institutions should give SORS real-time access to all relevant primary source data it deems necessary for EDP purposes;
- The MoU should clearly make reference to ESA2010.

Eurostat also encouraged SORS to assess the possibility of signing MoUs with other major source data providers, apart from the MoF and the NBS. In many countries such agreements exist also with the National Audit Offices (NAO). In this context, Eurostat encouraged SORS to develop a closer cooperation with the NAO with respect to upstream data. Finally, Eurostat committed to send to

SORS a document including detailed guidelines for drafting a MoU between the key compilers of GFS.

Eurostat also welcomed the existence of a working group between SORS, the MoF and the NBS and encouraged the three institutions to start the joint work on sector classification of institutional units as soon as possible.

It was also agreed that the Serbian statistical authorities would prepare and send to Eurostat a new Action Plan, which would include a detailed medium term strategy for the transmission of EDP (and GFS) statistics on an ESA 2010 basis. The action plan will provide a description of the actions planned to be undertaken, including a clear timetable. The detailed medium term strategy should cover a number of elements, among which data transmission arrangements, internal reporting processes, work on sector classification of institutional units, reinforcement of human resources capacities, preparation of bridge tables between public accounts and ESA 2010 accounts, etc.

Finally, Eurostat noted with satisfaction the good preliminary work of SORS on some of the GFS tables. Eurostat concluded that a high level of preparedness of SORS for the compilation of EDP data existed and it was agreed that SORS would send to Eurostat a pilot EDP notification in October 2015.

Conclusions

Action point 1. Eurostat will send to SORS, shortly after the technical visit, additional guidelines for drafting a Memorandum of Understanding (MoU) between the key compilers of government finance statistics. The Serbian statistical authorities will update their existing MoU and send a copy of the new document to Eurostat by end June 2015¹.

Action point 2. The Serbian statistical authorities will enhance the cooperation with the National Audit Office (NAO) (the signature of a separate MoU with NAO could be envisaged).

Action point 3. Eurostat recommends that the Serbian statistical authorities meet regularly within the working group (WG) and that they start work on the sector classification of institutional units as soon as possible. The Serbian statistical authorities will draft and send to Eurostat a report on the progress made by the WG by the end of 2015.

Action point 4. The Serbian statistical authorities will prepare and send to Eurostat a new Action Plan, which will include a detailed medium term strategy for the transmission of EDP (and GFS) statistics on an ESA 2010 basis. The strategy should cover a number of elements, among which data transmission arrangements, internal reporting processes, work on sector classification of institutional units, human resources capacities, bridge tables between public accounts and ESA 2010 accounts, etc. The strategy should also include a clear time-table for each of these elements. Deadline: end October 2015.

Action point 5. Eurostat welcomes the willingness of SORS to assume the responsibility for compiling and sending EDP tables as soon as possible. In this context, Eurostat recommends that SORS and NBS are provided with adequate resources for the compilation of government non-financial and financial accounts respectively.

¹ Eurostat sent to SORS the additional guidelines on 25 March 2015.

Action point 6. As a pilot exercise, SORS will submit to Eurostat the EDP tables and Questionnaire table 9.1 on government guarantees (completed on a best effort basis) by the end of October 2015.

3. DATA SOURCES FOR EDP/GFS STATISTICS (*PRESENTATION BY THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA*)

Introduction

Before the visit, the Serbian statistical authorities sent to Eurostat a short description of their data sources.

Government finance statistics in Serbia are compiled and reported on a monthly basis by the MoF. The main data sources are the Treasury and budgetary execution reports of the spending ministries and first-level budget units (*cash-based data sources*), financial reports for the social security funds and annual financial statements (*when available*).

Currently, SORS is faced with two major problems regarding data sources – the timeliness of data transmission and the completeness of budget data for all three sub-sectors. With respect to timeliness, a major problem is that the budget execution report, which provides data on government revenues and expenditure, is only available in mid-July which is too late for the first transmission of EDP and ESA tables in a given year.

Another issue relates to data consolidation – data in the budget execution report are consolidated (*no breakdown by government sub-sectors*), which disables SORS to calculate data on main aggregates by sub-sectors of the general government sector.

Moreover, financial statements seem to be only available for only one part of Central Government bodies, notably indirect budgetary users – units, which are financed from the budget through direct budgetary units (direct budgetary units such as ministries, etc.). Financial statements of indirect budgetary users are only available in April-May for the previous year, which is also a problem in the context of the EDP notifications timetable.

Discussion

The Macroeconomic and Fiscal Analyses and Projections Department at the MoF made a detailed presentation of the data sources used for the compilation of GFS. Fiscal data in Serbia cover Central Budget and Social Security Funds, Extra-budgetary funds, Local Government and the so-called project loans at all levels of government. The Central Budget includes direct (first line) and indirect (second line) budget users. Social Security Funds consist of the Pension Fund, the Health Fund, the Unemployment Agency and the Military Social Security Fund. Extra-budgetary funds currently include Putevi Srbije and Koridori Srbije, which are in fact public corporations classified inside general government. Local Government consists of cities, municipalities and the autonomous province of Vojvodina, including first line and second line budget users, as for Central Government.

