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Directorate D – Government finance statistics (GFS)

Luxembourg,

FINAL FINDINGS

EDP Dialogue Visit to LATVIA

5 – 7 July 2022 (Part I)

12 July 2022 (Part II)

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EXECUTIVE SUMMARY

Eurostat carried out a standard EDP dialogue visit to Latvia on 5-7 July (Part I) and on 12 July 2022 (Part II, via videoconference). The purpose of the meeting was to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of data sources, to examine the classification of some categories of institutional units and to review the recording of specific transactions, in the context of the COVID-19 crisis and in the context of the high energy prices.

Firstly, the statistical capacity issues concerning institutional arrangements, quality management framework and the audit control currently in place were reviewed. No major changes since the previous EDP dialogue visit were observed. The Central Statistical Bureau (CSB) is responsible for preparing and submitting the EDP notifications to Eurostat. Since 2018, the compilation of the annual financial accounts (ESA tables 6 and 7) is under the responsibility of the Bank of Latvia. The CSB confirms the final EDP data prior to submitting to Eurostat. CSB occasionally uses reports of the Court of Auditors (CoA) to control the quality of the upstream data used in the EDP statistics compilation. The CoA performs audits on the implementation of the State budget and concerning the budgets of local governments. In addition, ministries have occasional internal audit exercises, although not on methodological issues. The municipalities are also audited by external auditors.

Regarding human resources and capacity for EDP and GFS work, in the previous dialogue visit the Latvian statistical authorities were encouraged to ensure an adequate resourcing and the capacity to retain the required expertise, following some relatively high staff turnover that could have negative implications on the overall quality of the Latvian EDP/ GFS data. Eurostat took note that two new experts have joined and currently there are 10 employees at the CSB who are responsible for preparing government financial statistics. Eurostat welcomed the improved and more stable situation.

In relation to the revision policy, there were no changes since the previous EDP dialogue visit, although CSB is in the process of updating the revision policy. In addition, CSB informed that the next benchmark revision is planned in 2024, but the revision for some issues will be already implemented in 2023. Concerning the availability of data sources and compilation of the annual financial accounts (ESA tables 6 and 7) and their consistency with ESA table 27 and EDP table 3, Eurostat welcomed the improved coordination among the institutions involved, which led to resolving some inconsistencies between non-financial and financial accounts. Eurostat also noted that the current EDP inventory needs to be updated in certain areas.

Concerning data reporting under Directive 2011/85/EU, Eurostat invited the Latvian statistical authorities to consider adding details to the monthly data published on the web site of the Ministry of Finance to make this publication more useful to users, including Eurostat.

As a follow-up of the 2019 EDP dialogue visit, the application of the market/non-market test as well as the qualitative criteria in deciding the sector classification of a number of units were discussed, among them, *Rigas Satiksme* (Riga bus company), *Latvijas Dzelzceļš* (railway company) and *Tiesu Nama Agentura* (services and real estate company). Other matters discussed as a follow-up of the previous dialogue visit included the statistical treatment of the joint venture *Eiropas Dzelzcela linijas SIA* and of the *Rail Baltica* project, the recording of social contributions, recovered amounts by the Deposit Guarantee Fund as well as on the issue of compensation scheme concerning electricity subsidies made through *Latvenergo.*

As a follow up of the April 2022 EDP notification, the main points discussed were related to the implementation of the Single Tax Account and the clarification of the transactions reported as D.75 expenditure. Eurostat also inquired about the EU flows (including those related to the Recovery and Resilience Facility), military expenditure, recording of interest and financial derivatives. Furthermore, the recording of specific government operations such as capital injections, dividends, guarantees and the recording of measures in response of the COVID-19 crisis and of the high energy prices.

The certain aspects related to the Special Drawing Rights recording as reported in the EDP table 3B, Public Private Partnerships, concessions, Energy Performance Contracts and Emission Trading Permits (under the ETS system) were also discussed. Eurostat thanked the Latvian statistical authorities for the co-operation prior and during the dialogue visit.

FINAL FINDINGS

Introduction

In accordance with Article 11(1) of Council Regulation (EC) No 479/2009, as regards the quality of statistical data in the context of the Excessive Deficit Procedure (EDP), Eurostat and the Latvian statistical authorities agreed to carry out an EDP dialogue visit to Latvia on 5-7 July 2022 (Part I) and videoconference meeting on 12 July 2022 (Part II).

The delegation of Eurostat was headed by Mr Luca Ascoli, Director, Directorate D 'Government Finance Statistics (GFS)'. A representative of DG ECFIN participated in the meeting as observer. The Latvian authorities were represented by Central Statistical Bureau of Latvia (CSB), the Ministry of Finance (MoF), the Treasury of Latvia and the Bank of Latvia.

The previous Eurostat EDP dialogue visit to Latvia took place on 2 and 4 December 2019.

Eurostat carried out this EDP dialogue visit to review institutional responsibilities in the field of government finance statistics, including EDP reporting, to assess the exhaustiveness of data sources used for EDP data compilation. Eurostat also reviewed the implementation of the ESA2010 methodology, for the delimitation of general government as well as for the recording of specific government transactions, notably in the context of the COVID-19 crisis and of the measures taken in the context of the high energy prices.

With regard to procedural arrangements, the *Main conclusions and action points* would be sent to Latvia for review. Then, within weeks, the *Provisional findings* would be sent to Latvia for review. After this, in accordance with Article 13 of the EDP Regulation, the *Final Findings* will be sent to Latvia and the Economic and Financial Committee (EFC) as well as published on the website of Eurostat.

Eurostat appreciated the relevant background material provided by the Latvian statistical authorities prior to the EDP dialogue visit. Eurostat also thanked the Latvian statistical authorities for their good co-operation and productive discussions during the EDP dialogue visit.

1. STATISTICAL CAPACITY ISSUES

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

1.1.1. Institutional cooperation and EDP processes

Introduction

The Government Finance Section of the Central Statistical Bureau (CSB) is responsible for preparing and submitting the EDP notifications to Eurostat. The EDP tables are compiled by the CSB. The planned data in EDP Table 1 is provided by the Ministry of Finance. CSB prepares the non-financial accounts and the Maastricht debt, both annually and quarterly for all the sectors of general government. Since 2018, the compilation of the annual financial accounts is under the responsibility of the Bank of Latvia. The CSB confirms the final EDP data prior to submitting to Eurostat.

Discussion

Eurostat enquired whether there have been any changes as regards the organizational structure in the CSB, the cooperation between the institutions involved in EDP statistics and asked for a brief overview of the EDP data production process, focusing on issues of resources and sharing of responsibilities.

CSB informed that there had been no changes in the institutional arrangements since the previous EDP dialogue visit in December 2019.

The legal basis for the collection and compilation of EDP data is Cabinet Regulation Nº 756, from 22.12.2015 setting the procedures for preparing the EDP notifications, including the identification of the main national authorities involved, their reporting responsibilities and corresponding deadlines. This regulation also prescribes that the CSB should regularly organize working groups and inter-institutional meetings to carry out a comprehensive investigation of methodological issues and data sources, as well as an analysis and assessment of the notification results. CSB is responsible for leading the Latvian EDP working group, comprising the representatives from the MoF, the Treasury and the Bank of Latvia.

