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**Unit D-2: Excessive deficit procedure 1**

Luxembourg,

## **FINAL FINDINGS**

### **Technical visit to Bosnia and Herzegovina**

**12-14 November 2019**

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## **Executive summary**

Eurostat undertook a technical visit to Bosnia and Herzegovina (BiH) on 12-14 November 2019 with the aim to review the institutional responsibilities in the compilation and reporting of GFS and EDP data, to assess progress and facilitate the preparatory work of the statistical authorities in the EDP and GFS statistical framework as well as to discuss the application of ESA 2010 rules in the delimitation of the government sector, the definition and valuation of government debt for EDP purposes, accrual recording, the recording of government guarantees, capital injections, etc.

Eurostat reviewed the institutional responsibilities in the framework of the reporting of EDP and GFS data. The discussion largely focused on the steps to be taken by the BiH statistical authorities in order to ensure a functioning and effective cooperation among members of the inter-institutional working group, in particular by an exchange of information and intensive communication about statistical compilation issues and data sources. A publication of the list of general government units and establishing a procedure for its regular update was mentioned as a key priority.

Availability of data for GFS/ EDP compilation was also discussed. The BiH statistical authorities were encouraged to formalise the data collection for public units. The Ministry of Finance of Republika Srpska was invited to resume the transmission of quarterly data for local government to the Central Bank of Bosnia and Herzegovina.

Eurostat appreciated progress achieved in the compilation of the EDP tables and recommended to the BiH statistical authorities to implement adjustments discussed during the meeting.

As concerns the transmission of ESA tables, the BiH statistical authorities were encouraged to transmit whole time series, including revisions. A short note on COFOG compilation was requested. The BiH authorities also committed to provide to Eurostat the quarterly Maastricht debt in table 28, already reported to the IMF and World Bank.

A particular attention was devoted to the delimitation of general government. Eurostat reviewed the application of the market/ non-market test and classification of public hospitals, radio/ TV broadcasting companies and specific units such as the Export Credit Agency, public development banks and public transport companies.

On the issue of taxes and social contributions recording, it was concluded that taxes should be time adjusted, applying an appropriate time lag. In terms of data sources, Eurostat recommended the BiH statistical authorities using data from the Indirect Tax Authority instead of those reported by budgetary units in cash reports, due to discrepancies between the two. Concerning the social contributions, the Central Bank of Bosnia and Herzegovina will report employers' social contributions alongside the employees' social contributions in national accounts.

The discussion continued on the recording of specific government operations. The BiH statistical authorities will investigate the recording of debt securities issued in the context of the compensation for war damages. In relation to the debt of BiH for wartime gas deliveries, it was recommended to create a notional unit and to record the claim of the Russian federation against BiH as the government debt, currently not recognised in national accounts.

In the context of the bankruptcy of three private banks, the classification of the Deposit Insurance Agency was discussed. Although not yet included in the list of government units, the Deposit Insurance Agency was considered as part of government and its transactions will be included by the Central Bank of Bosnia and Herzegovina in government accounts. The BiH statistical authorities will investigate and report to Eurostat the recording of deposits of some government entities that were lost, following the bankruptcy of the three private banks.

## Final findings

Eurostat closely monitors the development of the government finance and EDP statistics of EU Candidate and potential Candidate Countries to them comply with the EU legislation (EU *acquis*). To this end, and to prepare them for EU membership, Eurostat has integrated the Candidate Countries and potential Candidate Countries into its government finance and EDP statistics working processes, which includes technical visits to these countries, such as the current visit to BiH.

Eurostat undertook the technical visit to BiH on 12-14 November 2019. The delegation of Eurostat was headed by Mr Philippe De Rougemont, Team Leader for EDP Methodology, Unit D-1 EDP, methodology and GFS. Eurostat was also represented by Ms Laura Wahrig, Team Leader for GFS, Unit D-1 and Ms Daniela Ilavska, Unit D-2 EDP 1. A representative of the DG ECFIN also participated in the meeting as an observer. The national authorities of Bosnia and Herzegovina were represented by the Agency for Statistics of Bosnia and Herzegovina (BHAS) and by the Central Bank of Bosnia and Herzegovina (CBBH).

A separate session took place with representatives from other stakeholders, including representatives from the Federal Office of Statistics for the 'Entity' of Federation of Bosnia and Herzegovina (FZS), the Republika Srpska Institute of Statistics for the 'Entity' of Republika Srpska (RZSRS) and Brcko District as well as representatives from the related the Ministries of Finance (MoFs).

The previous Eurostat technical visit to BiH took place on 11-13 January 2017.

Eurostat carried out this technical visit in order to review the institutional responsibilities in the compilation and reporting of GFS and EDP data, to assess progress and facilitate the preparatory work of the statistical authorities in the EDP and GFS statistical framework.

The main discussions concerned institutional arrangements for GFS/EDP compilation in BiH, notably the creation of an effective GFS Working Group including all stakeholders, the review of a draft Memorandum of Understanding (MoU) between BHAS and CBBH, as well as the publication of the existing list of government units. The discussions also encompassed a review of progress of the (draft) Action Points recommended by Eurostat during the previous visit in 2017, as well as a review of selected sectorisation cases and a review of some entries in the EDP and GFS tables.

With regard to procedural arrangements, the *Main conclusions and action points* were sent to BiH for review. Then, *Provisional findings* were sent to BiH for review. After this, *Final findings* are hereby being sent to BiH and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

## **1. Institutional responsibilities for EDP/ GFS data compilation and reporting**

### *Introduction*

BiH consists of two entities the Federation of Bosnia and Herzegovina (FBiH), the Republika Srpska (RS) and District Brčko. The FBiH consists of 10 cantons. Each 'Entity', cantons and District Brčko have their own governments with all public administration, except for the Ministry of Defence that is responsible for the whole BiH territory.

The statistical system in BiH operates at two levels:

1. The CBBH and BHAS that are responsible for statistics at a national level,
2. The Federal Office of Statistics (FZS) and the Republika Srpska Institute of Statistics (RZSRS) that are responsible for statistics at the 'Entities' levels.

The CBBH is currently the main institution in charge of the compilation of EDP/ GFS statistics according to ESA 2010. Data are compiled by the GFS unit in the CBBH, that, at the time of the meeting, consisted of five persons responsible for the compilation of annual non-financial accounts (tables 2, 9 and the National Tax List), EDP tables and annual and quarterly financial accounts, including calculation of Maastricht debt and Table 28.

The BHAS is responsible for the sector classification of units, in collaboration with two 'Entities' statistical offices.

### *Discussion and methodological analysis*

In the beginning, Eurostat discussed with the BiH statistical authorities the current situation regarding the compilation of statistics in the country. The BiH authorities clarified that, currently, the role of statistics, including the GFS/ EDP, was not the highest priority and uncertainties as concerns the ownership of relevant data and delivery channels were the main constraints. While Eurostat expressed its understanding for such complex situation, on the other hand, it also stressed the importance of the GFS/ EDP statistics and underlined its role for the fiscal monitoring in the EU. It was recalled that, as the highest priority, before joining the EU in the future, it is necessary to agree on the distribution of institutional responsibilities and to build up sufficient personnel and methodological capacities in the statistical authorities. Eurostat also recalled that the 'Entities' were invited to compile EDP/ GFS statistics covering their territories, however, as concerns the reporting to Eurostat of data for the general government, it is the national statistical institute or, if applicable in a country, the national statistical institute and the central bank considered as statistical authorities providing official statistics to Eurostat. These statistical authorities, being responsible for the data, need to dispose of disaggregated source data for all institutional units in the public sector, irrespective of whether a separate compilation is performed by the 'Entities' or not.

### Institutional responsibilities

In relation to the existing division of institutional responsibilities, the BHAS clarified that it is responsible, apart from the sector classification of units, for GDP compilation by three approaches. The compilation of relevant GDP data in fact starts at the level of 'Entities', which afterwards send their data to the BHAS that finally aggregates them and produces a

national figure. The BHAS thus does not dispose of individual data of ‘Entities’ and cannot verify the quality of provided data. This is the case of several other indicators such as the government final consumption expenditure and consumption of fixed capital.

In reply to the Eurostat’s question, the BHAS clarified that, according to a legal framework (in particular the Law on statistics), the ‘Entities’ were obliged to deliver to the BHAS requested data, including confidential information, for statistical purposes. The law has, however, never been enforced in such way that it would enable the BHAS to receive detailed ‘Entities’ data, even though they existed.

Eurostat further enquired about the compilation of some national accounts indicators, notably the government consumption. As explained by the BHAS, the government consumption was compiled by both the BHAS and CBBH, but the figures showed differences. As the main reasons for discrepancies were indicated the differences in sector coverage and a methodological approach used. First, while the CBBH calculated for the GFS purposes the government consumption based on expenditure basis, the BHAS compiles the aggregate using the output approach, as a simplification. Second, the CBBH is legally obliged to use for the GFS/ EDP compilation the last officially available list of general government units according to the Business Register, which has not been updated since 2015. The list might have gone through some updates at the ‘Entities’ level that were not, however, considered in the CBBH calculations of the government consumption. In relation to this point, Eurostat deemed necessary that the BHAS reconsidered the compilation of the government consumption, currently based on the output approach, which is a strongly simplified approach not satisfying the ESA 2010 definition.

Concerning the consumption of fixed capital, the BHAS compiles the figure as a pure estimate based on the percentage of gross value added and of the intermediate consumption. As explained in the meeting, using the accounting data was considered difficult due to incorrect valuation of fixed assets in public accounts or non-existence of general ledgers in general. In addition, most of government units did not record in public accounts stocks of fixed assets, but rather transactions that might be related to sales of assets transferred from other units and not recorded at all on the balance sheet. Eurostat recommended to the CBBH to adopt the consumption of fixed capital, as aggregated by the BHAS from the ‘Entities’ input, by the time when these estimates of ‘Entities’ would be replaced by data better satisfying the definition of the consumption of fixed capital according to ESA 2010. In this respect, the CBBH was requested to exploit the amortisation reported in general ledgers and to replace potentially the pure estimates of the statistical offices, currently available, if relevant.

Further discussion focused on the list of government units mentioned in the previous clarification of the CBBH. The last officially available list according to the Business Register was compiled in 2015. However, it was never published due to disagreement of ‘Entities’ that contested its quality, mainly as regards the information on government units’ ownership. Eurostat stressed that, in this respect, it is not the ownership but the notion of control that is relevant for sector classification according to ESA. More generally, the reason indicated should not prevent the publication of the list. It was also stressed that application of the market/ non-market test by each ‘Entity’ has never been consulted nor verified by the BHAS and was thus fully under the responsibility of each ‘Entity’.

Eurostat concluded that, as a first step, a list of general government units, as it was established in 2015, should be published as soon as possible. The CBBH supported idea and confirmed that, only after an official publication of the updated general government list of units, the latter would be obliged to report data to the CBBH. Thus, it was agreed that the CBBH would eventually increase the data coverage in the compilation of GFS/ EDP data once the list of general government units is published.

Second, Eurostat recommended that the BiH statistical authorities should concentrate on the compilation of the list of public entities and application of the market/non-market test. The BiH statistical authorities informed that the formula of the market/ non-market test was intended to be further reviewed in cooperation with an IPA expert. Eurostat acknowledged progress achieved in GFS/ EDP compilation and recommended to continue works under IPA 2017 and 2019.