Concerning the project loans, the Serbian authorities explained that some of these project loans are not recorded in the government budgets. Nevertheless, additional data are collected for the missing project loans and they appear in the consolidated budget of general government.

Eurostat noted that in national accounts loans should normally be treated as financial transactions, without any impact on net borrowing/net lending of general government. The only exception to this rule would be when there is evidence that the debtors would not be in a position to repay these loans – in this case the "loans" should be treated as capital transfers, impacting negatively the government deficit.

Putevi Srbije is the public entity in charge of the maintenance of the Serbian road network. It is financed through road tolls, loans and subsidies from the budget. Koridori Srbije is the entity responsible for building the road infrastructure in Serbia. It is financed through loans, which appear as a direct liability of the government. The two entities are expected to merge in 2015.

It was made clear during the meeting that the coverage of the general government sector was not yet complete. A number of extra-budgetary funds remain classified outside general government and an analysis should be performed in order to determine their appropriate sector classification (*see action point 15 under point 6.2*). In particular, it is worth checking the sector classification of the independent agencies, the regulatory bodies, some public entities and the science and research institutes.

The MoF further explained that second line budget users (at all levels of government), although part of general government, are not fully integrated in the Treasury system for budget execution. Data on these second line budget users are thus only available on an annual basis, when their financial statements are prepared (*available in April-May for the previous year*).

Concerning data sources, the Treasury Administration collects data for the Republican budget and for Local Government (except for data of the autonomous province of Vojvodina). Data on project loans are available at the Public Debt Administration. Data on revenue and expenditure of Social Security Funds, Extra-budgetary funds (Putevi Srbije and Koridori Srbije) and Vojvodina are available in their respective financial reports. Budget users report according to a common Chart of Accounts, while public corporations in Serbia follow the IFRS.

Eurostat enquired about the nature of some specific items in the consolidated general government budget. The financial part of the consolidated general government budget shows an item called "acquisition of financial assets" ("Набавка финансијске имовине"), which does not have any impact on the deficit. Eurostat enquired whether this item also includes the impact from the bank recapitalisations which had taken place in the previous years. The Serbian authorities explained that this item might include some amounts related to bank recapitalisations, but only equity injections made to profitable banks. In general, they treat bank recapitalisations as deficit-increasing non-financial transactions, except for equity injections to profitable banks – this was, for example, the case of the recapitalisation of the Commercial Bank ("Komercijalna banka") in 2012, which was treated as a financial transaction, without any impact on the deficit.

Eurostat also enquired about the line "net budget loans" ("Нето буџетске позајмице"), which appears as an expenditure item in the consolidated general government budget, affecting thus the general government deficit. The Serbian authorities explained that this item mostly refers to subsidies in the form of loans for public policy purposes. Eurostat recalled that loans should normally be treated as financial transactions in national accounts, unless there is an evidence that the loan will not be reimbursed. However, the Serbian statistical authorities further clarified that this item

also includes amounts related to bank recapitalisations of loss-making banks – this was, for example, the case for Agrobanka, Privredna banka and Razvojna banka Vojvodine in 2012.

As for the expenditure item "Activated guarantees", the Serbian authorities explained that it relates to both principal and interest payments on activated government guarantees on public corporations' debt. Eurostat explained that, under national accounts rules three repetitive guarantee calls (in three different years) lead to a debt assumption in government accounts, which results into an increase in government debt and a simultaneous capital transfer for the amount of the outstanding guaranteed debt. Any subsequent repayments of the principal made by government are then treated as financial transactions, without any impact on government deficit, while accrued interest affects the deficit figures.

The Serbian authorities explained that they do not follow the "three repetitive guarantee calls" rule in their public accounts but, instead, they apply a more conservative approach which consists in recording a debt assumption with the first guarantee call. However, they only account for the increase in government debt, without recording a capital transfer at the time of the debt assumption, which, according to them, is not in line with national accounts rules.

Eurostat insisted again on the importance of the good cooperation between SORS and the MoF regarding data sources and their availability. The MoF committed to assist SORS in the provision of annual and quarterly source data for GFS. The two institutions will also address the issue of timeliness of data sources (*late delivery of the data*) as well as the issue of consolidation of budget data (*SORS cannot currently compile aggregates by sub-sectors because data in the budget execution report are consolidated*).

It was also explained in the meeting that both the MoF and the NBS keep public debt data. It was agreed that the Serbian statistical authorities would decide between themselves who would be responsible for Maastricht debt compilation (*for more information on the compliance of the Serbian general government debt with Maastricht debt definition, please refer to point 6.1*).

The NBS committed, on its part, to continue developing and compiling financial accounts, giving priority to the general government financial accounts and in particular to ESA tables 6 and 7. The compilation of quarterly and annual financial accounts will also serve as a counter-check to the non-financial data compilation. In addition, the NBS committed to develop data sources on trade credits and advances for the information requested in EDP table 4².