Legal basis for the collection and compilation of fiscal data is the Law „On Budget and Finance Management" (adopted on 24.03.1994 with amendments and the corresponding Cabinet Regulations), and Cabinet Regulation No. 51 of 29.01.2019 "Procedures for the Preparation and Submission of Quarterly Reports".

The Central Financial and Contracting Agency, the Ministry of Defence, the State Social Insurance Agency, and the Court of Auditors (CoA) do not regularly participate in the working group but are present whenever required.

In terms of the division of responsibilities, the Bank of Latvia is responsible for the compilation of the annual financial accounts – meaning ESA tables 6 and 7 - since 2018.

CSB is the entity responsible for the sector delimitation of units and for the definition of the list of entities by subsector of general government for national accounts purposes. This list of entities is published on the website of CSB, together with the lists for other sectors (NPISH, financial sector and corporations classified as households).

Regarding the human resources and capacity for EDP work, Eurostat questioned the current state of play having in mind CSB's need to reinforce their team due to mobility of staff in the EDP and GFS area as highlighted during the previous EDP dialogue visit. Eurostat also expressed some concerns that staff turnover could have negative implications on the overall quality of the data that Latvia reports. CSB informed Eurostat that two new GFS / EDP experts have joined and currently there are 10 employees at the CSB who are responsible for preparing government financial statistics.

Findings and conclusions

Eurostat welcomed the CSB's information and took note on the improved and more stable situation.

1.1.2. Quality management framework

Introduction

CSB informed prior the EDP dialogue visit that there had been no changes in the quality management framework since the previous EDP visit in December 2019.

Discussion

The Latvian statistical authorities confirmed that there is a CSB quality assurance framework in place. The CSB's quality policy complies with the European Statistics Code of Practice and consists of the CSB's vision, mission, core values and commitment to meet the requirements, to follow good practice and to ensure continuous improvement. Furthermore, management systems of CSB are certified according to the requirements of the ISO 9001:2015 standard "*Quality management systems – Requirements*" and information security management system standard ISO 27001:2013.

Findings and conclusions

Eurostat took note on the information provided by Latvian statistical authorities as regard the quality management framework.

1.1.3. Audit and internal control arrangements

Introduction

CSB informed prior the EDP dialogue visit that there had been no changes in the audit and internal control arrangements since the previous EDP visit in December 2019.

Discussion

Eurostat enquired whether there have been any formalised or informal cooperation with the Court of Auditors. CSB informed that they occasionally use reports of the CoA to control the quality of the upstream data used in the EDP statistics compilation. The results of the CoA's audit on the implementation of the State budget and of the budgets of local governments is made publicly available on its website every year in September. In addition, ministries have occasional internal audit exercises, although not on methodological issues. The municipalities are also audited by sworn auditors (external audits). The CoA only audits public accounts.

Findings and conclusions

Eurostat took note on the information provided by Latvian statistical authorities on the issue of audit and internal control arrangements.

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

Introduction

Prior to the EDP dialogue visit CSB informed Eurostat that there had been no changes in the data sources and revision policy since the previous EDP visit in December 2019.

The statistical data are revised in accordance with the scheduled revision cycle and plan, storing the information on errors in data sources or calculations found after the publication date and before the following scheduled data publication date, thus avoiding too frequent data revisions.

Unscheduled (major or benchmark) data revisions are rare and are undertaken only in cases when the revision volume according to the evaluation of the CSB experts affects the quality of other statistical data.

In public accounts, the general government consolidated budget includes the central and the local consolidated budgets. In terms of alignment with national accounts, there is a different sector delimitation for social security funds, as in public accounts the State Social Insurance Agency is included in the central government special (social) budget.

The Treasury is the entity responsible for the state budget financial accounting, which is on an accrual basis for all government units and public corporations (except for taxes). The financial statements in the public accounting system in Latvia are available both on cash and accrual (business accounting) basis at all levels, including down to the entity level. The balance sheets are produced at the lowest level (unit level) and then consolidated at more aggregated levels for the central and local government (ministries and districts respectively), except for the reclassified units. These statements use the national budget classification (rather than accounting codes) and have a reference to the counterpart sector classification. The GFS data are compiled using the budget (cash) plus the accrual adjustments from an extract of the balance sheet, which has some detail by transaction.

Discussion

Eurostat observed that the current revision policy described on CSB webpage dates from 2017. CSB confirmed this and informed Eurostat that currently they are in the process of updating the document by replacing the old regulations. In addition, CSB informed that the next benchmark revision is planned in 2024, but the revision for some issues will be implemented already in

2023. Eurostat welcomed this information and recalled that revision of the 2019 MGDD edition ([1]) will take a place by the beginning of 2023.

Findings and conclusions

Eurostat thanked Latvian statistical authorities on information provided ae regard benchmark revision.

1.2.1.1. Status of ESA Table 6/7 versus ESA Table 27/EDP Table 3

Introduction

The aim of this agenda item was to review the status of the discrepancies between ESA table 6/7 and ESA table 27 as well as EDP table 3 as it was an open action point from the 2019 EDP dialogue visit.

During the 2019 EDP dialogue visit Eurostat enquired whether the inconsistency between EDP and ESA tables 6 and 7 continued. The Latvian statistical authorities explained that, usually, the differences observed between QFAGG and ESA tables 6/7 are stemming from differences in vintages. However, in the Latvian case, it is also since the Bank of Latvia prioritizes Balance of payments (BoP) and monetary financial institutions (MFIs) statistics and only thereafter refers to QFAGG. Eurostat noted that the national statistical institute is responsible for these ESA transmission program tables and had merely delegated their compilation to the Bank of Latvia as a trusted party. This arrangement does not change the fact that the rules of ESA 2010, as interpreted by the Commission, are to be enforced. Eurostat stressed the importance of prioritizing direct government source data in the preparation of QFAGG.

Discussion

The Latvian statistical authorities sent, prior the 2022 EDP dialogue visit, the current state of play regarding the open action point from the 2019 EDP concerning the data sources and the compilation of the annual financial accounts, ESA tables 6 and 7 and their consistency with the ESA tables 27 and EDP table 3. The Latvian statistical authorities explained the improvements done, ensuring that the annual financial accounts data are fully aligned with the data of the ESA table 27 (QFAGG) and the EDP table 3 for time series 1998-2020. Since the compilation of the annual financial accounts was transferred from the CSB to the Bank of Latvia in 2018, the Latvian statistical authorities explained that Bank of Latvia prioritized government accounts over other data sources in the compilation of the Annual Financial Accounts. Furthermore, Bank of Latvia had reclassified the *Parex/Reverta* unit from the financial corporations' sector to the central government sector in the year 2011/2012 (according to Eurostat's recommendation during the 2019 dialogue visit). The Latvian statistical authorities also informed Eurostat that EU funds recording is harmonized, also ensuring the consistency with the Balance of Payments statistics, and that the valuation at market value of debt securities and own funds is harmonized, benefiting from Bank of Latvia's expertise on the compilation of stocks of financial assets / liabilities. The Latvian statistical authorities explained that the fully aligned data among listed data sets are available at the beginning of October each year, after regular data transmission and revision. In

([1]) The 2022 edition of Manual on Government Deficit and Debt was published on 1 February 2023.

case of updating government data after a regular data transmission, Bank of Latvia updates the annual financial accounts data during the next revision round according to their revision policy.