#### Inter-institutional working group

Eurostat recalled discussions about the creation of an inter-institutional working group from the Eurostat's technical visit to BiH in 2017 and enquired about the progress achieved. The BiH authorities confirmed that, since then, the situation has not changed and the working group (GFS WG) involving stakeholders in GFS/ EDP compilation has not been established in BiH.

In a specific meeting organised within the technical visit, Eurostat had an opportunity to discuss the creation of the working group with all authorities involved in the GFS/ EDP compilation, namely the BHAS and CBBH, statistical offices of 'Entities' (FZS, RZSRS) and representatives of MoFs (MoF BiH, MoF FBiH, MoF RS) and of Directorate Finance of Brcko District.

On the issue of organisation, representatives of the 'Entities' confirmed that, since it was discussed in a meeting with Eurostat in 2017, the GFS WG had not met. Eurostat suggested building up an active cooperation of all involved stakeholders at a technical level, in particular by organisation of regular meetings under the co-leadership of the BHAS and CBBH and by an active circulation of information. As a start, the BHAS and CBBH will establish an email distribution list, including Eurostat as an observer, and will invite all members to appoint 1-2 representatives. Afterwards, they will circulate to the GFS WG the action points of the 2017 Eurostat's technical visit to BiH. When available, the *Main conclusions and action points*, *Provisional findings* and *Final findings* of the recent Eurostat's visit will be sent to the GFS WG for comments. All representatives in the meeting agreed with the Eurostat's proposal.

As a next point, Eurostat focused on the list of government units and mainly its publication that, as resulted from the previous discussions, was opposed by the 'Entities' due to some quality concerns. In particular, the FZS pointed out at the shortcomings in assigning NACE codes to units indicated in the 2015 list. In order to compile the updated list of units for 2016 or 2017, the FZS informed that additional information were being collected for this purpose. Eurostat took note that the FZS did not have any objections to publish the 2015 list, however, they would prefer, due to quality issues, to have this list updated with additional information to be received in the first quarter of 2020.

Similarly to the FZS, the representatives of the RS considered the 2015 list of units as provisional and covering also units that were inactive for many years. They would nonetheless agree with its publication if an appropriate disclaimer was attached to the list. Currently, the RS was working on the updated 2017 list of units with assigned NACE codes. The list is partly a result of the SECO project, which also covered the analysis of borderline cases. The updated 2017 list, which has not yet been shared with the BHAS, is foreseen to be finalised by February 2020.

Eurostat took note that all ‘Entities’ agreed with the publication of the 2015 list of general government units by the BHAS, providing that an appropriate disclaimer on the quality is attached. The 2015 list would serve as an interim official list of units until it is updated with additional information coming from the ‘Entities’ and accepted by the BHAS. At the same time, the BiH statistical authorities committed to establish in cooperation with the GFS WG an appropriate procedure for a regular update of the government units list. The procedure should define responsibilities of all parties and the communication and decision making processes.

The publication of the interim list is particularly important for the CBBH, which will, on this basis, receive input data for the GFS/ EDP data compilation. Eurostat also stressed that, in this stage, the list would not necessarily contain the information about a subsector, which was the main concern of the ‘Entities’. On the issue of inactive units, Eurostat clarified that government units in liquidation or inactive units should be included, as long as some balance sheets or profit and loss statements for those units exist.

Some representatives objected that the GFS WG is not appropriately placed to take any decision on the validity or publication of the list. Eurostat underlined that, as in other countries, the sector classification of units is to be the responsibility of the national statistical office, the BHAS in this case. If any involvement of the MoFs was foreseen, it should be rather an assistance to the BHAS in obtaining complementary information. Eurostat considered the practise of approval of the government units list by a MoF as inappropriate. Furthermore, Eurostat stressed that the BHAS is in charge of the sector classification and in case of disputes with statistical offices of the ‘Entities’ on particular cases, it is the BHAS that makes a final decision. The BHAS should thus take the responsibility for the list of general government units that should be published on its website.

### *Findings and conclusions*

- (1) Eurostat recommended taking actions to address the current situation where government consumption, as calculated in the GDP via the expenditure approach, differs for significant amounts from the GFS figure. To this effect, BHAS and CBBH agreed on the following:
  - (a) BHAS will reconsider its compilation of government consumption (currently based on government output, as a simplification),
  - (b) CBBH will use the consumption of fixed capital in national accounts, as validated by BHAS and calculated by the statistical offices in both ‘Entities’ (which are pure estimates),



(c) CBBH will eventually increase the data coverage once the list of general government units is published.

*Deadline for reporting to Eurostat: end of October 2020*

(d) CBBH will exploit the amortisation reported in general ledgers in order to reach an estimate of consumption of fixed capital better in line with ESA 2010 and thus to replace potentially the pure estimates of the statistical offices.

*Deadline for reporting to Eurostat: end of June 2021*

- (2) Given the fact, that BiH statistical authorities' participation in IPA 2015 has proved very useful for progress made in GFS/EDP compilation, which is expected to continue under IPA 2017, Eurostat recommended that works continue under IPA 2019.

*Deadline: as appropriate to ensure IPA 2019 participation*

- (3) The BiH statistical authorities will ensure an effective creation of the Working Group (GFS WG) involving all stakeholders in GFS/EDP compilation, by inviting the latter to appoint members (1-2 persons) and, as a first step, by establishing an email distribution list, including Eurostat as an observer. The GFS WG will be co-chaired by BHAS and CBBH (for reference see also action points 1-3<sup>1</sup> of the 2017 visit).

*Deadline for progress report: end of May 2020*

- (4) The GFS WG Co-chairs will circulate to the GFS WG members for comments the *Main conclusions and action points*, *Provisional findings* and *Final findings* of the recent Eurostat's visit. The draft *Main conclusions and action points* of the 2017 Eurostat's visit will be circulated to the GFS WG at this occasion.

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<sup>1</sup> **Action point 1:** The authorities of Bosnia and Herzegovina create a BiHGFS working group (herewith, the BiH GFSWG) involving all stakeholders in the GFS/ EDP compilation, co-chaired by the Agency for Statistics of Bosnia and Herzegovina (BHAS) and the Central Bank of Bosnia and Herzegovina (CBBH). The co-chairs create a list of participants of stakeholders with their email addresses. The working group aims at ensuring an adequate flow of information, across the various stakeholders involved in EDP/GFS compilation, concerning methodology, compilation procedures and data flows. BiH GFSWG' members receive from the chairs relevant data, feedback, exchanges in between national parties as well as with Eurostat and the IMF, as appropriate. The working group receives for information data submissions to Eurostat and the IMF and key feedback from the two institutions. The working group is consulted on issues relevant for GFS and EDP compilation, at the initiative of the chairs. The working group meets on a regular basis, at least once a year. The chairs may wish to invite the appropriate representatives of Eurostat and the IMF.

*Deadline: immediate and on-going*

**Action point 2:** A compilation subgroup for EDP and GFS statistics (herewith, the compilation subgroup) is created, which coordinates on a day to day basis the compilation of GFS and EDP data, notably with a view of ensuring a consistent and complete reporting of fiscal statistics to Eurostat and the IMF aligned to international standards.

*Deadline: immediate and on-going*

**Action point 3:** BiH GFSWG's members commit, on a best effort basis, to provide efficiently and in a timely manner the source data needed by the compilation sub-group for EDP and GFS statistics compilation, enabling compilers to follow international standards for the reporting to international organisations. See below, for some gaps identified.

*Deadline: immediate and on-going*

*Deadline for circulating the 2017 Action points: end of March 2020*

*Deadline for circulating the 2019 findings: after received from Eurostat.<sup>2</sup> The BiH authorities will send consolidated comments to Eurostat by deadlines specified in accompanying letters.*

- (5) The BHAS will circulate to the GFS WG members the existing draft list of general government units (year 2015 as reference year) and will seek the consent of the statistical agencies participating in the GFS WG for publishing the list on BHAS's website. The published list of general government units will be an interim list, accompanied by an appropriate disclaimer on the quality, and without showing sub-sectorisation at this stage.

*Deadline for circulating the list to the GFS WG: end of March 2020*

*Deadline for publication of the list: as soon as possible and by end of March 2020 at the latest<sup>3</sup>*

*Deadline for sending the list to Eurostat: end of March 2020<sup>4</sup>*

- (6) The published draft list of general government units will notably include units in liquidation or inactive units, as long as some balance sheets or profit and loss statements for those units exist.
- (7) The published list of general government units will be updated in the first quarter of 2020, using the information of reference year 2016 or 2017, as discussed during the meeting. The list will be consulted with Eurostat before publication.

*Deadline for implementation: end of March 2020*

*Deadline for reporting to Eurostat: end of October 2020 EDP notification*

- (8) The BiH statistical authorities will establish in consultation with the GFS WG an appropriate procedure for a regular update of the list of general government units (yearly basis). The procedure will define responsibilities of various parties and the process on how their views, including that of Eurostat, will be considered.

*Deadline for progress report: end of June 2020*

*Deadline for implementation: end of December 2020*

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<sup>2</sup> The Main conclusions and action points of the 2019 technical visit were sent to the BiH authorities on 2 December 2019. They were distributed by BiH authorities to MoFs and statistical agencies of the 'Entities' on 11 March 2020. The Provisional findings were sent to the BiH authorities on 4 September 2020.

<sup>3</sup> The list was published on the BHAS website on 30 January 2020.

<sup>4</sup> The list of S.13 units was sent to Eurostat on 22 January 2020.

## 1.1. Draft Memorandum of Understanding and current working arrangements

### *Introduction*

A national legislative framework specifically covering the compilation of EDP/ GFS statistics does not currently exist in BiH. A legal framework, on which the compilation of GFS/ EDP data is based, is the Law on Central Bank of Bosnia and Herzegovina (*Zakon o Centralnoj banci Bosne i Hercegovine, službeni glasnik* br. 1/97, article 68). In 2007, a MoU was concluded between the CBBH and BHAS that is however very broad and does not specifically cover the GFS/ EDP compilation. In spring 2019, the BiH statistical authorities sent to Eurostat for comments a new proposal of the MoU that foresaw a transfer of compilation responsibilities from the CBBH to the BHAS within a three years' transition period.

### *Discussion and methodological analysis*

In the meeting, the BiH statistical authorities explained that the development of the new MoU was initiated in the framework of the IPA 2015 project. The proposed draft envisaged that the CBBH would continue with production of the GFS/ EDP statistics for the period of three years, within which the CBBH would transfer knowledge to the BHAS. At the end, the BHAS would take over a complete process of data compilation and transmission, apart from the responsibilities for classification of units, of which it is already in charge. The main reason for initiating the change was a common decision to follow the EU practice, when in a majority of Member States, the leading role is with the statistical office and the central bank is mostly only responsible for compilation of the financial accounts and/ or Maastricht debt. The proposed change was partially motivated by certain unwillingness of 'Entities' to provide requested input data to the CBBH, instead of to the BHAS. As explained, both statistical authorities were aware of limitations mainly as regards the personnel and methodological capacities in the BHAS. At the time of the meeting, there was only one person, on a managerial position, dealing with the GFS/ EDP statistics.