Finally, the Serbian statistical authorities noted that, in line with the Constitution of the Republic of Serbia, public finance data in Serbia should also include data from Kosovo.

Conclusions

Action point 7. The Ministry of Finance (Treasury) will provide data on a disaggregated level to SORS which would allow the Statistical Office to identify separate subsectors for the pilot October 2015 EDP Notification.

² There are no data on trade credits in the Chart of Accounts for the period up to 2014. However, data on trade credits are reported by non-financial corporations and other entities in the Chart of Accounts and in a separate statistical annex starting from 2014.

Action point 8. The Ministry of Finance will include in their sources, data on all Extra-Budgetary Funds (including those for which Treasury has never received data) and other missing units in preparation for the EDP Notifications. These data must be in principle available on time for both the April and the October EDP Notifications. Deadline: April 2017.

Action point 9. The NBS will develop general government financial accounts, giving priority to ESA tables 6 and 7 (the parts which relate to the general government sector). Deadline: October 2015.

Action point 10. Eurostat welcomes the initiative of the NBS to launch, in 2015, a survey on trade credits and advances. Based on the results of the survey, the NBS will develop data sources on trade credits and advances (AF.81) as defined in ESA 2010. Deadline: April 2016.

4. REVISION POLICY AND EDP INVENTORY

Introduction

Before the visit, Eurostat received from SORS a short description of their revision policy as regards GDP.

Discussion

Eurostat explained that revisions of data between the first and the second EDP notifications are quite common in the countries submitting EDP tables. Generally, all EDP data are subject to revisions as new information is incorporated. Such revisions are usually the result of updated data sources, audit findings or quality improvements in methodology. Most countries do have a formalised revision policy, which should be aligned with revision policies applied in the Central Banks or Ministries of Finance.

Eurostat also explained that all EU Member States are required to complete and publish on their websites the EDP Inventory, which is a detailed and comprehensive representation of the methods, procedures and sources used by the statistical office of a country for the compilation of deficit and debt data and the underlying government sector accounts. Member States are required to update their existing EDP Inventories (currently still based on ESA 95) for the implementation of ESA 2010 by the end of 2015. The individual countries' EDP inventories are also published in the GFS section of the Eurostat's website.

It was agreed that Eurostat would send to SORS a template of the new ESA 2010 based EDP Inventory, so that the statistical office could start working on it as soon as possible, in close cooperation with the MoF and the NBS.

Conclusions

Action point 11. Eurostat will send to SORS the new template of the EDP Inventory, which includes detailed instructions for its completion. Eurostat recommends that SORS starts working, in close

cooperation with the MoF and the NBS, on the completion of the EDP Inventory. Deadline: as soon as possible³.

5. PRESENTATION OF EDP TABLES AND THE RELATED QUESTIONNAIRES (BY EUROSTAT)

Introduction

Before the visit, SORS provided a pilot EDP table 2, broken down into four separate tables – for general government, Central Government, Local Government and Social Security Funds. The data covered the period from 2007 to 2012.

The following could be noted:

- For Local Government and Social Security Funds, the working balance was different from zero only in 2012;
- There were no adjustments made to exclude any potential financial transactions from the working balance;
- Accrual adjustments were only made on the revenue side (taxes and social contributions);
- There were very few other adjustments, mainly related to the inclusion of data of public entities which are part of general government, but no adjustments for capital transfers, super-dividends and other non-financial transactions impacting government deficit.

Discussion

Eurostat noted that there is no need to report a separate EDP table 2 for general government as a whole. EDP tables 2 should be reported only for the sub-sectors of general government - Central Government, Local Government and Social Security Funds. Eurostat agreed with the Serbian statistical authorities that the autonomous province of Vojvodina does not qualify for a State Government and should be reported as part of Local Government.

Eurostat explained that it is essential that all steps from the working balance to the net borrowing/net lending are shown and prepared in line with ESA 2010 rules. This must be done in parallel to the compilation of ESA table 2, so that consistency between EDP tables and ESA table 2 is ensured.

Eurostat further explained the main types of adjustments to the working balances in EDP tables 2 that SORS should consider. Most importantly, SORS should be able to identify any financial transactions in the working balance, remove them from the working balance and show the corresponding adjustments under the appropriate adjustment lines. It was clarified that privatisation proceeds, proceeds from loan repayments, proceeds from loans received as well as repayments of loans received are excluded from the calculation of the deficit in the pilot EDP table 2 provided by SORS before the visit.

Eurostat gave a detailed presentation of EDP tables, explaining line by line each individual table. Eurostat draw the attention of SORS to the fact that it should be fully aware of the items included (or not included) in the working balance. SORS should either ensure full coverage of units in the working

³ Eurostat sent to SORS the new template of the EDP Inventory (including the Annex and the instructions for its completion) on 6 May 2015.

balances of the three separate sub-sectors or make the necessary adjustments in the appropriate lines of the tables, in order to ensure full coverage of units. In any case, the data should be available in time for the EDP notifications.