The Latvian statistical authorities also informed about the better coordination existing among the institutions involved in resolving the inconsistency between non-financial and financial accounts and of the efforts done to revise data in line with the revision policy.

Findings and conclusions

Eurostat stressed out importance of annual financial accounts data that are fully aligned with the data of the ESA table 27 (QFAGG) and the EDP table 3, and welcomed the good improvement done in removing the inconsistences discussed during the 2019 EDP dialogue visit and subsequent EDP notifications. Eurostat thus considers that this 2019 EDP dialogue visit action point is accomplished with further monitoring of the work and development from the Latvian statistical authority's side.

1.2.2. Compliance with Council Directive 2011/85

Introduction

In accordance with the requirements of *Council Directive 2011/85/EU* of 8 November 2011 (*Chapter II Article 3.2*) on budgetary frameworks of the Member States, the Ministry of Finance of Latvia publishes the relevant fiscal data and reconciliation table on their website ([2]).

Eurostat recalled the importance of complete and reliable public accounting practices for all sub-sectors of general government, as they are a precondition for the production of high-quality statistics that are comparable across Member States. Therefore, as Eurostat is a user of the fiscal data, their availability and transparency is crucial to understand the evolution of the working balance (starting line of EDP table 2A) over the years and to avoid additional questions during the EDP notifications.

Discussion

Eurostat pointed out that according to the Council Directive 2011/85 Member States are obliged to ensure timely and regular public availability of fiscal data for all sub-sectors of general government on monthly and quarterly frequency and to ensure that the starting line of EDP table 2A corresponds to an item voted in Parliament (as the balance of the State budget is the opening line of EDP table 2A) or to otherwise present a reconciliation between both items.

Eurostat observed that the Latvian budget balance for 2021 was in line with the opening line of EDP Table 2A, but not for 2020. The Latvian statistical authorities explained that data for 2020 had been revised after the 2022 April EDP notification. In addition, Eurostat questioned whether the monthly data could be published on the Ministry of Finance web site, according to the *2011/85 EU Council Directive*, as this would show consistency between working balance and

([2]) https://www.fm.gov.lv/en/fiscal-data budgetary data. The Latvian statistical authorities explained that they would consider the proposal.

Eurostat noted that the data published refers to three items (revenue and expenditure totals and the corresponding balance) and it explained that the data should be disaggregated to at least the main revenue and expenditure categories to become more useful to the users.

Eurostat enquired on the coverage of the data for non-performing loans of general government (as published under the Directive), and whether they have included information on public corporations classified inside general government, for instance on *Parex Banka*. In addition, Eurostat observed the difference on the data of non-performing loans published on MoF web site with those published by Eurostat and asked whether these loans are the *Parex Banka* loans. The Latvian statistical authorities informed that these non-performing loans do not include *Parex Banka* on which Eurostat replied that, as this unite *Parex Banka* is now inside of the government, its loans should be included in the table of non-performing loans.

In connection with *Parex Banka*, Eurostat observed that in the Supplementary table for reporting government interventions to support financial institutions, there were associated government liabilities of EUR 77 million for the period 2012 -2021. Eurostat asked on the nature of these liabilities and whether they are included in Maastricht debt or not.

The Latvian statistical authorities explained these liabilities are towards the former owner of *Parex Banka*, and that they are currently under dispute. Latvian courts have already ordered stopping the payments of interest on these liabilities. Eurostat pointed out that the EUR 77 million of liabilities is in average, across the years, around 0,6 % of the reported Latvian debt and therefore the Latvian statistical authorities need to investigate it in more detail and inform the Eurostat on the outcome.

Findings and conclusions

***Action point 1**:* The Latvian statistical authorities will consider adding details to the monthly data published on the web site of the Ministry of Finance according to the *2011/85 EU Council Directive*, along the lines suggested by Eurostat during the meeting, to make this publication more useful to users and to Eurostat. This would notably entail also showing the budgetary central government sub-sub-sector (consistently with the working balance of EDP table 2A) as well as sufficient detail in revenue and expenditure items.

Deadline: end-November 2023

Action point 2: *Parex Banka* and all its successors' entities should be included in the table of nonperforming loans according to the *2011/85 EU Council Directive.*

Deadline: end-November 2022([3])

Action point 3: The Latvian statistical authorities will check whether the subordinated liabilities of government (EUR 77 million) towards the ex-owner of *Parex Banka* (containing deposit as

([3]) A note was provided confirming that *Parex Banka* and all its successors' entities are included in the table of non-performing loans. AP is closed.

well as securities reclassified as loans) should be removed from Maastricht debt or not (and if yes, from which date and by what flow), given the fact that these debt liabilities are currently under dispute, that Latvian courts have already ordered stopping the payments of interest on these liabilities, and that interest previously paid may have to be refunded. In this context, the Latvian statistical authorities will send to Eurostat a note on this issue.

Deadline: end-September 2022([4])

1.2.3. EDP Inventory

Introduction

Regarding the EDP Inventory, the Latvian statistical authorities updated and published the last version in 2020, following the Eurostat recommendations during the 2019 EDP dialogue visit as well as considering the implemented changes according to the 2019 MGDD edition.

Discussion

Eurostat observed, that under institutional responsibilities for the compilation of general government national accounts and EDP tables, the Central Statistical Bureau should be listed as co-responsible for the elaboration of the annual financial accounts of government together with the Bank of Latvia.

Furthermore, under the description on availability and use of basic source data for the main central government units, Eurostat enquired why there is no mentioning that the profit and loss accounts exists as a source data. The Latvian statistical authorities explained that this is not a typical profit and loss account report. Eurostat queried whether budgetary units maintain full balance sheet or only partial, in case they have full balance sheet, in general, there is profit and loss statement.

The Latvian statistical authorities confirmed the existence of the chart of accounts reports with revenues and expenditures as a source of data even though not entirely used yet. In connection with the basic data sources, Eurostat questioned on the *"FAP"* reporting as described in the Inventory under the details of basic data sources. The Latvian statistical authorities explained that these are statistical statements for the annual financial reports of the companies reclassified to government called "*Financial assets and liabilities*" of year n-1 (1-FAP) and for quarterly financial reports of these companies reclassified to government *"Financial assets and liabilities"* by quarter of year n-1 (2-FAP).

Eurostat asked if these reports contain accounting data such as profit and loss, balance sheets, statement of assets or cash flow statements. If yes, they should be profit and loss reports. In addition, Eurostat encouraged the Latvian statistical authorities to review the current title of these reports from "*Financial assets and liabilities*" to, for example, *"Statistical statements"* adding into the brackets, "*of profit and loss / balance sheets*". Additionally, Eurostat recommended to the Latvian statistical authorities, that the title *"Statistical statements"* should be used in a consistent manner across the EDP Inventory when mentioning the surveys containing accounting data: profit and loss, balance sheets, statement of assets, cash flow

([4]) The action point is under repeated discussion with Eurostat since October 2022 EDP notification.

statements and possibly other related tables.