Eurostat took note of the explanations and reiterated its position provided in a written reply of 24 September 2019, when it appreciated the willingness of the BiH authorities to strengthen the cooperation but recommended, for the time being, rather to concentrate on fulfilling to the best of their capacity their existing responsibilities. In particular, it was recommended to describe and formalize the current division of works in practice. Eurostat did not endorse the proposed MoU and stressed that formalizing the current state of work division may help both parties to obtain resources and data from other involved stakeholders for their respective tasks. As an option included in the draft MoU, Eurostat suggested reviewing tasks distribution on a regular basis, depending on the actual resources that the BHAS acquires for the compilation of macro-economics statistics, taking into account also the prioritisation of other works such as the GDP compilation, ESA sector accounts and others.

In this context, Eurostat recalled the action point 4<sup>5</sup> from the 2017 technical visit to BiH when it was recommended to draft a framework paper that would, in the absence of a

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<sup>5</sup> **Action point 4:** Eurostat took note that the GFS and EDP compilers (CBBH) already receive a significant amount of source data, on an annual and quarterly basis, concerning budget execution, balance sheet, general ledger, which is solid start.

formalised MoU, define at a very technical level the distribution of tasks and responsibilities of each participant of the GFS WG, including the timeliness, content, base of recording and responsibilities of other data providers, if any (not part of the WG)<sup>6</sup>. As a first step towards the strengthening cooperation between GFS WG members, it was agreed that the BHAS and CBBH would circulate to the GFS WG for comments the framework paper covering all necessary elements, as discussed above.

In relation to the BHAS's staff resources, Eurostat pointed out at the absolute necessity to appoint a person that would be in charge of the GFS/ EDP coordination and, notably, the sector delimitation, as it was also the case in the 2017 Eurostat's visit. Eurostat also considered that a large transfer of the compilation tasks from the CBBH to BHAS would imply a significant reinforcement of the BHAS's capacity in the future, taking into account other responsibilities in macroeconomic statistics and that currently five staff members work in the CBBH on GFS/ EDP statistics.

Eurostat took note of the increasing needs for new resources in the CBBH that mainly stemmed from new responsibilities coming from the transmission of ESA and EDP tables and anticipated widening of the general government population to better meet the ESA definition. In this regard, Eurostat recommended the CBBH to organise effectively the works related the GFS/ EDP compilation and to obtain additional staff (at least 2 new staff by the end of 2021) in order to ensure the required increased coverage of the published statistics.

#### *Findings and conclusions*

- (9) The BiH authorities will provide to Eurostat the MoU concluded between CBBH and BHAS in 2007. The MoU has not been updated since then and, having a very general scope, did not include a specific part on GFS/ EDP compilation or exchange of data.

*Deadline: end of January 2020*

- (10) The BHAS and CBBH agreed to adapt the draft MoU along the line discussed with Eurostat during the visit, aiming at documenting existing practices and at agreeing on improvements. The draft MoU should foresee a regular review of tasks distribution, based on the actual resources that BHAS acquires for the compilation of macroeconomics statistics, taking into account also the prioritisation of other works (GDP compilation, ESA sector accounts, etc).

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Action point: This achievement should be documented within a framework paper, with sufficient detail on the timeliness and on the base of recording, to be circulated to the BiH GFS WG. The framework paper is the occasion to clarify the terminology applicable for the statistical and accounting compilation of GFS/EDP. This framework paper also contains indications of further progress, after discussion within the BiH GFS WG. The framework paper is regularly updated, and would usefully contain information requested in the EDP inventory (including in terms of terminology and format).

<sup>6</sup> Later on, in the email communication between Eurostat and the CBBH, it was clarified that the framework paper does not really need to explain the ESA rules since for this purpose a cross-reference to the EDP Inventory might be used (where all those concepts should be already clarified). However, the paper should necessarily oblige 'Entities' (statistical offices, MoFs, etc.) to provide to the BHAS/ CBBH for instance the list of adjustments applied to data, other adjustments in the EDP tables, explanatory notes, consolidation items, valuation principles, other metadata.

*Deadline for reporting to Eurostat: end of June 2020*

- (11) Eurostat strongly recommended to the BHAS to appoint one staff in charge of GFS coordination (notably sector delimitation), as it was also the case in the 2017 visit. Eurostat considered that the BHAS will only be able to assume the required minimal role in the EDP/ GFS compilation with such an appointment. A large transfer of compilation tasks from CBBH to BHAS would imply a significant reinforcement of BHAS capacity and, in the short to medium-term, it does not seem realistic, having in mind that five staff members currently work in CBBH on GFS/ EDP, and other priorities regarding other macroeconomics statistics.

*Deadline: mid 2020 for assigning one BHAS staff to GFS issues*

- (12) Eurostat recommended the CBBH organises itself to adequately support continuous developments of GFS compilation to ensure the required increased coverage of the published statistics (once the government unit list is released), by adding 2 new staff by the end of 2021.

*Deadline: continuous*

- (13) As a first step of the MoU redrafting, the BHAS and CBBH will circulate to the GFS WG for comments a ‘*framework paper*’ documenting the current working arrangements, as already proposed in the action point 4 of the 2017 visit.

*Deadline: end of May 2020*

## **2. Data sources for EDP/ GFS statistics**

### **2.1. General ledger reports, profit and loss, balance sheet, budget execution and evaluation of data sources**

#### *Introduction*

The main data source for budgetary central government are gross balance sheet reports, collecting data on stocks and flows directly from the main ledger of the unit. In particular, the report covers stocks of financial and non-financial assets, revenues and expenditures, acquisition and disposal of financial and non-financial assets. The gross balance sheets represent a closed system of balanced stocks and flows.

The main data source for local government are annual budget execution reports (aggregated report for each ‘Entity’). This report covers transactions in revenue, expenditure and acquisition and disposal of financial and non-financial assets. For stock positions, the balance sheet reports are used.

For social security funds, data are obtained from the gross balance sheets (for some units) and budget execution reports. In addition, balance sheet reports are also used. In case of some small units (e.g. in District Brcko), direct reporting from general ledgers is replaced by completing the CBBH reporting forms.

Public accounts are based on a modified accrual basis, i.e. revenue recorded on a cash basis and expenditure on an accrual basis. Budgetary units follow four different charts of accounts – F BiH, RS, District Brcko and BiH institutions. Accordingly, for the GFS/ EDP compilation, four bridge tables are used to translate the transactions in public accounts to ESA revenue/ expenditure categories.

### *Discussion and methodological analysis*

During the discussion, the BiH statistical authorities described available data sources for local government. Both the F BiH and RS provide to the CBBH one report aggregating all municipalities. In case of the F BiH, municipalities data are aggregated by cantons so they are delivered to the CBBH in ten excel sheets, by each canton. Eurostat understood that the individual data for each municipality were available to the MoF, however, they were not delivered to the CBBH. In case of need, each additional query has to be communicated via the MoF, and not directly addressed by the CBBH to a municipality.

Eurostat enquired about the availability of quarterly data. According to the BiH statistical authorities, they are mainly available via the so-called ‘Form 8’ that is a specific reporting template introduced by the IMF for debt and fiscal surveillance purposes. The ‘Form 8’ contains about 100 items on revenue and expenditure and it is collected from every single unit by the MoF. The BiH authorities further clarified that around one third of government units sent the *Form 8* to the CBBH and, from the remaining units, they received general ledgers. While the F BiH and the District Brcko provide the ‘Form 8’ to the CBBH on a regular basis, the RS interrupted sending the data in 2006. Eurostat therefore strongly encouraged the MoF RS to provide to the CBBH the ‘Form 8’ data reported by local government municipalities on a quarterly basis in an aggregated as well as in an individual form.

Prior to the visit, the BiH authorities provided to Eurostat a bridge table translating the revenue and expenditure from public accounts to GFSM and ESA methodology. Eurostat took note that budgetary units follow four different charts of accounts according to the local jurisdiction – F BiH, RS, District Brcko and BiH institutions. Furthermore, as a rule, all units at a given level of government follow the same national chart of accounts, i.e. one chart of accounts is thus applicable to all units in one of the central, local or SSF level. Eurostat asked the BiH statistical authorities for all charts of accounts applicable in each jurisdiction and bridge tables from public accounts to ESA categories used for each of them.

As concerns the extra-budgetary funds (EBF), the EBF consist currently of eight road funds in each ‘Entity’ (five in F BiH, two in RS and one in District Brcko). Out of those eight EBF, two are public enterprises operating the motorways - *Javno preduzeće autoputevi F BiH* and *Javno preduzeće autoceste RS* and five are Directorates for Roads (*Direkcija za ceste RS* and four *Direkcije za ceste* in F BiH). They all follow the business accounting and submit reports to the CBBH, in particular the balance sheet, general ledger data (only from the two public enterprises), profit and loss statement and a separate report for investments. In case of the F BiH, each canton has a road fund, of which three are incorporated in cantonal data and seven are included in the working balance as spending units, all of them not considered as institutional units.

The remaining EBF are two Funds for professional rehabilitation and employment of persons with disabilities in FBiH and in RS that both follow the budgetary accounting.

However, the BiH authorities confirmed that the EBF are considered institutional units and, therefore, they were reported in the EDP tables as ‘other government bodies’, and not included in the working balance as spending units or in the ‘non-financial transactions not considered in the working balance’.

#### *Findings and conclusions*

- (14) The BiH statistical authorities will provide to Eurostat charts of accounts applicable in each jurisdiction and bridge tables from public accounts to ESA categories used for each chart of accounts.

*Deadline: end of January 2020*

- (15) Eurostat encouraged the BiH statistical authorities to find an agreement with public units specialised in collecting financial statements (FIA, APIF) in order to reach a satisfactory arrangement towards obtaining financial statements for other public bodies (at least).

- (16) The BiH statistical authorities will provide to Eurostat the template of the so-called ‘Form 8’ reported to the IMF on a quarterly basis by each government unit.

*Deadline: end of May 2019*

- (17) The MoF RS was invited to provide to CBBH the ‘Form 8’ data reported by municipalities on a quarterly basis in an aggregated as well as individual form.

*Deadline: each reporting round*

## **2.2. Reconciliation of data and consolidation**

### *Introduction*

The adjustments for consolidation are carried out within each of three levels of the central government as currently reported. The BiH statistical authorities do not report any consolidation between existing subsectors due to unavailability of relevant information.

### *Discussion and methodological analysis*

Due to time constraints, the discussion on the reconciliation of data and consolidation did not take place. The issue of consolidation will be dealt in in GFS reports and EDP Request for clarifications.

### **3. Analysis of EDP tables and GFS data**

#### **3.1. EDP tables (October 2019 EDP notification)**

##### *Introduction*

In October 2019, the BiH statistical authorities sent the October 2019 EDP notification for the period 2015-2018. Eurostat reviewed the data and adjustments reported in the EDP tables.

##### *Discussion and methodological analysis*

Eurostat noticed that the EDP tables and GFS data transmitted by the BiH statistical authorities to Eurostat were not circulated to the GFS WG and recommended to do so in order to strengthen the communication with all members and to increase transparency when compiling the GFS/ EDP statistics. The same was suggested with regard to the Eurostat's feedback, for instance GFS reports, Request for clarification, etc.