Eurostat also explained the logic of EDP tables 3 and their link with EDP tables 2. Finally, Eurostat went through the different items which are required in EDP table 4.

Conclusions

Based on the presentation made by Eurostat and the following discussion on EDP tables, SORS will compile and submit EDP notification tables on a best-effort basis in October 2015.

6. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

6.1. Compliance of the Serbian general government debt with Maastricht debt definition

Introduction

The national definition of the Serbian public debt includes both "direct" and "indirect" debt, indirect debt referring to guarantees issued by general government. Local Government reports its debt level to the MoF every month and is included in the national definition of public debt. Social Security Funds cannot raise debt (*with some exceptions – financing of capital expenditure or financing the purchase of medicaments, subject to limitations*).

Discussion

Eurostat explained the Maastricht debt concept and pointed out that it should not include government guarantees, which are considered as contingent liabilities in national accounts. Furthermore, Maastricht debt should not include any accrued interest (*some exceptions are foreseen in the MGDD*), should be reported on a consolidated basis and should also include debt of public corporations which have been reclassified in general government. The general government sector delineation should be the same for both Maastricht debt and government net borrowing/lending (*see next point on the delimitation of general government*).

The Serbian authorities noted that accrued interest is not included in their public debt figures. They also explained that one part of government debt is issued in foreign currency (*an example was given for Serbian Railways' liabilities in Swiss francs*). However, there is no practice of hedging foreign exchange risk. The Serbian statistical authorities also confirmed that project loans are included in the total of government's direct liabilities.

The NBS committed to identify any loans and interest flows between sub-sectors and ensure thus proper consolidation of general government debt for the pilot October 2015 EDP Notification. The NBS also confirmed that there are no loans from Central Government to Social Security Funds. Although there are no direct loans from the central budget to Local Government, such loans might be granted through the Serbian Development Fund.

Finally, as already mentioned under point 3 of this report, both the MoF and the NBS keep public debt data. It was agreed that the Serbian statistical authorities would decide between themselves who would be responsible for Maastricht debt compilation.

Conclusions

Action point 12. The Serbian statistical authorities will agree among themselves on the responsibility for the compilation of general government debt for EDP purposes. Deadline: October 2015.

Action point 13. The NBS will check if there are loans between subsectors in order to ensure proper consolidation of general government debt in the pilot October 2015 EDP Notification. Deadline: June 2015.

6.2. Delimitation of general government sector, 50% rule and qualitative criteria

6.2.1. *Registers of general government units*

Introduction

In the week before the visit, the Serbian statistical authorities sent to Eurostat two lists of general government units – one prepared by SORS and the other by the NBS. Although both lists were based on the Treasury list of budget users, there were significant differences between the two lists as regards the number of institutional units included. The list prepared by SORS was based on the application of the market/non-market test (50% test) for the delimitation of the general government sector, but did not provide a breakdown by sub-sectors.

Discussion

Eurostat pointed out that it is crucial that the Serbian statistical authorities agree on a common list of general government units which will be used for EDP reporting. The preparation of a register of general government units should be a joint process between the three institutions.

As already pointed out under point 2 of this report, SORS should in principle be the institution with the competence in the application of the national accounts methodology. Similarly, in the case of disagreements relating to the sector classification of a particular unit, the final decision should be taken by SORS. Eurostat also noted that, in case of doubts, SORS could consult Eurostat.

Conclusions

It was agreed that the Serbian statistical authorities should consider the work on delimitation of the general government sector as an absolute priority.

6.2.2. *Register of entities controlled by general government*

Introduction

Before the visit, the Serbian statistical authorities completed and provided to Eurostat the Questionnaire on government controlled units classified outside general government. The data referred to the year 2013 (*for some units, however, data for 2012 were provided*) and the liabilities and the operating profit/loss from business accounts were used.

Discussion

Eurostat thanked the Serbian authorities for completing and sending the questionnaire.

Eurostat enquired about the negative sales/production costs ratios reported for some particular units as well as about some borderline cases which showed results close to the 50% threshold.

Eurostat also explained the difference between subsidies on products (part of sales for the purpose of the 50% test) and subsidies on production (not part of sales).

It was agreed that SORS would re-examine the results of the 50% test, in particular for those units which show negative results. Particular attention should be paid to the calculation of the "net interest charge" and more specifically to the item "interest revenue" – Eurostat explained that only interest should be included in this item, excluding, for example, any revaluation effects.

Conclusions

Eurostat recommended that SORS creates and maintains a register of all government controlled entities, taking into account the format used in the Questionnaire on government controlled units classified outside general government. It should also build up a register of general government units and for that purpose SORS should establish written procedures for the (re)classification of entities, including public corporations.

6.2.3. Review of specific units (railway, motorway, transportation companies, airports, ports, public utility companies, public hospitals, etc.)

Introduction

The public entities Putevi Srbije and Koridori Srbije are already part of general government. However, there may be other public corporations which will have to be reclassified inside general government.