Eurostat suggested to the Latvian statistical authorities, to adapt the EDP Inventory in relation to the reclassification of units' practice. For instance, to clarify that, while reclassifications of units are implemented without delay for large entities, reclassifications are otherwise carried out at the next general national accounts revisions, which is acceptable to the extent that, in Latvia, these are typically more frequent than the benchmark revisions.

Regarding the project activities on decommissioning costs, currently described on page 98 of the EDP Inventory, the Latvian statistical authorities will update it incorporating some new information disclosed during the meeting.

Findings and conclusions

***Action point 4*:** The Latvian statistical authorities will adapt the EDP Inventory:

a) As per a result of the reason that the Central Statistical Bureau is disclosed as co-responsible for the elaboration of the annual financial accounts of government together with the Bank of Latvia.
b) The Latvian statistical authorities should make clearer, in the table of availability and use of basic source data in the EDP Inventory, that profit and loss accounts are also available as source data for the main central government unit(s) (although not used yet).
c) Other changes to the EDP Inventory will also be implemented by the Latvian statistical authorities along the lines discussed during the meeting, notably regarding basic data sources. They will, in particular, systematically refer in a consistent manner across the text to "*statistical statements*", in a number of places of the EDP Inventory, when referring to surveys containing accounting data: profit and loss, balance sheets, statement of assets, cash flow statements, and possibly other related tables. They will also detail the actual content of the "1 FAP" and "2 FAP" reporting (which include profit and loss, revenue/expenditure, despite their name, aside from financial assets and liabilities).
d) The Latvian statistical authorities will adapt the EDP Inventory in relation to the reclassification of units practice, notably to clarify that, while reclassification of units is implemented without delay for large entities, reclassifications are otherwise carried out at the next general national accounts revisions, which is acceptable to the extent that, in Latvia, these are typically more frequent than the benchmark revisions.
e) The Latvian statistical authorities will update the EDP Inventory (page 98) in relation to decommissioning, to incorporate new information.

Deadline: June 2023 ([5])

2. FOLLOW-UP OF THE EDP DIALOGUE VISIT OF 2-4 DECEMBER 2019

Introduction

Most of the action points from the previous EDP dialogue visit were accomplished, except some that have a more continuous nature (AP.3 and AP.10), some under evaluation (AP.2, AP.7, AP.11, and AP.16) and some considered still in progress (AP.12, AP.20, AP.21, and AP.24).

([5]) The EDP Inventory is updated by all points.

Regarding AP.3 and AP.10 that are considered as open due to their continuous nature, AP.3 is on resources and capacity for EDP/GFS compilation, and it is mentioned under agenda point statistical capacity issues ([6]) while AP.10 is ongoing and refers to on CSB reporting of developments on classification of *Tiesu Nama Agentura* ([7])under agenda point of delimitation of general government.

Furthermore, out of the four pending open action points, two were mentioned under agenda point of data sources (AP.2 and AP.7), one within the point of delimitation of general government sector (AP.11) and the last one under the point of taxes and social contributions (AP.16).

Three (AP.20, AP.21, and AP.24) out of four action points still in progress are mentioned under this agenda point, and AP.12 (on developments related to the *Rail Baltica* project) is mentioned under the point of delimitation of general government. The AP.20 is about *PNB Banka* claims, AP.21 refers to the supplementary table on government support to financial institutions and AP. 24 is on the recording of the one-off compensation scheme concerning electricity subsidies to *Latvenergo*.

Discussion

Eurostat requested prior the EDP dialogue visit a progress report explaining the status of action point AP.20) in relation to *PNB Banka, (*founded in 1992 operated under the name of *Norvik Banka* until November 2018, was the sixth-largest bank in Latvia, with total assets of EUR 550 million). The Latvian statistical authorities explained that, on 15 August 2019, the Single Resolution Board decided that a resolution action for *PNB Banka* was not necessary, and that the bank would be wound up under national law ([8]). *PNB Banka'*s liabilities to Latvia's Deposit Guarantee Fund (DGF) amounted to EUR 142.2 million (EUR 262.2 million paid to depositors, from which EUR 120.0 million had been recovered).

Eurostat questioned whether further losses were expected. The Latvian statistical authorities indicated that they estimate further EUR 66.5 million losses following the liquidation of the bank. Although nothing was reported in the April 2022 EDP Notification, thus amount will be included in the October notification. Eurostat concluded thus that the provisions of EUR 66.5 million should be recorded in 2021 as capital transfers (D.9), while noting that if there are further revisions then these will also be treated as capital transfers of 2021.

Eurostat also discussed the situation of *AS Latvijas Krājbanka*. This bank went to insolvency in 2011. Prior to the 2019 EDP visit, CSB had clarified that, regarding the issue of insolvency, they had recorded the claim of the DGF towards the bank, in EDP and GFS tables.

Regarding the AP.21 on the supplementary table for reporting government interventions to support financial institutions, Latvian statistical authorities provided a note informing about the changes made in the note since the last EDP dialogue visit in December 2019.

Furthermore, the Latvian statistical authorities explained that the 2010 reclassification of *Parex* liabilities inside government was done through the other changes in volumes and the B.9 has not been changed for any year. In addition, the Latvian statistical authorities provided the

([6]) This action point is discussed under agenda point 1.1.1. Institutional cooperation and EDP processes.
([7]) *Tiesu Nama Agentura* is classified in general government following the Eurostat advice published in 2018.
([8]) https://www.srb.europa.eu/en/content/pnb-banka-srb-decides-no-resolution-required

supplementary table showing reclassification of *Parex Banka* inside general government asset back in 2010.

Eurostat thanked the Latvian statistical authorities on the updated table and explanations regarding this action point. In addition, Eurostat commended the recording and encouraged the Latvian statistical authorities to revise the time of recording of the B.9 impact of the financial rescue to be closer to year 2008.

As concerned the AP.24 on recording of the one-off compensation scheme concerning electricity subsidies to *Latvenergo,* the issue is discussed under points 4.3.6.1 and 4.3.6.2.

Findings and conclusions

***Action point 5*: ** In relation to *PNB Banka* the Latvian statistical authorities will record EUR 66.5 million in capital transfer in 2021, corresponding to the provision newly appearing the DGF on EUR 142 million claim against *PNB Banka* (EUR 262 million paid out to depositors minus EUR 120 million recovered). Re-estimates of this provision will be recorded as revision of 2021.

Deadline: end-September 2022([9])

Action point 6: Eurostat will provide its comments on the Supplementary tables on government support to financial institutions (financial crisis table), which has much improved in recent years. The Latvian statistical authorities may want to take the opportunity of the new chapter of the MGDD on defeasance structure to revise the time of recording of the B.9 impact of the financial rescue possibly closer to year 2008.

Deadline: end-November 2022 for Eurostat, June 2023

3. ANALYSIS OF EDP TABLES – FOLLOW UP OF THE APRIL 2022 EDP NOTIFICATION

Introduction

The aim of this agenda item was to review the April 2022 EDP notification. The main issues discussed during the notification regarded two corrections in 2021 in other accounts payables of the central government (S.1311) working balance (undivided contribution paid to Single Tax Account and RRF), the recording of taxes and social contributions for 2020 and 2021 due to implementation of the Single Tax Account (STA) ([10]) system in January 2021 and the recording of EU financial instruments for 2018-2020. In addition, clarifications were also requested in relation to the recording of D.75 expenditure.