Furthermore, Eurostat took note that one of the 'Entities' tended to compile autonomously the GFS/ EDP data rather than to send the input data to the CBBH or BHAS. Eurostat acknowledged this initiative but considers that the following is necessary to achieve a working EDP reporting: (1) CBBH receives from the 'Entity' all data requested, (2) CBBH compiles the aggregate for general government and separately for 'Entities', (3) CBBH reconciles data with an autonomous calculation of 'Entities' and (4) there is a procedure in place to resolve the difference between the calculations. Eurostat also acknowledged that, in general, compilation of EDP tables split by units/ groups of units should facilitate the reconciliation of the financial and non-financial accounts and balancing of data for general government. In this regard, Eurostat invited the CBBH to transmit to Eurostat the EDP table 2A and table 3B split by the so-called 'Entities' and District Brcko, de facto identifying the EDP tables T2A1/3B1 for the State, 2A2/3B2 for FBiH, 2A3/3B3 for RS, 2A4/3B4 for District Brcko.

On general issues, it was recalled that transmissions of GFS/ EDP data to Eurostat has to be performed by the BHAS or by CBBH (according to their bilateral arrangements). Therefore, all communications with Eurostat, including those initiated by the 'Entities' should transit via the BHAS and CBBH.

Afterwards, Eurostat started with a review of EDP table 2A and enquired about the basis of the working balance. The BiH statistical authorities explained that in this item, a balance of total current revenue and total expenditure, including capital transactions, for all central government (S.1311) units was reported. The accounting basis is mixed. From the following discussion, it resulted that some expenditure such as interest paid were on a pure cash basis. The main data source for the working balance in EDP table 2A are general ledgers received from the MoFs', which provide data at 6-digit level of the Chart of Accounts and are thus more detailed than budget execution reports (4-digits). The working balance is not voted by any of the responsible parliaments. The BiH statistical authorities committed to adapt the EDP Inventory in order to clarify the basis of the working balance, notably by referring explicitly to (a) the charts of accounts codes, (b) the fact that the working balance is partly cash-based for some expenditure items, although the general ledger is supposed to be on a modified cash (i.e. revenues on a cash basis and expenditure on a mixed basis).



Eurostat reviewed a list of *'other adjustments'* reported in EDP table 2A and commented that a number of them should be reclassified under the item *'Non-financial transactions not included in the working balance'* or in the *'Financial transactions included in the working balance'*. In the context of the EDP clarifications, Eurostat will provide detailed suggestions in this respect.

The BiH authorities confirmed that the EBF, namely road funds established by 'Entities', were included in the working balance. Eurostat recalled from previous discussion that the EBF were considered as institutional units and, as such, should be reported in the line *'Net lending/net borrowing (B.9) of other central government bodies'*. Accordingly, the BiH statistical authorities should correct the information provided in the EDP Inventory.

With respect to the privatisation proceeds of 129 mill KM recorded in 2017, Eurostat took note that these proceeds were correctly excluded from B.9 in EDP table 2A, whereas they were not recorded in transactions under Equity (F.5) in EDP table 3B. The BiH statistical authorities will correct the recording in order to eliminate the statistical discrepancy caused by this recording. On the same issue, Eurostat recommended to the CBBH reporting of capital injections, distributions and privatisations in the Questionnaire table 10, which might facilitate the reconciliation of information between the financial and non-financial accounts and application of ESA rules, namely the capital injection and the super dividend tests. In this context, Eurostat made a remark that an exercise relating to super dividends showed that some dividends exceeded the operating profit but were not yet recorded as a negative transaction in equity (F.5).

The CBBH committed to investigate the adjustment in the EDP Table 2A the *'Grants to non-profit organisations'* that represent, according to the explanation of the BiH authorities, subsidies provided by the District Brcko to NPIs, not included in the working balance. Eurostat however pointed out at the sign of the adjustment, which was reported positive in 2017, and thus requested to clarify the issue.

Eurostat requested to investigate the content of the item *'Accrued revenue from dividends, shares in capital and similar rights'* in EDP Table 2A reported in 2017. In particular, it was not clear whether the revenue was rather related to the non-financial transactions not included in the working balance or to other accounts receivable.

As concerns the item *'Accrued revenue from transfer of properties from local level'*, Eurostat could not recognise a counterpart adjustment in EDP table 2C. The BiH statistical authorities committed to review the reporting of the item.

Eurostat pointed out at two adjustments that seemed to be related to the accrued interest, i.e. *'Accrued revenue from interest on loans given to Public companies Highways and Road fund in RS'* and the *'Accrued interest on given loans to other domestic public nonfinancial entities'* in EDP Table 2A. The BiH authorities were requested to clarify why these adjustments are only reported in 2017 and not in other years.

Furthermore, Eurostat enquired about the item *'Revenues from Indirect tax authorities for servicing of foreign loans'* in EDP Table 2A, which showed negative entries for very large amounts in a number of years. As explained by the BiH statistical authorities, this negative entry, despite its title, in fact meant to neutralise an artificial entry of revenue included in the

working balance. The CBBH will clarify where the counterpart entry of this artificial revenue item was reported in general ledgers.

During the discussion, it was not clear what kind of adjustment was reported in a negative entry in the item '*Losses based on the sales and write offs of the investment properties*' in EDP Table 2A for 2016 and the BiH statistical authorities therefore committed to investigate the issue and report back to Eurostat.

More generally, Eurostat took note that titles of the adjustment lines in the EDP table 2A tended to be a literal translation of specific accounting codes, selected by the CBBH to adjust the working balance and to calculate the ESA B.9. Accordingly, it was understood as work in progress. The GFS WG members were encouraged to explain and validate those adjustment lines. In this respect, Eurostat recommended to the CBBH circulating the EDP tables 2A1 to 2A4 to them, in order to facilitate the discussion.

In the working templates presented during the meeting, Eurostat observed a significant amount of payables (AF.89L) that seemed to reflect the unpaid liabilities of government that committed to reimburse for instance salaries possibly legally due to employees in cases of entities in bankruptcy, when the termination process has not been completed. Eurostat recalled rules for the recording of long-term liabilities, according to which those should be reclassified to debt (AF.4L). The BiH statistical authorities should also clarify when the related expenditure was recorded in B.9.

The BiH statistical authorities will reflect on the recording of special drawing rights (SDR) and on the way to record SDR assets and liabilities within general government accounts, possibly through the creating of a notional unit, given the view of the CBBH accountants that the SDR assets and liabilities are not considered on-balance sheet items. Currently, in ESA balance sheets, SDR are reported in the central bank subsector.

The following discussion focused on the recording of debt instruments in public accounts. The BiH statistical authorities explained that debt instruments were currently recorded in face value by the RS. It was also the case of the FBiH two years ago and currently they are recorded in the issue value. The BiH authorities could however not clarify where premiums and discounts were recorded in the general ledgers and committed to investigate the recording and report back to Eurostat.

#### *Findings and conclusions*

- (18) Eurostat recommended that CBBH/ BHAS will circulate to the GFS WG the EDP tables and ESA GFS tables transmitted to Eurostat as well as, where appropriate, the Eurostat's comments (e.g. GFS reports, Request for clarification).

*Deadline: each reporting to Eurostat and, besides, when appropriate*

- (19) Eurostat recommended that CBBH transmit to Eurostat the EDP table 2A and table 3B split by the so-called 'Entities' and District Brcko, de facto identifying the EDP tables T2A1/3B1 for the State, 2A2/3B2 for FBiH, 2A3/3B3 for RS, 2A4/3B4 for District Brcko. These detailed tables should facilitate the exchange of views among the members of the GFS WG.

*Deadline for reporting to Eurostat: biannually within EDP transmission deadlines, starting in the April 2021 EDP notification*

- (20) Eurostat recalled that transmissions to Eurostat of GFS/EDP data are to be performed by BHAS or by CBBH (according to their bilateral arrangements). More generally, all communications with Eurostat should transit via those two institutions.
- (21) The CBBH will adapt the EDP Inventory in order to clarify the basis of the working balance, by referring explicitly to (a) the charts of accounts codes, (b) the fact that the working balance is partly cash-based for some expenditure items, although the general ledger is supposed to be on a modified cash (i.e. revenues on a cash basis and expenditure on a mixed basis).

*Deadline: next update of the EDP Inventory*

- (22) The CBBH will adapt the reporting of EDP tables 2, by reclassifying a number of 'other adjustments' under the '*Non-financial transactions not included in the working balance*' or in the '*Financial transactions included in the working balance*', as appropriate. Eurostat will provide detailed suggestions to this effect, in addition to those mentioned in the meeting.

*Deadline: October 2020 EDP notification*

- (23) In the EDP table 2, CBBH will report so-called EBF in the line '*Net lending/net borrowing (B.9) of other central government bodies*', unless considered by the statistical authorities as not complying with the definition of the institutional unit. The terminology of the EBF should be corrected (using the term, e.g., of other central government bodies) notably in the EDP Inventory, indicating also their correct numbers (8 entities).

*Deadline: October 2020 EDP notification*

- (24) The CBBH will ensure consistency between the EDP table 2A and EDP table 3B with respect to the privatisation proceeds of 129 mill KM in 2017 recorded in the working balance. These proceeds were excluded from B.9 in the EDP table 2A, which is appropriate, but were not recorded under Equity (F.5) in the EDP table 3B, thus leading to a statistical discrepancy.

*Deadline: October 2020 EDP notification*

- (25) In respect to the previous action point, Eurostat recommended CBBH to start reporting the Questionnaire table 10 on capital injections, distributions and privatisations, which usefully assists the reconciliation of information, notably between various sources, and serves as a powerful cross-checking mechanism. This table is also used to increase transparency of the fiscal reporting, assisting the verification by Eurostat. In this context, Eurostat took note that an exercise relating to super dividends showed that some dividends exceeded the operating profit but were not yet recorded as a negative transaction in equity (F.5).

*Deadline: April 2020 EDP notification*

- (26) The CBBH will investigate and report to Eurostat the nature of the adjustment in the EDP Table 2A, relating to the ‘*Grants to non-profit organisations*’ and will clarify in particular the sign of the adjustment (being presumed to be adjustment for transfers to NPIs not reported in the working balance).

*Deadline: October 2020 EDP notification*

- (27) The BiH statistical authorities will clarify the content of the item ‘*Accrued revenue from dividends, shares in capital and similar rights*’ in EDP Table 2A reported in 2017 and also the item ‘*Accrued revenue from transfer of properties from local level*’.

*Deadline: October 2020 EDP notification*

- (28) The BiH statistical authorities will clarify why the adjustments for the ‘*Accrued revenue from interest on loans given to Public companies Highways and Road fund in RS*’ and the ‘*Accrued interest on given loans to other domestic public nonfinancial entities*’ in EDP Table 2A only appear in 2017 but not in other years.

*Deadline: October 2020 EDP notification*

- (29) The BiH statistical authorities explained the item ‘*Revenues from Indirect tax authorities for servicing of foreign loans*’ in EDP Table 2A, which shows negative entries for very large amounts in a number of years. This entry is negative, despite its title, because, apparently, it is merely meant to neutralise an artificial entry of revenue included in the working balance. The CBBH will clarify where the counterpart entry of this artificial revenue item is reported in general ledgers.