Discussion

The Serbian statistical authorities explained that public hospitals in Serbia are classified in Central Government and Local Government. Public hospitals are financed from the Health Fund.

The Serbian statistical authorities further explained that schools in Serbia are mainly financed from Central Government. Universities are indirect budget users, although some of them pass the market/non-market test (*i.e. are classified outside general government*) when fees are counted as sales.

Eurostat noted that the fees might be treated in some cases as taxes and thus not be part of sales. On the other hand, some universities may well have autonomy of decision and may well be considered as market units, especially if universities compete between themselves.

During the discussion a number of units were identified which might be worth checking for their sector classification: the Deposit Insurance Agency, the National Mortgage Insurance Corporation, the Market Regulatory Agencies, some faculties of universities (*if these faculties could be indeed considered as separate institutional units*), etc.

As regards the National Mortgage Insurance Corporation, the Serbian statistical authorities explained that its main activity is granting mortgage loans. It is currently not part of general government and is mainly financed by premiums paid by households.

Conclusions

Action point 14. SORS will examine the results of the market/non-market test (the 50% test) for the public corporations showing negative or unrealistically big ratios. It will also include subsidies on products (as opposed to subsidies on production) in the numerator of the ratio and rerun the test (see paragraphs 3.33 and 4.35-4.37 of ESA 2010). Deadline: October 2015.

Action point 15. SORS will analyse the sector classification of the Deposit Insurance Agency, the National Mortgage Insurance Corporation, the Market Regulatory Agencies as well as the faculties which receive significant amounts of fees from students and send the results of the analysis to Eurostat by October 2015.

Action point 16. Eurostat recommends that, within the working group composed of the GFS co-compilers, SORS should have the final say on the sector classification of institutional units.

Action point 17. The Serbian statistical authorities will agree on a common list of general government units as well as on a common list of market entities controlled by government (essentially public corporations) and report these lists to Eurostat by October 2015.

6.3. Implementation of the accrual principle

6.3.1. *Taxes and social contributions*

Introduction

Before the visit, SORS sent to Eurostat ESA table 9, including the national tax list. SORS also sent for the first time the completed Questionnaire on taxes and social contributions.

The Serbian statistical authorities implement the time-adjusted cash method for recording most of the taxes (*except for capital taxes and some other small taxes on a cash basis*). Social contributions have also been time-adjusted. One-month time-lag adjustment is used for value added taxes (VAT), personal income taxes (PIT) and social contributions.

The main providers of data on taxes are the Treasury Administration, the Tax Administration Office and the Customs Office.

VAT rate in Serbia is 20% (*a special rate of 10% applies for certain goods and services*). According to the Serbian Law on VAT, the tax liability is calculated and paid monthly or quarterly, 15 days after the referent month or quarter.

All taxes and duties on imports excluding VAT have to be paid within 21 days, therefore a one month time adjustment seems appropriate in this case. Customs duties are also time-adjusted.

The payment of the excise duties is performed twice a month: no later than the 15th of the month for the liabilities calculated for the period from 16th to the end of the previous months, and no later than the last day of the month for the liabilities calculated in the period 1st to 15th of the current

month. Having no possibility to identify separately these payments, SORS applies a one month time adjustment for excise duties.

Serbia applies a 15% corporate income tax (CIT). During the year, the companies make advance payments monthly, in accordance with the previous year business result. The final tax liability is determined at the end of March, when the difference between the advance payments and the actual final liability must be paid. Considering this, a three month time adjustment is made for the final settlement. However, in 2014, the deadline for determination of the final tax liability has been changed to the end of June.

PIT are paid monthly for the liability occurred in the previous month. Therefore, the one month time adjustment is appropriate in this case.

Social contributions are paid simultaneously with wages and salaries. Therefore, the Serbian statistical authorities decided to apply a one month time adjustment for social contributions, as for PIT.

Discussion

The Serbian statistical authorities explained their rationale for applying the time-adjusted cash method and justified the time-adjustment lags used for the different types of taxes.

Eurostat enquired about the recording of reimbursements of VAT in national accounts. The Serbian statistical authorities explained that, in some cases, significant delays might occur in the reimbursement of VAT. The Serbian authorities will further investigate the statistical implications of these delays.

Concerning CIT, as the deadline for determination of the final tax liability has been changed to the end of June, it was agreed that SORS will reflect on introducing estimates for the April notifications.

Conclusions

Action point 18. As regards the issue on the late reimbursements of VAT, SORS will follow the monthly pattern of refunds and check if any substantial changes occur between months.

Action point 19. SORS will estimate the Corporate Income Tax adjustment which has to be made in the April notifications (in case this adjustment is significant). Deadline: April 2016.

6.3.2. Interest

Introduction

It was agreed before the meeting that Eurostat would make a presentation on the recording of interest.