Discussion

Concerning the increase in miscellaneous current transfers (D.75) expenditure in 2021, during the April 2022 EDP notifications Eurostat raised questions and requested further breakdown of

([9]) A note was provided that EUR 66.5 million was recorded as capital transfer (D.9) in 2021.

([10]) The issue of Single Tax Account is discussed under point 4.2.1.1 Impact of the implementation of the Single Tax Account (STA) this expenditure item, either by specific program or by beneficiaries and required to explain the link of those expenditure with the ones reported in Covid-19 table as well as clarify the comparison of D.75 revenues with D.75 expenditures.

As the answers from the Latvian statistical authorities were not clear during the April 2022 notification, Eurostat concluded that this issue would need to be discussed during the 2022 EDP dialogue visit. The Latvian statistical authorities provided prior to the visit a separate Excel file on the budget revenue and expenditure coded D.75 for the 2020 and 2021.

The Latvian statistical authorities also explained that the main increase of other current transfers (D.7) expenditure between 2020 and 2021 (by ~ EUR 550 million) was in budget expenditure code 3262 - grants of central and local government budget to enterprises, ports, and special economic areas. In addition, the Latvian statistical authorities explained that only part of the code 3262 - 99.00.00 program (Use of contingency funds) is attributable to COVID-19 expenditure.

Eurostat compared the large increase of D.75 revenue of EUR 267.3 million and D.75 expenditure increase of EUR 703 million, asking for explanation what explain the increases and whether there is something from the revenue side that need to be consolidated. Latvian statistical authorities explained that due to the impact of the Covid-19 measures, the expenses of D.75 increased significantly in 2021, while the D.75 revenues increased but with smaller scope.

Also, the Latvian statistical authorities noted that is difficult to compare two separate reports prepared by the Treasury and the total data for COVID-19 expenditure are taken from the special Treasury report.

Furthermore, Eurostat enquired regarding the accrual adjustments for creditors in D.75 (EUR +100 million for central government and EUR +200 million for general government). Eurostat was under the impression that majority of these amounts belong to other ESA categories and should therefore be reconciled among intermediate consumption (P.2), gross fixed capital formation (P.51) and subsidies on products (D.31). In addition, Eurostat asked why the STA adjustment of EUR + 108 million shown within the adjustment line, as it should not be there.

Latvian statistical authorities informed that they would check all entries and correct the table. Eurostat also enquiring on the proportion of health payments that is paid to private hospitals and asked Latvian statistical authorities for confirmation of the classification of these payments (and those to public hospitals) in provisional and in final national accounts/GFS. Eurostat also asked for clarification why the payments to private hospitals were classified in miscellaneous current transfers (D.75) instead of being classified in social transfers in kind — market production purchased by general government and NPISHs (D.632).

Eurostat noticed that adjustment for *Altum* in 2020, should be EUR 173 million and not only EUR 138 million as EUR 138 million was not used by *Altum.*

Eurostat also observed, within the Excel file on the budget revenue and expenditure coded D.75, that revenues, from the sale of confiscated criminal assets and of additional confiscation of property, (code 12160) and revenue from the sale of confiscated criminal assets (code 12161), both amounted to EUR 43 million in 2020 and went to zero in 2021. Eurostat enquired what would be reason for such decrease. Latvian statistical authorities responded that they would need to check the data and the entries provided within the table and would come back with the explanation.

Finally, Eurostat inquired on the reason why there is no neutrality in the corrections of reclassified enterprises as Eurostat noticed the difference of EUR 70 million between 2020 and 2021.

In overall, Eurostat stressed out that note explaining the largest contributions to the D.75 expenditure level would be very much appreciate for further follow up and to see whether the increase in some D.75 is not due to increase in D.75 revenue.

Findings and conclusions

Action point 7: The Latvian statistical authorities will provide a note documenting the large increase in D.75 expenditure in 2021 (as well as in D.75 revenue, though to a lesser extent), currently unexplained and for significant amounts. To this effect, they will take the opportunity of the regular annual/biannual reconciliation exercise carried out in summer (e.g., involving the proper allocation of transactions across the national accounts) to correct the following entries in D.75:

- The accrual adjustments for creditors (EUR +100 million for central government and EUR +200 million for general government unconsolidated) that are probably largely belonging to other categories: intermediate consumption, P.51, subsidies (notably the EUR 16 million on energy, see below), etc.

- The accrual adjustments for debtors (EUR +20 million for central government and EUR +40 million for general government unconsolidated) that may be belonging to other categories and/or may concern the expenditure side rather than the revenue side (e.g., advances to suppliers: intermediate consumption, P.51).

- The STA adjustment (EUR +108 million, see above, or EUR +105 million), which was somewhat surprising (see below).

- The payments to private hospitals (for an amount to be determined, see below), which are temporary classified in D.75 in provisional accounts, to be reclassified in D.632.

- The adjustment for *Altum*, which, in 2020, should presumably be EUR 173 million and not only EUR138 million, given that, whereas EUR 138 million was not used by *Altum*, the remainder is nonetheless coded D.9 rather than D.75. (The Latvian statistical authorities will also verify the -EUR138 million entry for 2021 for *Altum* correction for general government unconsolidated, in this table that seems to be a typo, as the corrections should seemingly be EUR -10 million for that year).

In order to justify the increase in D.75 expenditure in 2021, the Latvian statistical authorities will, in particular, explain/review the consolidation and reclassification/adjustments practices used when deriving the D.75 flows.

- The Latvian statistical authorities will explain why there is no neutrality in the corrections of reclassified enterprises. This explanation will notably clarify why there is a EUR 70 million difference in these corrections between 2020 and 2021 (Excel file cells, number 99, and number 102, discussed during the dialogue visit).

The Latvian statistical authorities will also verify whether some of the increase in D.75 expenditure is not due to increases in D.75 revenue.

Deadline: end-September 2022, with a first report to Eurostat mid-September 2022([11])

Action point 8: The Latvian statistical authorities will report to Eurostat the proportion of health payments that is paid to private hospitals and will confirm the classification of these payments (as well as those to public hospitals) in provisional as well as in final national accounts/GFS.

Deadline: end-September 2022([12])

Action point 9: The Latvian statistical authorities will review/discontinue its current accrual adjustment approach, avoiding allocating accrual adjustments to expenditure or to revenue depending on whether the other accounts is a payable or a receivable, respectively, instead of adjusting according to the nature of the underlying transaction (i.e., a receivable can be an advance to a supplier, and a payable can be a due to a supplier). They will examine the possibility to ultimately use the detailed chart of accounts/balance sheet codes discussed during the meeting to this effect (i.e., code 1280 to be used for accrual adjustment of P.52 etc.).

Deadline: March 2023([13])

Action point 10: The Latvian statistical authorities will explain why the proceeds from criminal assets (code 12160 and 12161) go from EUR 43 million in 2020 to zero in 2021, and whether this would be linked to the steep increase (EUR+43 million) in the correction for "*internal adjustment (D52 to D7)*" to D.75 revenue (which could then be reversed).

Deadline: mid-September 2022([14])

4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

4.1.1. Application of market/ non-market test qualitative and quantitative criteria

Introduction

The CSB carries out a regular analysis (market/non-market test) of all units with central or local government participation in the unit's stock capital equal or exceeding 50%, until 20 December of every year.