*Deadline: October 2020 EDP notification*

- (30) The statistical authorities will clarify a negative entry in the item ‘*Losses based on the sales and write offs of the investment properties*’ in EDP Table 2A.

*Deadline: October 2020 EDP notification*

- (31) Eurostat took note that titles of the adjustment lines in the EDP table 2A tended to be a literal translation of specific accounting codes, selected by CBBH to adjust the working balance and to calculate the ESA B.9. Accordingly, it was understood as work in progress. The GFS WG members were encouraged to explain and validate those adjustment lines. In this respect, Eurostat recommended to the CBBH circulating the EDP tables 2A1 to 2A4 to them, in order to facilitate the discussion.

*Deadline: October 2021 EDP notification*

- (32) The BiH statistical authorities will investigate the exact origin of a significant amount of payables that seems to reflect the recording of unpaid commitments of government in the context of entities in bankruptcy, e.g. salaries possibly legally due as the termination process has not been completed. Eurostat understood that the related expenditure were recorded in B.9. The BiH statistical authorities will reflect if this long-term liability (AF.89L) may have the nature of a long-term debt (AF.4L).

*Deadline for reporting to Eurostat: end of December 2020*

- (33) The BiH statistical authorities will reflect on the recording of SDR and on the way to record SDR assets and liabilities within general government accounts, possibly through the creating of a notional unit, given the view of CBBH accountants that the SDR assets and liabilities are not considered on-balance sheet items. Currently, in ESA balance sheets, SDR are reported in the Central Bank subsector.

*Deadline: October 2020 EDP notification*

- (34) The BiH statistical authorities will clarify where premiums and discounts are recorded in the general ledgers in the case when debt securities are recorded in the face value, which is currently the case for RS (and was the case for the FBiH a couple years ago).

*Deadline: October 2020 EDP notification*

### **3.2. Compliance of the general government debt of Bosnia and Herzegovina with Maastricht debt definition**

#### *Introduction*

Long-term debt securities (AF.32L/F.32L) are issued by the MoFs of the FBiH and RS, by local government (municipalities of the FBiH and RS) and by the District of Brcko in a domestic currency or indexed to EUR. Apart from domestic stock exchanges (Banjaluka stock exchange and Sarajevo stock exchange), the government of RS issues bonds also on foreign markets (Vienna stock exchange), denominated in EUR. Loans (AF.4L/ F.4L) are mainly provided by domestic credit institutions and non-resident institutions.

#### *Discussion and methodological analysis*

Concerning the data sources, the CBBH explained that, for the compilation of the ESA/ EDP debt, general ledgers are not used. The main data source is the money and banking statistics (MBS) together with complementary information such as the following: auction calendars of government, information from the stock exchanges, quarterly reports received from government with information on coupons, issue price, amortisation plan, interest paid, etc. All this information is available in split by ISIN codes. Based on these data, the CBBH is able to calculate market and face value of the debt reported to Eurostat.

Eurostat enquired about the consistency of general ledgers and the MBS. According to the BiH statistical authorities, those two data sources could not be reconciled due to various reasons, one of them the difference in sector coverage. In this regard, the CBBH was requested to provide to Eurostat a comparison between the calculated AF.3L/ F.3L and the information reported in the general ledger, by main entities for the past four years.

In addition, the CBBH will provide to Eurostat a comparison of the stocks and flows of deposits (AF.2/ F.2) between the general ledger and the MBS for budgetary units and EBF for 2015-2018, also having in mind the differences in coverage of these two data sources.

Regarding the loans, Eurostat took note that data available to the CBBH on domestic loans include the stock of accrued interest. A survey was designed by the CBBH in order to

estimate the stock of interest to be eliminated from the Maastricht debt. In relation to foreign debt, the CBBH explained that available data did not provide information on stocks, amount of interest paid and, therefore, those data had to be separately calculated. The CBBH also noted that some of those foreign loans only transited via accounts of the MoF BiH and of the CBBH and were further disbursed to government and non-government entities as lending, thus implying a significant amount of consolidation. The loan assets from general ledgers thus have to be replaced by the calculation.

It was agreed that the CBBH would provide a comparison between AF.4L/ F.4L coming from the MBS and AF.4L/ F.4L reported in the general ledger, taking on board adjustments for domestic loans incurred and for inter-governmental lending. The CBBH was encouraged to do the reconciliation at a unit level.

On the issue of domestic loan liabilities (AF.4/ F.4L), Eurostat took note that the information was scattered, deriving only from counterpart information. Eurostat recommended that the CBBH would collect the loan liability information by counterparts (against banks, residents, general government units, others) either from the general ledger or as a separate reporting on debt by government accountants.

The BiH statistical authorities committed to report to Eurostat the quarterly Maastricht debt (ESA table 28), as an outcome under IPA 2015 project, also taking into account the fact that the CBBH regularly sends quarterly debt to the IMF and to the World Bank.

#### *Findings and conclusions*

- (35) The CBBH will provide to Eurostat a comparison of the stocks and flows of AF.2/ F.2 between the general ledger and money and banking statistics (MBS) for budgetary units and EBF for 2015-2018, also having in mind the differences in coverage of these two data sources.

*Deadline: October 2020 EDP notification*

- (36) Similarly, CBBH will provide a comparison between AF.4L/ F.4L coming from the MBS and AF.4L/ F.4L reported in the general ledger, taking on board adjustments for domestic loans incurred and for inter-governmental lending. To assist this task, CBBH was invited to carry out the reconciliation exercise at a unit level.

*Deadline: October 2020 EDP notification*

- (37) Eurostat took note of the database on debt securities that is maintained in CBBH by the GFS unit, based on various data sources (stock exchange, website of MOFs, etc.). This database assists in the calculation of the Maastricht debt and the debt at market value as well as of the stock-flow adjustments in the EDP table 3B. The CBBH will provide to Eurostat a comparison between the calculated AF.3/F.3 and the information reported in the general ledger, by main entities for the past four years.

*Deadline: April 2021 EDP notification*

- (38) In contrast to debt securities, the information on domestic loan liabilities (AF.4/F.4L) is scattered, deriving only from counterpart information. Eurostat recommended that CBBH eventually collects the loan liability information by counterparts (against banks,

residents, general government units, others) either from the general ledger or as a separate reporting on debt by government accountants.

*Deadline for reporting to Eurostat: April 2021 EDP notification*

### **3.3. GFS tables**

#### *Introduction*

Under the IPA 2015 project, the BiH statistical authorities transmitted to Eurostat ESA tables 2, 9 and the National Tax List (NTL) for years 2015-2018.

#### *Discussion and methodological analysis*

Eurostat took note of the progress achieved in compilation of GFS statistics under the IPA 2015 project and expressed similar expectations for improvement in the next IPA 2017. In addition, Eurostat reminded the BiH statistical authorities that, in each transmission of GFS tables, the time series reported should include, apart from the newly reported years/ quarters, the previous series, including updated figures, if relevant. Furthermore, the BiH authorities were encouraged to eliminate internal and inter-tables inconsistencies, before transmission to Eurostat.

The compilation of COFOG statistics was also discussed. Currently, it is the MoF of each 'Entity' collecting the COFOG data that are available by a spending unit. In fact, most of spending units report only one code. Eurostat explained the importance of introducing in general ledgers the collection of COFOG data in early stages of building up the data sources. Accordingly, the BiH statistical authorities, mainly the MoFs, were invited to prepare a short note, explaining how COFOG compilation was being performed, particularly, how COFOG codes were assigned by various compiling units and how this could be improved. The note will notably refer to the exploitation of general ledgers of individual spending units that is carried out by the compiling units. The CBBH informed Eurostat about its intention to transmit COFOG data by the end of 2019 for the first time. Eurostat stressed the importance of each 'Entity' making available detailed disaggregated information to the statistical authorities (BHAS and CBBH) irrespective of whether a separate compilation by the 'Entity' takes place. All transmissions of data are to be made by either BHAS or CBBH in accordance to agreement between those two.

#### *Findings and conclusions*

(39) The CBBH will transmit to Eurostat whole time series of ESA tables in each transmission round, including in the case when no revisions occurred, notably when this would imply a break in time series in absence of revisions. The EDP historical tables will be revised accordingly.

*Deadline: each reporting to Eurostat*

(40) The BiH statistical authorities (MOFs) will write a short note explaining how COFOG compilation is being performed, particularly, how COFOG codes are assigned by various compiling units and how this could be improved. The note will notably refer to the exploitation of general ledgers of individual spending units that is carried out by the compiling units.

*Deadline: October 2020 EDP notification*

#### **4. Overview of EDP and GFS statistics work, including EDP and ESA Transmission Programme tables**

##### **4.1. Reporting to IMF – ‘Eurostat option’ for annual data – Infra-annual reporting**

###### *Introduction*

The reporting to the IMF and, mainly, using the Eurostat option for transmission of annual and quarterly data was discussed in the Eurostat’s technical visit in 2017.

###### *Discussion and methodological analysis*

A discussion on the ‘Eurostat option’ did not take place due to time constraints.

#### **5. Infra annual data**

##### **5.1. Q-GFS**

###### *Introduction*

Currently, quarterly GFS data are not transmitted to Eurostat by the BiH statistical authorities.

###### *Discussion and methodological analysis*

The BiH statistical authorities informed Eurostat that, under the IPA 2015 framework, the compilation of GFS quarterly data continued. Concerning the ESA table 28, Eurostat pointed out at a regular practise of transmitting the quarterly debt to the IMF and World Bank and, therefore, requested the BiH authorities to provide to Eurostat an updated table 28.

###### *Findings and conclusions*

(41) The BiH statistical authorities will report to Eurostat the quarterly Maastricht debt (ESA table 28), as an outcome under IPA 2015 project, also taking into account the fact that CBBH regularly sends quarterly debt to the IMF and to the World Bank.

*Deadline: end of March 2020<sup>7</sup>*

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<sup>7</sup> The ESA table 28 was provided on 20 December 2019.



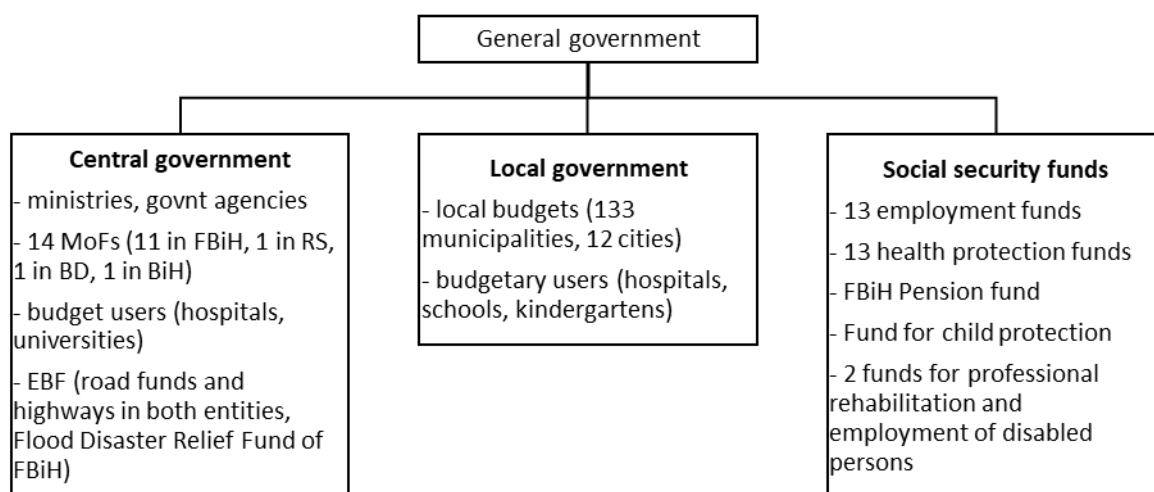
## 6. Methodological issues and recording of specific government transactions

### 6.1. Delimitation of general government sector according to ESA 2010, the 50% rule and qualitative criteria

#### 6.1.1. Units of general government

##### *Introduction*

According to the IPA 2015 Quality report provided to Eurostat in July 2019, the composition of the general government subsectors was the following:



##### *Discussion and methodological analysis*

The delimitation of the general government sector and, mainly, the publication of the list of general government units was discussed under agenda point 1.