Discussion

Eurostat gave a detailed presentation on the recording of interest in national accounts. Eurostat explained that interest should be reported on an accrual basis and consolidated within general government (*for the calculation of interest for general government*) and within sub-sectors (*for the*

calculation of interest for each sub-sector). Payments of interest are treated as financial transactions, while accrued interest is considered as automatically reinvested under the financial instrument⁴ and is recorded as a non-financial transaction. For national accounts purposes, the "debtor approach" for calculating accrued interest is used – the initial interest rate on the principal at the time of the creation of the financial instrument is applied. Eurostat also reviewed the treatment of interest on specific financial instruments, providing numerical examples.

Conclusions

The Serbian statistical authorities took note that interest should be reported on an accrual and consolidated basis. Eurostat recommended that interest is calculated on an instrument-by-instrument basis.

6.4. Recording of specific government transactions

6.4.1. *Government operations relating to the financial crisis*

Introduction

The Serbian government was involved in the resolution of several public banks. Despite the rather stable, well capitalised and profitable banking sector, weak management resulted in the failure of two state-owned banks in 2012. The resolution of these banks came at a significant fiscal cost.

Discussion

Eurostat explained the treatment of defeasance structures in national accounts. In particular, when there is evidence that government is assuming all or the majority of the risks and rewards associated with the activities of a government-controlled defeasance structure, this structure should be classified in general government, either from its creation or reclassified. Also, when the reclassification implies a transfer of assets for an amount higher than the market value that can be independently estimated, the difference should be considered a capital transfer, with the assets added to the government balance sheet at market value.

The Serbian statistical authorities explained that, apparently, there were some cases of public defeasance structures in the past.

Conclusions

The Serbian statistical authorities will check cases of public defeasance structures which occurred in the past and report such cases to Eurostat.

6.4.2. *Government guarantees (one-off and standardised), guarantee calls*

Introduction

Before the visit, the Serbian statistical authorities provided detailed information on the companies currently benefitting from government guarantees. Eurostat also received the list of government

⁴ However, it is worth noting that Maastricht debt is valued at face value, excluding accrued interest (for most instruments).

guarantee calls in 2014 and the list of repayments on called and non-called guarantees in the period 2011-2014. The government seems to be quite active in servicing called government guarantees.

Discussion

Eurostat explained the treatment of government guarantees in national accounts, focusing on the "three repetitive calls" rule. Eurostat explained that under national accounts rules three repeated guarantee calls would lead to recording of the total outstanding debt under guarantee of the entities involved as government debt. As a matter of principle, whenever it is established to be unlikely that the debtor will repay its government guaranteed debt, the whole outstanding amount of debt should be deemed to be assumed by government.

Eurostat also explained that no government claims on debtors on exercised government guarantees should be recorded in national accounts. No such assets are recognised in national accounts, even if some countries could record such claims in their public accounts.

The Serbian statistical authorities explained that, according to law, Local Government and Social Security Funds cannot grant guarantees. They took note of the "three repetitive calls" rule and explained that, in fact, they record in public accounts an increase in debt with the first guarantee call. However, so far no corresponding capital transfers have been booked at the time of the debt assumption.

Eurostat also explained the difference between one-off and standardised guarantees in national accounts. The Serbian statistical authorities explained that the government does not guarantee any student loans or mortgage loans made by private banks. The government itself directly grants loans to students.

Conclusions

For the October 2015 EDP Notification, the Serbian statistical authorities will apply the national accounts rules for the recording of activated government guarantees - debt assumption after three consecutive guarantee calls, which leads to an increase in government debt and a simultaneous capital transfer to the beneficiary of the guarantee. Reimbursements of debt assumed by government should be split into reimbursements of principal (financial transaction) and accrued interest (non-financial transaction).

6.4.3. Recording of EU flows

Introduction

The EU has provided financial assistance to Serbia under the Instrument for Pre-accession Assistance (IPA) for the period 2007-2013, with a total allocation to Serbia of EUR 1.4 billion. Serbia will continue to benefit from pre-accession assistance for the period 2014-2020 with a total indicative allocation of EUR 1.5 billion.

Discussion

Eurostat briefly explained the rules for the recording of EU flows in national accounts, emphasizing that these should not impact net borrowing/net lending except for the amounts of national co-

financing. There should be no impact on the deficit/surplus of government arising from timing differences between the moment of the expenditure and the moment of a government pre-financing or the moment of effective payment by the EU. Those differences should instead be reflected in the financial accounts.

Eurostat asked the Serbian statistical authorities about their data sources for EU funds. Eurostat explained that, for individual projects, the available data sources should enable the identification of the EU and of the national co-financing components. Ideally, the compilers of GFS data should be in a position to distinguish between advances and reimbursements from the EU.

Conclusions

Action point 20. The Serbian statistical authorities will find out which entity is responsible for IPA funds in Serbia. Deadline: June 2015.

6.4.4. Recording of military equipment procurement

Introduction

Eurostat did not have any preliminary information on military expenditure in Serbia.

Discussion

Eurostat briefly presented the ESA 2010 rules for recording military expenditure. Eurostat stressed that military expenditure should be recorded on a delivery basis – the time of recording should correspond to the moment when the military equipment is delivered to government.