Prior the EDP dialogue visit Eurostat requested a progress report on the status of the action point 10 of 2019 EDP dialogue visit as regard *Tiesu namu aģentūra*. The company was classified in

([11]) This action point has been under repeated discussion with Eurostat since October 2022 EDP notification.

([12]) A note was provided explaining that proportion of central government payments to private hospitals is 2%. It is also confirmed that classification of these payments, as current transfers within general (D.73), is used in provisional as well as in final national accounts and government finance statistics (GFS).

([13]) The table of balance sheet accounting codes (with the relevant ESA codes for the transition to the accrual principle), provided in April 2023 notification was not clear enough, the updated information was provided in the October 2023 notification.

([14]) Latvian statistical authorities informed that there was technical error in the 2021 data and the proceeds from criminal assets (codes 12160 and 12161) in that year were EUR 64.5 million.

general government following Eurostat's advice, on which the company sent a letter of disagreement to the statistical authorities. Eurostat took note on the state of play and invited the statistical authorities to report on any development. Furthermore, Eurostat requested a note explaining the status of AP.12 of the 2019 EDP dialogue visit on *Eiropas Dzelzceļa līnijas SIA* ([15]) national implementing body of *Rail Baltica* project in Latvia.

Discussion

Eurostat thanked to the Latvian statistical authorities on the provided list of new general government units and those removed by sub-sectors. In addition, Eurostat appreciated the note provided on the frequency and methods applied in the market/non-market test routine as well as the chart of accounts with the exact formula used for the quantitative test, by reference to the codes of the business accounts applicable in Latvia.

The Latvian statistical authorities explained that for the market/non-market test the data on financial activity provided in the annual reports of the previous five years (n-6 to n-1) are used. If the unit's net turnover minus the received general or local government budget assignations has been less than 50% of the unit activity costs (including net interest payments) for at least the previous three years, the unit is related to the general government sector.

As regard the AP.10 on *Tiesu Namu Aģentūra (TNA)*, the Latvian statistical authorities provided a note explaining that there are no developments regarding this company since the previous EDP dialogue visit. In addition, they explained that TNA provides statistical data (quarterly and annual) but still does not agree with its inclusion in general government sector. The accounts *of Tiesu Namu Aģentūra* (*TNA)* are included in the summary of general government. Eurostat took note on the information provided and indicated that the situation needs to be followed-up and requested to be informed on any developments.

According to the AP.12, the Latvian statistical needed to provide to Eurostat the profit and loss account and the balance sheet of the entity *Eiropas Dzelzceļa līnijas SIA* and verify that the principle of neutrality of the EU flows for general government accounts is ensured for the flows involved in the *Rail Baltica* project. The Latvian statistical authorities were also asked to send to Eurostat the financial statements of the joint venture *RB Rail AS*. The Latvian statistical authorities and Eurostat would then reflect on the appropriate statistical treatment of this intergovernmental joint venture, considering the work carried out by the EDPS WG.

The Latvian statistical authorities explained that *Eiropas Dzelzceļa līnijas SIA* (unit reclassified to S.13) is *Rail Baltica's* national implementing body in Latvia and that the principle of neutrality of the EU flows for general government accounts is ensured for the flows involved in the *Rail Baltica Project.* The Latvian statistical authorities also explained that the design phase of the project began in 2016, with design activities at the Riga Central Passenger Station and the Riga International Airport passenger station in Latvia to be continued until 2023. It was also explained that the construction of the *Rail Baltica* infrastructure started in 2019, the first operations should start on some of the sections by 2028 and the overall corridor should be completed by 2030.

([15]) In the 2015 EDP visit, Eurostat confirmed the classification of the holding company *Eiropas dzelzceļa līnijas* in general government (as a reclassified entity, not as a budget institution) and the joint venture *RB Rail* in the non-financial corporations' sector of Latvia as a foreign-controlled non-financial corporation (S.11003).

Eurostat thanked the Latvian statistical authorities on the detailed information provided and recalled that the Latvian statistical authorities need to keep the current recording of *Rail Baltica* while considering the pending EDPS WG decision on the joint venture treatment.

Findings and conclusions

***Action point 11*:** The Latvian statistical authorities will keep the current recording of *Rail Baltica*, pending deliberations of the EDPS WG regarding the possible generalization of the joint venture treatment (ESA 20.318 paragraph) that is currently extended for military assets in the forthcoming MGDD and that is also applied by some Member States in some specific cases (as for the Lyon-Turin rail tunnel).

Deadline: on-going ([16])

4.1.2. Sector classification of specific units (Rigas Satiksme - Riga Bus Company); (Latvijas Dzelzceļš - Railway Company)

Introduction

Prior the 2019 EDP dialogue visit to Latvia, Eurostat published on its website the advice letter to Latvia on the sector classification of *Rīgas satiksme* (19 November 2019). The company did not seem to be working under market circumstances and with a sufficient market behaviour. Thus, Eurostat supported on the 2019 EDP dialogue visit the CSB's sector classification proposal of *Rīgas satiksme* in S.13. *Rīgas satiksme* is a municipal limited liability transportation and infrastructure company in Riga. The costs of the company are only marginally covered by transportation ticket sales and parking fees collected from the public. The company has so far been considered a public market producer as the considerable number of subsidies it receives from the Riga municipality and the State budget to compensate for passengers receiving fare discounts are currently predominantly recorded as D.63 – social transfers in kind and are booked within sales for the purpose of the 50% criterion. CSB informed having received a letter from *Rīgas satiksme* questioning the decision of their inclusion in the general government sector, opining that they are market producers.

Regarding the sector classification of *Latvijas Dzelzceļš (LDZ*), the public railway infrastructure manager in Latvia and *Pasažieru Vilciens (PV)*, a passengers' service company, the sector classification of these companies was discussed during the previous dialogue visit, including action point 11 recommending the Latvian statistical authorities to re-examine the classification of *LDZ* by compiling a new 50% criterion replacing the flows related to purchases and sales of assets, using a grossing-up depreciation coefficient, considering amortizing construction in progress, excluding the fees collected from the passenger operator and ensuring that investment grants are not netted from the amortization used for the test.

Discussion

([16]) According to the information provided for the 2023 October EDP notification, all 2022 MGDD changes will be implemented during the benchmark revision in 2024.

The Latvian statistical authorities provided prior the dialogue visit a note explaining that *LDZ* is the only public railway infrastructure manager in Latvia, it is classified in S.11 and receives payments from transport operators for the use of railway infrastructure according to the Railway Law.

In addition, the Latvian statistical authorities provided information that *PV*, a public transport service provider that carries passengers in the whole territory of Latvia by rail, is the only railway company receiving an infrastructure costs compensation from Government. Based on the quantitative market/non-market test results, PV has been reclassified into the government sector starting from the 1st quarter of 2009.

The Latvian statistical authorities explained that they followed Eurostat's recommendation from the previous dialogue visit for conducting the 50% market criterion. The data discussed on the mission showed that PV is correctly classified in the general government sector, as the result of the test was below 50% (around 30% for the whole period tested -2017-2021-). Eurostat indicated that payments received by PV from government to support the cost of infrastructure fees should be treated consistently when performing the test.