#### 6.1.2. Subsectors of general government

##### *Introduction*

The GFS WG members could not in the past reach an agreement on the definition of subsectors of general government and on the allocation of units. This situation precluded the publication of the list of general government units.

##### *Discussion and methodological analysis*

During the meeting with members of the GFS WG, Eurostat understood that the delimitation of units to subsectors of general government was a persisting problem and emphasized that a disagreement on the sub-sectorisation of units should not prevent the publication of the list of general government units at S.13 level. As already mentioned in the discussion under agenda

point 1, the publication of the updated list is of highest priority for the BiH statistical authorities to update the sector coverage and, in this stage, information about the subsector does not necessarily need to be indicated.

### **6.1.3. Registers of general government units - Register of entities controlled by general government. Market/non-market criteria**

#### *Introduction*

The market/ non-market test is carried out by each 'Entity' and results are reported to the BHAS. Under the IPA 2015 project, the BiH statistical authorities in cooperation with an external expert worked on the formula of the market/ non-market test. The sector classification of public hospitals and public broadcasting companies was also discussed under this agenda point.

#### *Discussion and methodological analysis*

In the beginning, Eurostat enquired about the progress in developing an updated formula of the market/ non-market test. It was explained that the external expert analysed several cases of companies, using the publicly available information, and provided some recommendations on specific items to be included/ excluded from the calculation. Eurostat understood that the BiH authorities have not applied the recommendations by the time of the visit but they intended to progress in the context of the IPA 2017.

As already mentioned, each 'Entity' responsible for the application of the market/ non-market test and compilation of the list of non-market units to be included in general government. Such a list is afterwards provided to the BHAS and aggregated with lists of other 'Entities'. Eurostat requested that each of the 'Entities' provides the formula of the 50% test, referring to items of the business accounting, and a note on the procedure for the sector classification of units. Eurostat took note that a list of public units existed and asked the BiH statistical authorities to circulate it to the GFS WG and to Eurostat, requesting the results of the market/ non-market test.

Concerning the classification of public hospitals, the BiH statistical authorities confirmed that all of them were public and classified in S.13, however, not necessarily reflected correctly in ESA accounts. The main reason is lack of relevant data, implying that transactions are not recorded in correct ESA categories, B.9 is only partially impacted and debt is not impacted at all, despite some hospitals having debt. This is in particular the case of the biggest hospital in Sarajevo, for which no information could be obtained neither by the BiH statistical authorities nor by the canton. The BiH statistical authorities committed to consult the GFS WG on the way to obtain relevant data for public hospitals.

In BiH, there are three separate public TV and radio broadcasting companies. The main source of the revenue is a tax collected on the basis of a TV/ radio ownership. Therefore, the 'opt out' solution is not possible. The BiH statistical authorities confirmed that the activities of the public broadcasting companies were considered non-market and will be reflected in GFS/ EDP in correct ESA categories and in B.9.

### *Findings and conclusions*

- (42) The BHAS will circulate to the GFS WG, with copy to Eurostat, a list of public units appearing in the Business Register and will ask for confirmation that each of those public units has been tested for the qualitative and quantitative criteria by the statistical offices of the 'Entities' and of the District Brcko.

*Deadline: end of March 2020*

- (43) The statistical offices – members of the GFS WG – will provide Eurostat through BHAS with the business accounting underpinning the calculation of the 50% test, i.e. the precise formula specifying business accounting codes, together with a short explanatory note on the procedure followed for the evaluation of the qualitative and quantitative criteria.

*Deadline: end of March 2020*

- (44) The BiH statistical authorities will ensure that the activities of public hospitals, which are all considered as non-market units by BHAS, are appropriately reflected in GFS/EDP: correct expenditure breakdown, B.9, debt. The statistical authorities will consult the GFS WG on the party likely to be responsible for effectively obtaining data on public hospitals.

*Deadline for reporting to Eurostat: April 2021 EDP notification*

- (45) Similarly, the statistical authorities will ensure that the activities of public broadcasting companies that are considered as non-market units by BHAS are appropriately reflected in GFS/EDP: correct expenditure breakdown, B.9, debt.

*Deadline for reporting to Eurostat: October 2020 EDP notification*

#### **6.1.4. Public financial entities (development banks, export credit agency, deposit guarantee agency, restitution funds)**

##### *Introduction*

Under this agenda point, the classification of some specific public financial entities was discussed, such as the Export Credit Agency, two development banks and the Federal Agency for Privatisation.

##### *Discussion and methodological analysis*

##### Export Credit Agency (IGA)

The IGA is a government agency established to provide loans and guarantees to export companies. According to the Conceptual study provided to Eurostat within the IPA 2015 project, the IGA is managed by the Board of Directors that are appointed by government. The revenues mainly consist of fees from guarantees, property income and donations. In addition, the IGA received financing from the government (equity, borrowing) and from the international institutions (EBRD). The losses resulting from the IGA's operations are covered from the guarantee fund. According to the BiH statistical authorities, the IGA is currently in a bankruptcy procedure. In the BiH national accounts, the unit is classified in the monetary financial institutions subsector (S.122).

Eurostat considered that the entity was a pure government agency acting on behalf of government and for public policy purposes. The IGA is partly financed by the government and, as such, does not place itself at risk when acquiring assets and incurring liabilities on the financial market. Taking into account these elements, the IGA does not seem to be a financial intermediary according to ESA definition. In addition, the entity is currently in a bankruptcy procedure, implying that it would be government taking over potential obligations. Therefore, Eurostat considered that it should be included in the general government accounts.

#### Public development banks

In BiH, there are two development banks established by governments of the 'Entities' – the Federation Development Bank (FDB) created by the FBiH and the Investment and Development Bank of the Republika Srpska (IDBRS) created by the RS. Both are currently classified in the financial corporations sector (S.12).

The FDB was created with a mandate to provide financing for economic development, infrastructure and regional projects. The FDB is financed by the FBiH government and performing the objectives of public policy in this area. Eurostat considered that the entity was not exposed to risks by acquiring assets and incurring liabilities on its own account and, therefore, cannot be considered as a financial intermediary, but rather as a government agency classified in general government.

The IDBRS has a wide range of activities mainly aimed at the management of government assets, including the oversight of state-owned companies, supporting investments and economic development programmes, including the projects that are not directly profitable and the projects demanding large investments or involving a higher risk. The IDBRS does not accept deposits and, therefore, is not under the jurisdiction of the Banking Agency of the RS. Compared to commercial banks, it has limited obligations as regards the financial reporting or disclosing transactions. The IDBRS is financed by the RS government and, similarly to the FDB, does not place itself at risk when performing its lending and borrowing activities on the financial markets. Eurostat considered that the IDBRS acted on behalf of the government and thus it should be included in general government.

During the meeting, it was recalled that already two external experts as well as the IMF concluded that both development banks should be classified inside general government. Eurostat took note that, nonetheless, it was suggested by the BiH authorities to keep both entities classified in S.12 and enquired about the reason for this view. The BiH statistical authorities explained that the classification of units is under the responsibility of 'Entities' and, following the decision of the MoFs of the FBiH and of RS, both 'Entities' did not agree with their reclassification inside general government. Eurostat opposed this practice and underlined that the classification of units for statistical purposes is fully the responsibility of the statistical authorities and should comply with ESA rules, according to which both development banks are government controlled entities, not complying with the definition of a financial intermediary and, therefore, should be reclassified inside general government, based on the arguments above.

In order to support this statistical view, Eurostat pointed out at the possibility to request an official advice from Eurostat that might be published alongside the advice provided to Member States. Furthermore, Eurostat recalled a new 2019 MGDD guidance, introducing

rules for rerouting the operations carried out by public entities on behalf of governments or at their request. The BiH statistical authorities committed to approach both development banks in order to gather this information.

Under this agenda point, the sector classification of privatisation funds was discussed. While in the case of the RS, privatisations were entrusted to the IDBRS, the FBiH established the Federal Agency for Privatisation. As explained in the meeting, the Agency seemed to be exclusively financed from the proceeds from sale of assets. Eurostat considered that the current classification outside general government did not seem to be correct and requested the BiH statistical authorities to analyse and report the results.

#### *Findings and conclusions*

- (46) The CBBH will include accounts of the IGA, currently in a bankruptcy procedure, in the compiled government accounts over the reporting period. In particular, the IGA's debt should be reflected in the Maastricht debt.

*Deadline: October 2020 EDP notification*

- (47) Eurostat remarked that both development banks did not meet the definition of a financial intermediary prima facie despite being possibly financial institutions (captive financial institutions) funded exclusively by their sponsoring government units. Eurostat noted that two external experts as well as the IMF concluded that both development banks should be classified inside general government and enquired about the BHAS and CBBH views. The Eurostat's opinion resulted notably from the fact the both development banks are fully funded by their governments (by government assets in the case of the RS), they are not exposed to risk on their own account and both act on behalf of their governments. In addition, the RS development bank receives from its government the management of fixed assets, which is in fact the task given to the privatisation agency (classified in general government) in case of the FBiH. Eurostat flagged the possibility to request an official advice from Eurostat in case of doubts.

*Deadline for reporting to Eurostat: October 2020 EDP notification*

- (48) The BiH statistical authorities will enquire with each of the development banks the activities that could be subject to rerouting, being carried out on behalf of governments or at their request, taking into account the new MGDD 2019 chapter on rerouting.

*Deadline for reporting to Eurostat: October 2020 EDP notification*

- (49) The BiH statistical authorities will analyse the sector classification of the Federal Agency for Privatisation and report the results to Eurostat. The Agency is currently classified outside general government and seems to be exclusively financed from the proceeds from sale of assets.

*Deadline for reporting to Eurostat: October 2020 EDP notification*

### 6.1.5. Public transport companies

#### *Introduction*

The discussion focused on three particular public transport companies - *Zeljeznice Dobo* (*Zeljeznice RS*), *JP Zeljeznice FBiH* and the Sarajevo public transportation company *Kantonalno Javno Komunalno Preduzeće "Gradski saobraćaj" d.o.o.* (GRAS).

#### *Discussion and methodological analysis*

##### Railway company *Zeljeznice Dobo* (*Zeljeznice RS*)

The railway company is 65% owned by the RS. The results of the market/ non-market test, as calculated by the BiH statistical authorities, were not available to Eurostat. However, based on the calculation of an external expert in the IPA 2015 programme, it seemed that the company failed the 50% test for three consecutive years 2015-2017 and should be, therefore, classified inside general government. In the calculation, only subsidies on products were included in sales. Accordingly, Eurostat recommended to the BHAS to include the *Zeljeznice RS* on the list of general government units.