SORS explained that data on military expenditure are kept at the Ministry of Defence. However, due to confidentiality reasons, detailed data may not be easily accessible to SORS. On the other hand, the Serbian authorities noted that data on military expenditure is also available in the budget law.

Conclusions

SORS will enhance its cooperation with the Ministry of Defence in order to obtain full access to data on military equipment procurement.

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

Introduction

Serbia inherited a large share of the former Yugoslavia's external debt. One significant part of this debt was written off by the Paris Club.

Discussion

Eurostat explained the treatment in national accounts of debt assumptions, debt cancellations and write-offs. A debt assumption is normally a debt-increasing and deficit-increasing transaction⁵. The debt assumption should be booked at the time the debt is formally removed from the original debtor's balance sheet. Debt cancellations should be recorded in EDP tables as capital transfers

⁵ There are several exceptions to this rule (please refer to sub-section VII.2.2.2 of the MGDD).

(expenditure) from government to the beneficiaries from the debt cancellations. Regarding debt write-offs, Eurostat explained that these operations are usually associated to the disappearance of units (liquidations), when the claim can no longer be collected. Debt write-offs should be recorded through other changes in volume of assets and would thus not impact government deficit.

Conclusions

Action point 21. The Serbian statistical authorities will check if the principal amount of the debt to the Paris Club has been reduced and how this reduction of principal, if any, was recorded in public accounts. Deadline: April 2015⁶.

Action point 22. As regards debt assumptions, SORS will ensure that, in the pilot October 2015 EDP Notification, capital transfers will be recorded at the time of the debt assumption by government. At the same time, any claims of government recorded in public accounts resulting from debt assumptions should not appear in national accounts.

6.4.6. Capital injections in public corporations

Introduction

The Serbian statistical authorities provided in the meeting a list of capital injections (*in cash*) made by government in 2011-2014 into public corporations, with an indication of which of these public corporations were profit or loss-making.

Discussion

Eurostat explained the "capital injection test" and the rules for recording an equity injection as a financial transaction (neutral to the deficit) or as a non-financial transaction (deficit-increasing capital transfer). It was made clear that any capital injections intended to cover accumulated losses should be treated as capital transfers. Eurostat noted that, in some cases, the amount of the capital injection may exceed the accumulated losses – in such cases, the part of the capital injection which exceeds the losses could be treated as a financial transaction, provided there is clear evidence that the beneficiary company will become profitable in the future. In such cases Eurostat also advised the Serbian statistical authorities to examine the business plans of the companies.

The MoF explained that they record capital injections to profitable entities as financial transactions, whereas capital injections to loss-making entities are recorded as non-financial transactions. An example was given with the capital injection made to Commercial Bank ("Komerčijalna Banka") in 2012. This bank was profitable for both 2011 and 2012 and the capital injection was recorded as a financial transaction, without any impact on deficit. On the other hand, capital injections were also made to three loss-making banks in 2012 – Agrobanka, Privredna banka and Razvojna banka Vojvodine; these capital injections were treated as capital transfers, impacting thus the 2012 government deficit.

Eurostat concluded that the treatment applied by the MoF is broadly in line with the MGDD rules. In relation to the capital injections as reported in the table received during the visit, it was agreed that the Serbian statistical authorities will send to Eurostat additional information on the operating

⁶ Action point completed.

profit/loss of the companies for the previous three years. Eurostat also noted that business plans and future profit or loss expectations should also be taken into consideration when analysing capital injections.

Conclusions

Action point 23. To complement the table on capital injections which was provided by SORS during the meeting, the Serbian statistical authorities will send additional information on operating profits/losses for the previous three years and provide a short note justifying the recording of these capital injections as government expenditure (capital transfers, D.9) for profitable companies. Deadline: June 2015.

6.4.7. Dividends and super dividends

Introduction

During the visit, the Serbian statistical authorities provided a list of dividends paid to government by both public and private corporations in 2011-2014 without, however, an indication of the previous year operating profit (or loss) of these public corporations (*operating profit/loss was only provided for the year 2013*).

Discussion

Eurostat explained the difference between dividends and super-dividends and in particular that government proceeds from sale of assets or from reserves of public companies should not be treated as dividend revenue. Eurostat also explained that, for the purpose of the super-dividend test, information on previous year operating profit (or loss) of the dividend paying entities is required.

Eurostat also noted that dividends paid out of nominal holding gains (of the NBS, for example) should be treated as super-dividends (financial transaction without any impact on government deficit).

Finally, Eurostat noted that there is no need to perform the super-dividend test for private companies.

Conclusions

SORS will introduce a regular monitoring of dividends paid to government by public corporations and by the NBS against profits from which they were distributed, following the rules for the super-dividend test.

6.4.8. Public-Private Partnerships (PPP) and concessions

Introduction

There is a PPPs and concessions law in Serbia, even though the definition of a PPP in the legislation differs from the national accounts concept of PPPs. The entity responsible for PPPs and concessions in Serbia is the Commission for public-private partnerships.