The new 50% criterion the Latvian statistical authorities preformed for *LDZ* showed a result above 50% for the period 2017-2019, while below for 2020 and 2021. Eurostat stressed out that, according to the information provided during the meeting, it is likely that the test will remain below 50% in 2022 and recommended to the Latvian statistical authorities to perform a new analysis considering expectations of the future market test results, especially in relation to the cargo subsidiary and the market behaviour of the entity (shown to be questionable from a qualitative point of view).

Findings and conclusions

Action point 12: The Latvian statistical authorities will perform again the 50% test on the railway passenger company (*Pasažieru Vilciens, JSC - PV*), in order to treat consistently, on the sale and the cost sides, payments received by PV from government to support the cost of infrastructure fees.

Deadline: end-December 2022([17])

Action point 13: The Latvian statistical authorities will reflect on the classification of the railway infrastructure company *(Latvijas Dzelzceļš - LDZ)*, considering the fact that the quantitative market test fell below 50% in the year 2021 and that, according to the information received, it is likely to remain below 50% in 2022. The classification analysis will consider expectations on the future market test results, notably having in mind the prospects of the cargo subsidiary (that currently significantly contributes to the company's sales), but also the fact that the market behaviour of the entity is questionable from a qualitative point of view (economically significant price definition).

Deadline: end-December 2022([18])

([17]) The 50% test was performed for the *Pasažieru Vilciens, JSC – PV*. The formula is applied consistently and the two last years remained below 50%.

Action point 14*:* The Latvian statistical authorities will adapt the 50% test formula for changes in inventories (for the ‘period cost method’) to show changes in inventories either as an adjustment to the nominator, or alternatively (as an approximation) to the denominator but with reversed sign.

Deadline: end-February 2023([19])

4.1.3. Public holdings and units engaged in financial activities

Introduction

Eurostat enquired on the state of play of the Deposit guarantee fund (DGF) and National Resolution fund (NRF), as these units were discussed on the 2019 EDP dialogue visit.

Discussion

The Latvian statistical authorities confirmed that the Deposit guarantee fund (DGF) and National Resolution fund (NRF) are classified in the central government subsector (S.1311).

Eurostat stated that the Latvian statistical authorities had completed the AP 13 concluded within the 2019 EDP dialogue visit ([20]) for which they needed to provide to Eurostat with the recording of DGF related transactions in nationa*l* accounts for the period 2010-2018, and to further confirm when and how the irrecoverable amounts relating to *AS Latvijas Krājbanka* were recognized.

The DGF does not act autonomously and is managed by the financial supervisor *"Financial and Capital Market Commission*" - *FCMC* (classified within the financial auxiliaries, S.126 sub-sector). According to the law, the *FCMC* shall ensure the accumulation of funds with the DGF, for the time being NRF is an empty shell, there was no resolution operation.

Findings and conclusions

Eurostat thanked to the Latvian statistical authorities and took note on the information provided.

4.1.4. Government controlled entities classified outside the general government sector

Introduction

Eurostat thanked the Latvian statistical authorities for providing the annual questionnaire on government-controlled units classified outside general government.

Discussion

([18]) The 50% test was performed for the *Latvijas Dzelzceļš – LDZ.* The data for 2017-2019 were slightly above 50% while 2020 and 2021 data remained below 50%.

([19]) The Latvian statistical authorities provided adapted 50% test formula for the *‘period cost method’*.

([20]) https://ec.europa.eu/eurostat/documents/1015035/9983802/Final-findings-EDP-dialogue-visit-LV-2-4-Dec-2019.pdf/4dcea88b-24c1-692b-7a03-0a1614a44c32

No major issues were pointed out. Eurostat noted that few NACE P85 (education) are included in the questionnaire, and CSB said they would verify whether the units are correctly classified.

Findings and conclusions

Eurostat took note on the CSB information.

4.2. Implementation of the accrual principle

4.2.1. Taxes and social contributions

4.2.1.1. Impact of the implementation of the Single Tax Account (STA)

Introduction

The Single Tax Account was introduced in Latvia on 1 January 2021. The main purpose of the STA is to reduce the administrative burden. Within the STA State budget payments are administered by the State Revenue Service (SRS), as the STA replaced the various existing tax accounts.

Eurostat thanked the Latvian statistical authorities providing the requested note regarding the Single Tax Account (STA).

In an STA arrangement, taxpayers' payments (and refunds) are credited in the STA, while tax obligations due are debited, with a regular netting of those entries being carried out, showing the STA either in debit or in credit for each taxpayer. Taxpayers do not (necessarily) anymore relate each payment to a given tax. From a budget reporting point of view, only the taxes debited and paid (that is taxes debited where the STA is/was in sufficient credit) is recorded as fiscal revenue (budget), rather than the credits themselves (assimilable to an advance or a deposit) or the debits (assimilable to a due for payment).

Discussion

The Latvian statistical authorities provided information as regards the impact of the introduction of STA. They explained that from the implementation of STA certain accumulation of cash flow is observed (mostly in December 2020 and January 2021) because, with introduction of the STA tax payments made in advance are not divided by type of tax until the tax liability actually arises.

For example, if Social Security Contributions (SSC) payable in February have been paid already in January, the payment will be attributed to SSC only in February and until then will be remain recorded in the STA, as a credit. Until 2021, cash flow paid in January was accounted in January, when the amount of money was received in the SSC account. From 2021, the amount paid in January is transferred to the STA and only in February, after submission of the Report for January, this amount is transferred from the STA to the SSC account. Given the unchanged practice of TAC of 1 month for SSC, the said January payment, which was recorded as a revenue of December prior the reform, is recorded as a revenue of January (which is more correct) after the reform.

The Latvian statistical authorities concluded that the implementation of the STA leads to a more correct tax recording. While advance payments by taxpayers were previously included in tax revenues when paid, after the implementation of STA, advances are held in the STA until declarations are submitted and obligations arise.

The cash amount deposited by the taxpayers in the STA is distributed to cover the taxpayer's obligations by tax type, typically using some sort of First In First Out - FIFO principle. The taxes that are included within the STA are: personal income tax, corporate income tax, value added tax, excise duties, natural resource tax, lottery gambling tax, mandatory state social insurance contributions, electricity tax, micro-enterprise tax, subsidised electricity tax, state duty for business risk, state duty for the rights to use numbering, licence fees, payments for the use of state capital and payments in accordance with claims made by tax administrations of the Member States of the European Union and other countries for the collection of tax debts.

Eurostat recalled that discussions on the STA started during the April 2021 EDP notification and continued during October 2021 and April 2022 EDP notifications. A key issue was the proper impact with respect to tax revenue (and B.9 impact) for 2020 as well as for 2021, the appropriate way to reflect the break in time series with respect to the stock of fiscal receivables end 2020, and more generally the appropriate recording of large observed flows in payables and in receivables.

Eurostat had required, prior the EDP dialogue visit, to receive an explanatory note on the recording of taxes and social contributions: other accounts receivable/payable (F.8) of general government as well as a table of comparable data on tax declarations.

The Latvian statistical authorities explained that the SRS does not have balance sheet disclosures per type of tax, which is the reason of using time-adjusted cash method for taxes (as agreed with Eurostat). Accordingly, a flow of other accounts receivable of general government arises based on the time adjustment calculated (for years 2020 and 2021, COVID related tax deferrals are also taken into account, following the Eurostat rules on this issue, which can be a complicating factor in the monitoring and discussions). Liabilities related to amounts to be passed to the second pillar are recorded as payables of general government.