##### *JP Zeljeznice FBiH*

The Law on financing of railway infrastructure stipulates that the FBiH government and governments of cantons reimburse the *JP Zeljeznice FBiH* the difference between the overall costs of transport and the revenue generated. Furthermore, from the audit report on the company's financial statements for 2017, Eurostat understood that the FBiH government provided additional funds considered as an equity injection to the railway company, since the annual subsidies did not sufficiently cover the maintenance of railway infrastructure. Concerning the amortisation, the audit report questioned the book value of fixed assets recorded and thus the amortisation disclosed in the financial statements.

On this basis, Eurostat recommended to the BiH statistical authorities to carry out a detailed analysis of the subsidies paid by government, in particular whether they should be recorded as subsidies on products (D.31) or on production (D.39). Separately, the analysis should tackle recording of net assets of this company as well as the valuation method of fixed assets and the subsequent implication for the calculation of the 50% test (consumption of fixed capital/ amortisation).

##### Sarajevo Public Transportation Company (GRAS)

The GRAS is a public transport company providing transportation services in Sarajevo. It is 100% owned by the Sarajevo cantonal government. From the government, GRAS receives subsidies that cover losses incurred by providing services at low ticket prices and poor revenue collection. The company otherwise cannot cover operational costs without receiving government financing. Eurostat additionally noticed the large negative assets position (negative equity) which put a question mark on the autonomy of decision of the entity as well as on its market character. Accordingly, Eurostat considered that the company should be reclassified inside general government. In the case that the reclassification of the unit might prove not necessary, rerouting of the debt should be considered.

## *Findings and conclusions*

- (50) Following the results of the market/non-market test, BHAS will include the railway company of the *Zeljeznice RS* on the list of general government units. Accordingly, CBBH will include the accounts of this company to the compiled data.

*Deadline: October 2020 EDP notification*

- (51) Concerning the railway company *JP Zeljeznice FBiH*, Eurostat recommended a detailed analysis of the subsidies paid by government, in particular whether they should be recorded as subsidies on products (D.31) or on production (D.39). The statistical authorities will notably report the net assets of this company as well as the valuation method of fixed assets and the subsequent implication for the calculation of the 50% test (consumption of fixed capital/ amortisation).

*Deadline for reporting to Eurostat: October 2020 EDP notification*

- (52) Similarly, Eurostat wondered why the Sarajevo Public Transportation Company (GRAS) was not classified inside general government, given the large negative assets position (negative equity) which puts a question mark on the autonomy of decision of the entity as well as on its market character. Eurostat considered that even if a reclassification of the unit proves not necessary, a rerouting of the debt should be considered.

*Deadline for reporting to Eurostat: October 2020 EDP notification*

## **6.2. Implementation of the accrual principle**

### **6.2.1. Taxes and social contributions**

#### *Introduction*

According to the EDP Inventory, the main data source for direct taxes are budget execution reports, with the exception of data on indirect taxes that are collected through Indirect Tax Authority (ITA). The data on direct taxes is only available on a quarterly basis, whereas for indirect taxes on a monthly basis.

#### *Discussion and methodological analysis*

In the beginning, the BiH statistical authorities clarified that the main data source for indirect taxes are data received from the ITA. These data however differ from those reported by budgetary units in the general ledgers or in budget execution reports. As a possible reason for the difference, the BiH authorities mentioned a time lag between the actual cash collection by the ITA and the recording of the tax revenue in accounts of budgetary units. It was not clear whether some other reasons such as differences in sector coverage, tax settlements in kind or others might be relevant. The CBBH committed to analyse the issue and to report to Eurostat the difference in amounts. If it is confirmed that there is no difference in coverage, Eurostat recommended disregarding the amounts reported by budgetary units and, instead, to use the ITA figures. To reconcile the data, the BiH statistical authorities should impute appropriate adjustments in the financial and non-financial accounts, possibly by imputing current transfers (D.73) between the ITA and the units in question.

Prior to the visit, the BiH statistical authorities sent a calculation of accrual VAT and excise duties for the period 2014-2017, where the accrual VAT was calculated as cash VAT payments minus VAT refunds, adjusted by a one month time lag. Eurostat acknowledged the calculation of the accrual VAT, however, recommended recording the VAT on a gross basis, separating VAT refunds and applying an appropriate time lag. According to the Law on VAT, refunds should be paid within 2 months, but, as explained in the meeting, a real time lag might be up to 6 months. Thus, the BiH statistical authorities committed, after an evaluation of the average time lag, to record the VAT refunds on a time adjusted cash basis. Eurostat recalled that the pattern on tax refunds should be regularly monitored and, if relevant, the time lag might be adjusted or a one-off adjustment might be applied. As regards the EDP data, Eurostat expected that the BiH statistical authorities would report stocks and flows of other accounts receivable/ payable (F.8) related to taxes in table 5 of the Questionnaire relating to the EDP tables.

According to the BiH statistical authorities, data on direct taxes are available on a quarterly basis. In national accounts, direct taxes are currently recorded on a cash basis. According to the law, corporate taxes have to be declared and paid within 3 months after the end of a respective period. Eurostat therefore suggested that prepayments of corporate taxes paid in the year T were to be recorded in the same year and final settlements paid in March (T+1) to be moved to the year T.

Eurostat took note that refunds of corporate taxes due by government may occur in the year T+2, i.e. 13 months after the end of the relevant period. As explained by the BiH authorities, the respective amount should already be known in the course of the year T+1, using information from tax declaration. In such case, Eurostat recommended to include the amounts in the calculation of taxes for the year T.

#### *Findings and conclusions*

- (53) The BiH statistical authorities will follow the method of time adjusted cash (TAC) for indirect taxes in the next delivery of EDP/ GFS data, e.g. using the one month time lag for VAT. Furthermore, they will report the data in the table 5 of the Questionnaire relating to the EDP tables accordingly, both transactions and stocks (in particular, the stock in the year T is then equal to the cash collected in January T+1).

*Deadline: October 2020 EDP notification*

- (54) Eurostat recommended that VAT refunds are adjusted by the time lag of 3-6 months, after an evaluation of the average time lag, and that the related other accounts payable (F.8pay) are reported in the Questionnaire table 5. In addition, the pattern on tax refunds should be regularly monitored; applying, if necessary, either an ad-hoc adjustment or changes in time lags.

*Deadline: October 2020 EDP notification for VAT refunds and each EDP/GFS reporting for monitoring the time lag*

- (55) Regarding direct taxes, Eurostat agreed that the prepayments (notably PAYE, 'pay as you earn') in the year T as well as the final settlements paid in T+1 could be recorded in year T. Although the actual payments of refunds due by government may occur in



year T+2, the information is known in the course of T+1 and thus can be used for the compilation of the year T. As regards the final settlement, Eurostat expected the amount to be known before the October T+1 EDP notification and be subject of reliable forecast in the EDP notification of April T+1.

*Deadline: October 2020 EDP notification*

- (56) Eurostat recommended that the CBBH use figures of the ITA appropriately adjusted, instead of the indirect taxes reported by budgetary units in the general ledgers or in budget execution reports. It was presumed that the difference reflected the time lag between the actual cash collection and the recording of the tax revenue in budgets by budgetary units. The CBBH will report to Eurostat the difference in amounts and will confirm, after an adequate investigation, that the difference does not reflect other issues such as units' coverage, tax settlements in kind, etc. If it is confirmed that no difference in coverage is expected, the amounts reported in the general ledger can then be neglected, i.e. ITA figures should be used and appropriate adjustments for non-financial and financial source data should be made, having de facto a nature of an internal transfer between the ITA and the units in question (or cash in transit).

*Deadline for reporting to Eurostat: October 2020 EDP notification*

### **6.2.2. Interest**

#### *Introduction*

According to the EDP Inventory, main data sources for interest on debt securities are government reports and information from two stock exchanges in the RS and FBiH, and the MBS in the case of loans.

The adjustments for accrual interest are recorded in national accounts for debt securities. The interest on domestic loans is included in the stock of debt and cannot be separated according to the MBS. In case of foreign loans, data on accrued interest are not available.

As concerns the debt securities, the accrued interest is calculated using day count convention (Real by Real number of days). For debt securities issued at discount/ premium (recorded as negative expenditure), the difference between the face and redemption value is spread over the maturity. Most of treasury bills are issued at discount. Government bonds are mainly issued with coupon and, in some cases, at discount and with coupon (both central and local governments) and at premium and coupon (central government bonds).

#### *Discussion and methodological analysis*

The discussion on the recording of interest did not take place due to time constraints.

### **6.2.3. Other expenditure and revenue – other accounts payables/receivables, gross fixed capital formation**

#### *Introduction*

In the EDP Inventory, the BiH statistical authorities clarify that, due to unavailability of data, some such as subsidies or repayments of arrears are recorded on a cash basis. In case of other items, such as compensation of employees, intermediate consumption, current transfers, a time lag of one month is applied. As regards the gross fixed capital formation, receipts for disposal of non-financial assets are recorded on cash basis. The expenditure for acquisitions of non-financial assets are recorded on an accrual basis, in the period when the obligation is created, regardless of the cash payment. Balance sheets of government units are not used for statistical purposes due to unreliable data on stocks and valuation of non-financial assets.

#### *Discussion and methodological analysis*

The discussion did not take place due to time constraints.

### **6.3. Recording of specific government transactions**

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

##### *Introduction*

Data on guarantees are currently not available, except for one-off cases such as the guarantee provided to the export agency IGA, currently in a bankruptcy procedure.

##### *Discussion and methodological analysis*

The discussion did not take place due to time constraints.

#### **6.3.2. Capital injections in public corporations**

##### *Introduction*

According to the BiH statistical authorities, governments provide different forms of assistance to a number of public corporations (railway companies, utility companies, etc.). The relevant data for performance of the capital injection test are however not collected. The issue is currently analysed in the framework of the IPA projects.

##### *Discussion and methodological analysis*

The discussion did not take place due to time constraints.

#### **6.3.3. Dividends and super dividends**

##### *Introduction*

The main data source for data on dividends are financial reports of the MoFs at the BiH and 'Entities' levels. No adjustments for super dividends were applied in GFS/ EDP data reported to Eurostat. Prior to the visit, the BiH statistical authorities sent a calculation of super dividends for the CBBH and BH Telecom. For dividends received by cantonal and local governments, the super dividend test is not applied.

##### *Discussion and methodological analysis*

The BiH statistical authorities clarified that the super dividend test was applied, for the first time, as a part of the IPA 2015 project, for dividends paid by the CBBH and the BH Telecom, using the operating profit for 2014-2018 and excluding expenditures on write-offs, provisions and revaluations. As a result, super dividends were identified in the case of the CBBH for 2014-2017 and for the BH Telekom in 2017-2018. No adjustment for the withdrawal of equity in F.5A was however recorded in GFS/ EDP.

Eurostat considered that for a consistent recording of super dividends between non-financial and financial accounts, a negative transaction in equity (F.5A) was to be recorded. In addition, the BiH statistical authorities were encouraged to start reporting data on dividends in the Questionnaire table 10.