Discussion

Eurostat explained the treatment of PPPs and concessions in national accounts. In national accounts, PPPs are defined as long-term contracts between government and a private (or public) partner for the provision of services linked to infrastructure, where the government is the main payer for the services provided. In contrast, in a concession, the main payers are the final users of the infrastructure. The main statistical issue under consideration is whether the infrastructure assets should be recorded on the government balance sheet or on the private partner balance sheet. Eurostat explained that the decision on the classification of the assets would depend on who bears the majority of the risks associated with these assets. Three types of risks are considered for this purpose – construction risk, availability risk and demand risk. Eurostat also noted the existence of other important features of PPP contracts which might be important for the risk analysis – termination clause, government financing, government guarantees, etc.

The Serbian statistical authorities informed Eurostat that most of these projects in Serbia would correspond to concessions.

Conclusions

Eurostat concluded that SORS should analyse each individual case and consult Eurostat, if needed. SORS should have full access to PPP contracts and should preferably establish a procedure for analysing possible PPPs.

6.4.9. Privatisation

Introduction

During the last years, a number of privatisations have been undertaken in Serbia.

Before the visit, SORS provided to Eurostat detailed data on privatisations from the Privatisation Agency.

Discussion

Eurostat explained the treatment of privatisation proceeds in national accounts. It also explained the difference between direct and indirect privatisation of financial and non-financial assets. Only in the case of a direct sale of a non-financial asset revenue could be recorded in government accounts. In all other cases, privatisation operations should be treated as financial transactions.

The Serbian statistical authorities confirmed that privatisation proceeds from financial assets are not recorded as revenue in the Serbian public accounts. Also, they informed Eurostat that sales of non-

financial assets by government had occurred, for example sales of fixed assets by the Ministry of Defence.

Conclusions

Eurostat took note of the explanations provided by the Serbian statistical authorities.

6.4.10. Others: emission trading permits, sale and lease-back operations, UMTS, securitisations, financial derivatives

The Serbian statistical authorities confirmed that the Serbian government had not been involved in any swaps related or securitisation operations.

Eurostat reviewed the rules for recording of the proceeds from sales of mobile phone licences. It was clarified that a licence could be recognised as an asset only if the holder of the licence should be able to transfer it to a third party. In such cases government revenue should be recorded for the full amount of the sale at the time when the buyer can start using the licence. If the licence cannot be recognised as an asset, rent payments should be recorded and spread over the lifetime of the licence. The Serbian statistical authorities will further investigate this issue.

7. OTHER ISSUES

7.1. ESA 2010 Transmission programme

Introduction

Before the visit, SORS presented its intention relating to future transmissions of data and in particular for annual and quarterly financial accounts.

Serbia has officially provided ESA table 9 (detailed tax and social contribution receipts by type and receiving sub-sector) and the national tax list for 2005-2013 based on ESA2010; this is expected to be disseminated along with other countries' data. Serbia has also provided ESA table 2 in the context of the IPA2011 project as a pilot transmission.

As regards ESA table 25 (quarterly non-financial accounts for general government), data series from the 1st quarter 2005 onwards should be provided by the end of 2017, while the whole data series (from 1999Q1 onwards) should be available by the end of 2018.

ESA table 11 (general government expenditure by function) – data on group level (COFOG 2) from 2005 onwards should be expected by the end of 2017. Full compliance (from 1995 onwards) is expected by the end of 2018.

Discussion

Eurostat congratulated once again SORS for the good work on ESA tables.

Conclusion

The Serbian statistical authorities will continue the work on ESA tables.

7.2. Any other business

No other issues were discussed in the meeting.

List of participants

Name	Institution
1 Mr Andra Milojić, Assistant Director	Statistical Office of the Republic of Serbia
2 Ms Vesna Simonović	Statistical Office of the Republic of Serbia
3 Mr Marko Pejić	Statistical Office of the Republic of Serbia
4 Ms Suzana Karamarković	Statistical Office of the Republic of Serbia
5 Ms Biljana Savić, Assistant Director	National Bank of Serbia
6 Ms Jelena Maravić	National Bank of Serbia
7 Ms Ivana Vasić	National Bank of Serbia
8 Mr Tomo Vujović	National Bank of Serbia
9 Mr Vuk Kustudić	National Bank of Serbia
10 Ms Jelena Rančić, Assistant Minister	Ministry of Finance
11 Mr Ognjen Jančić	Ministry of Finance
12 Ms Ljubica Matić	Ministry of Finance
13 Mr Dejan Eremija	Ministry of Finance
14 Mr Miroslav Bunčić	Ministry of Finance
15 Ms Mirjana Milićević	Public Debt Administration
16 Mr Oliver Minić	Public Debt Administration
17 Ms Zorica Đuričić	Treasury Administration
18 Ms Olga Kostić	Treasury Administration
19 Ms Ivona Živić	EU Delegation in Serbia