#### **6.3.4. Public-Private Partnerships (PPP), licences and concessions**

##### *Introduction*

According to the publicly available information, BiH has a legal framework covering the concessions and PPP projects separately at the level of 'Entities' as well as of BiH.

##### *Discussion and methodological analysis*

Upon the Eurostat's enquiry, the BiH statistical authorities confirmed that they were not aware of any existing concession and PPP projects.

#### **6.3.5. Social contributions, imputed social contributions**

##### *Introduction*

In the RS, social contributions are compulsory payments paid by employees and by self-employed persons. In the FBiH, social contributions are in addition paid by employers.

##### *Discussion and methodological analysis*

Eurostat pointed out that social contributions were recorded as employees' social contributions (D.613) without a parallel recording of Employers' actual social contributions (D.611) and asked the BiH authorities to correct the recording. Furthermore, it was noted that employers' actual social contributions (D.121/ D.611) are applicable for certain number of employers.

##### *Findings and conclusions*

(57) The CBBH should report in the ESA tables 2/ 9 the Employers' actual social contributions (D.611) alongside the Employees' social contributions (D.613). It was noted that employers' actual social contributions (D.121/ D.611) are applicable for certain number of employers.<sup>8</sup>

*Deadline: next reporting of ESA tables 2/ 9 to Eurostat*

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<sup>8</sup> A future development of D.122 and D.612 (imputed contributions) may also prove necessary.

### **6.3.6. FISIM**

#### *Introduction*

In the BiH national accounts, FISIM was not integrated into the compilation system as of 2017, due to the fact that it is based on GFSM methodology, which does not apply FISIM.

#### *Discussion and methodological analysis*

The discussion did not take place due to time constraints.

### **6.3.7. Consumption of fixed capital**

#### *Introduction*

The BiH statistical authorities do not report the consumption of fixed capital in ESA table 2 that has an impact on other ESA categories such as P.1, B.1g, B.1n, etc.

#### *Discussion and methodological analysis*

The recording of the consumption of fixed capital was discussed under agenda point 1. *Institutional responsibilities for EDP/ GFS data compilation.*

### **6.3.8. Privatisation**

#### *Introduction*

Eurostat took note that the BiH government planned to privatise the largest telecommunication operator BH Telekom, but the details were not available yet.

#### *Discussion and methodological analysis*

The recording of privatisations was discussed in agenda point 3.1 *EDP tables (October 2019 EDP notification).*

### **6.3.9. Specific government operations (BH-Gas d.o.o., repayment of war damages and old deposit savings)**

#### *Introduction*

Under this agenda point, some significant transactions with a potential impact on the deficit and debt were discussed.

#### *Discussion and methodological analysis*

#### Government decision in 1990s to repay war damages and old deposits

Many depositors in the former Yugoslavia, of which Bosnia was part until 1992, lost their foreign currency savings held with local banks during the war in the 1990s. The successor states of the former Yugoslav federal state recognised as their own state debt the lost deposits held by banks that were registered on their respective territories.

To repay the debt, the BiH government issued several tranches of securities over several years that were included in the debt as AF.3L/ F.3L. Furthermore, the BiH statistical authorities clarified that those securities were tradeable and could also be used to repay tax liabilities of holders. During the discussion, it was also considered that, if these securities were reimbursed in face value, they might be recorded as loans (AF.4/ F.4L). A possibility of recording as deposits (AF.2L) was also mentioned with regard to the infrequent trading and the fact that they can be used to pay tax obligations in their face value.

In addition, Eurostat understood that currently the estimated rather than validated amount was recorded in the debt. The BiH statistical authorities committed to investigate the nature of those instruments and their recording in public accounts, including the valuation.

#### BiH's wartime debt for gas and claims against Russia stemming out from clearing debt

In the period 1991-1995, the Russian federation delivered gas to BiH for a total of USD 104 million. According to the allocation key, the F BiH had to pay USD 54 million, while the debt of the RS amounted to USD 50 million. The household in the F BiH already paid off USD 7 million of the wartime debt, thus leaving USD 97 million still left to pay.

The debt against the Russian federation is formally owned by the BiH energy company Energoinvest but, in fact, as a debt arising from wartimes, it was taken over by the BiH government. The BiH statistical authorities however confirmed that it was never included in government accounts. Eurostat therefore recommended creating a notional unit in the central government that would record the liability as debt (AF.4/ F.4L) due to its nature of a long-term trade credit. The BiH statistical authorities and Eurostat will further reflect on the recording of the interest accrued/ penalties due, having in mind the currently ongoing negotiations.

In relation to the clearing debt owed by the Russian federation (originally by former USSR) to BiH for the export of goods in the past, in 2017 both parties signed an intergovernmental agreement to settle USD 125 million. The lump sum was paid in 2018 and distributed among the BiH 'Entities' according to an allocation key. In public accounts of 'Entities', the lump sum was recorded as revenue or as a sale of assets. The BiH statistical authorities confirmed that in GFS/ EDP statistics the repayment of the claim was reclassified to a financial transaction.

#### Involvement of the Deposit Insurance Agency in bankruptcy of three private banks

The bankruptcy of three private banks and, mainly, the involvement of the Deposit Insurance Agency (DIA) was discussed. According to the BiH statistical authorities, in the last five years, the DIA recorded recoveries in relation to the three bankrupted banks and repaid deposit holders for small amounts. Eurostat asked the BiH authorities to report the size of those recoveries.

Eurostat took note that also some general government units lost deposits in the three bankrupted banks. In GFS/ EDP data, the CBBH recorded a negative transaction in deposits (AF.2/ F.2), however without recording expenditure, thus implying a statistical discrepancy. Eurostat recalled that the operation should be recorded as other economic flows under normal circumstances. If however considered that the build-up of government deposits in those banks

was intended to support the banks before bankruptcy, the operation should be recorded as a capital transfer payable by government.

The following discussion focused on the classification of the DIA, currently classified in the financial auxiliaries subsector (S.126). The DIA is financed from contributions received from banks that are paid on a compulsory basis and whose amount is fixed by the government. In case the resources of the DIA were not sufficient to intervene, government would provide additional financing. The BiH statistical authorities agreed that the DIA was acting on behalf of government and, although it was not officially included in the list of general government units, it should be classified inside general government. The CBBH was requested to incorporate the DIA's operations in government accounts.

### *Findings and conclusions*

- (58) The BiH statistical authorities, in consultation with Eurostat, will clarify whether the debt securities issued in the context of compensation for war damages and for old deposits have the nature of debt securities (AF.3L) or rather of loans (AF.4L) or even deposits (AF.2L), notably having in mind their infrequent trading and the fact that these can be used to pay tax obligations in their face value.

*Deadline: October 2020 EDP notification*

- (59) In relation to the previous action point, Eurostat understood that the Maastricht debt included the face value of those securities. Nonetheless, the BiH statistical authorities will clarify the recording of the liability in the general ledger (seemingly reporting the total potential obligation rather than the validated obligation).

*Deadline: October 2020 EDP notification*

- (60) Eurostat recommended reporting the obligation to the Russian Federation originating from gas deliveries in the 1990s within the government ESA balance sheet, for instance by recognising a notional unit. This liability has a nature of a refinanced trade credit and should be therefore recorded as debt (AF.4L). The statistical authorities and Eurostat will reflect on the recording of the interest accrued/ penalties due, having in mind the current negotiations relating to burden sharing.

*Deadline: April 2020 EDP notification*

- (61) The BiH statistical authorities will report to Eurostat the size of recoveries in relation to the three cases of bankrupted banks, involving interventions of the DIA. Eurostat took note that the DIA was conceptually on the list of general government units and invited the CBBH to record the operations accordingly.

*Deadline: October 2020 EDP notification*

- (62) Eurostat took note that some general government units lost deposits in those bankrupted banks, currently recorded in ESA as transactions in deposits (F.2), with no expenses, thus creating a statistical discrepancy. Eurostat invited the CBBH to adjust the recording as other economic flows, unless the build-up of government deposits in those

banks was intended to support the banks before bankruptcy (in ESA to be recorded as a capital transfer payable by government).

*Deadline: October 2020 EDP notification*

### **6.3.10. Others: emission trading permits, sale and lease-back operations, securitisations, financial derivatives**

#### *Introduction*

In BiH, there are three telecommunication operators *JP BH Telecom d.d. Sarajevo* (BH Telecom), *Telekomunikacije RS a.d. Banja Luka* (Telekom Srpske) and *JP Hrvatske Telekomunikacije d.d. Mostar* (HT Mostar). In 2009, the Communications Regulatory Agency (*Regulatorna agencija za komunikacije - RAK*) sold licences for EUR 15 million to all three operators to be repaid in instalments in the following 7 years, with a 2-years' grace period. In national accounts, the BiH statistical authorities recorded rent (D.45) spread over seven years.

The following sale of frequencies was planned in 2019 for KM 17.5 million, to be repaid in instalments in the period 2019-2023.

#### *Discussion and methodological analysis*

Due to time constraints, the discussion on the subject did not take place.

## **7. Other issues**

### **7.1. Any other business**

No issues were raised under this agenda point.

# **Eurostat technical visit to Bosnia and Herzegovina**

**12-14 November 2019**

## **Final agenda**

### **1. INSTITUTIONAL RESPONSIBILITIES FOR EDP/GFS DATA COMPILATION AND REPORTING**

1.1. Draft Memorandum of Understanding and current working arrangements

### **2. DATA SOURCES FOR EDP/GFS STATISTICS**

2.1. General ledger reports, profit and loss, balance sheet, budget execution and evaluation of data sources

2.2. Reconciliation of data and consolidation

### **3. ANALYSIS OF EDP TABLES AND GFS DATA**

3.1. EDP tables (October 2019 EDP notification) provided in October 2019

3.2. Compliance of the general government debt of Bosnia and Herzegovina with Maastricht debt definition

3.3. GFS tables

### **4. OVERVIEW OF EDP AND GFS STATISTICS WORK, INCLUDING EDP AND ESA TRANSMISSION PROGRAMME TABLES**

4.1. Reporting to IMF – ‘Eurostat option’ for annual data – Infra-annual reporting

### **5. INFRA ANNUAL DATA**

5.1. Q-GFS

### **6. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS**

6.1. Delimitation of general government sector according to ESA 2010, the 50% rule and qualitative criteria

6.1.1. Units of general government

6.1.2. Subsectors of general government

6.1.3. Registers of general government units - Register of entities controlled by general government. Market/non-market criteria



- 6.1.4. Public financial entities (development bank, export credit agency, deposit guarantee agency, restitution funds)
- 6.1.5. Public transport companies
- 6.2. Implementation of the accrual principle
  - 6.2.1. Taxes and social contributions
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- 6.3. Recording of specific government transactions
  - 6.3.1. Government guarantees (one-off and standardised), guarantee calls
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  - 6.3.7. Consumption of fixed capital
  - 6.3.8. Privatisation
  - 6.3.9. Specific government operations (BH-Gas d.o.o., repayment of war damages and old deposit savings)
  - 6.3.10. Others: emission trading permits, sale and lease-back operations, securitisations, financial derivatives

## **7. OTHER ISSUES**

- 7.1. Any other business

## **Eurostat technical visit to Bosnia and Herzegovina**

**12-14 November 2019**

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