Eurostat questioned the recording of the tax revenue in GFS/ EDP for 2021, seemingly too low, by EUR 101 million, suggesting that the Latvian statistical authorities should remove the ad-hoc downward additional correction currently implemented to the Time adjusted cash (TAC).

In addition, Eurostat suggested the Latvian statistical authorities to remove the other change in volume in payable (AF.8L) of EUR 108.4 million currently implemented in the year 2021, which will accordingly increase the flow of F.8 payable relating to STA reported in the Questionnaire table 4 as well as in the EDP table 2A (from EUR 237.6 million to EUR 346.3 million).

Eurostat noted that the changes should also be visible within the Questionnaire tables 4.1.1 and 5.

The Latvian statistical authorities explained that currently there is a EUR +108.4 million effect on B.9 in 2020 following an ad-hoc adjustment for 2020 (asked by Eurostat, done during the April 2021 EDP notification) due to the implementation of the STA. This adjustment had been recently re-estimated, to EUR +108.4 million, from EUR +80 million initially (allocated partly to taxes, while before it was a fully allocated to social contributions).

The Latvian statistical authorities indeed emphasized that the undivided amount of EUR 108.4 million existing at the end of January 2021 were added to 2020 Q4, following the Eurostat recommendation, despite constituting payments for future taxes.

The Latvian statistical authorities viewed this ad-hoc adjustment of EUR +108.4 million (previously estimated EUR 80 million) as increasing tax revenue in 2020. The EUR 101 million ad-hoc reduction in tax revenue of 2021 was thus necessary, from their point of view, to avoid overstating tax revenue over the long run.

The Latvian statistical authorities also explained that, in 2021 there is zero effect on B.9 from the undivided STA amount of EUR 346.0 million, which is included as inflow in the working balance, with EUR 237.6 million being neutralized through an increase in other accounts payable visible in EDP table 2A detail 6 (the 'undivided contributions' paid to STA), and with the EUR 108.4 million decrease in other accounts receivable (in EDP Table 2A, Table 2C, Table 2D, detail 1, difference in cash and time adjusted cash).

Eurostat repeated that the series of the stock of tax receivable suffered from a break in time series event due to a change in method, i.e., the receivable end 2020 (previous method) is higher than that on 1 January 2021 (new method). As a result, it is legitimate to calculate tax revenue in 2020 and in 2021 following two different AF.8 stocks, end 2020/beginning 2021, and to reconcile this by an OCV in AF.8 asset. While tax revenue (and associated B.9 impact) cumulated over time is indeed too high, the excess belongs to years 2020 and before, and cannot be allocated all in 2020. No adjustment to tax revenue can be carried for 2021 for that either.

Eurostat was informed that the B.9 impact of the removal of this EUR 101 million revenue correction in 2021 would nonetheless be neutral, because a compensating ad-hoc correction to D.7 had also been recorded in 2021 by the Latvian statistical authorities (so to obtain the right B.9 impact while getting the tax revenue impact they considered appropriate). Eurostat questioned the tendency in Latvia to use D.7 as an adjustment item (see section 3 above, AP.7 to 10).

Regarding the general functioning of the STA, Eurostat recommended the Latvian statistical authorities to describe in detail the debit/credit entries in the STA, relating to the treatment of tax refunds, of tax credits, and of tax deferrals.

Furthermore, Eurostat enquired the Latvian statistical authorities regarding the social contribution flows collected by the Treasury on behalf of pension funds, as per AP16 from the 2019 EDP dialogue visit. During the October 2021 EDP notification the Latvian statistical authorities allocated to liabilities the amounts related to the social contributions to be passed to the second pillar, in EDP Questionnaire Table 5, instead of netting those amounts from the asset side in this Table 5 as was done in the past (that was resulting in artificially low AF.8 assets relating to SSC).

Latvian statistical authorities explained that, following the Eurostat suggestion, the time adjustment of social security contributions in 2021 October EDP notification was split between the social contribution's adjustments (one-month lag) as receivables of general government and liabilities related to the amounts to be passed (with delay 4 months) to the second pillar as payables of general government.

Eurostat thanked the Latvian statistical authorities on the work done regarding AP 16. Following the discussions on the STA, Eurostat recommended however the Latvian statistical authorities to further reflect on the appropriate presentation of these social contributions' flows collected by the Treasury/Social security and subsequently passed to second pillar pension funds, in the Questionnaire tables 5 and 4, and in the financial accounts.

By analogy with the STA liability, the Treasury liability towards pension funds is in fact not relating to S.13 revenue (but to S.12 revenue) and should presumably not be shown in Table 5 but in Table 4 as some form of cash in transit. Similarly, the part of the receivable on SSC to be passed to pension funds should not be shown as an asset of government in neither Table 5 nor Table 4 (but should rather be deducted from the said payable reflecting cash in transit).

As regards the STA liability of EUR 346.0 million the Latvian statistical authorities indeed confirmed that this amount is not shown in Questionnaire Table 5 but is shown under item 12g of Questionnaire table 4.1.2., as this amount cannot be strictly seen as an advance payment of any tax.

Findings and conclusions

Action point 15: Regarding the Single Tax Accounts (STA), the Latvian statistical authorities will correct the tax revenue in GFS/ EDP for 2021 by EUR 101 million, removing the corrections currently implemented to the Time adjusted cash (TAC) data (cash in the meaning of debited in the STA and paid). This may not have any sizeable B.9 impact given that another matching correction currently implemented to D.75 revenue of EUR +108 million would be simultaneously removed (see section 3 above, AP.7, third bullet).

Deadline: end-September 2022 ([21])

Action point 16: Regarding the STA, the Latvian statistical authorities will also remove the other change in volume in payable (AF.8L) of EUR 108.445 million currently implemented in the year 2021 and will accordingly increase the flow of F.8 payable relating to STA reported in the Questionnaire table 4 as well as in the EDP table 2A (from EUR 237.589 million to EUR 346.034 million). At the same time, the Latvian statistical authorities will remove the EUR 108.445 million (or EUR 101 million) correction currently made to the F.8 asset related to fiscal claims in both EDP table 2A and the Questionnaire tables 4.1.1 and 5. The Latvian statistical authorities will (keep/show) the other change in volume in fiscal receivable which should also be visible in the Questionnaire table 5.

Deadline: end-September 2022 ([22])

Action point 17: The Latvian statistical authorities will write a note on the general functioning (and the statistical implications) of the STA, describing in detail the debit/credit entries in the STA, notably relating to the treatment of tax refunds, of tax credits, tax deferrals and (see also below) of second pillar flows.

Deadline: end-January 2023 ([23])

([21]) All required changes were completed during the 2022 October EDP notification. Tax revenue in GFS/ EDP for 2021 has been corrected by EUR +101 million (removing the downward correction previously implemented to the Time adjusted cash data), and the D.75 revenue ad-hoc correction of EUR +108 million was removed as well.

([22]) All required changes were completed during the 2022 October EDP notification. The other change in volume in payable (AF.8L) of EUR 108 million implemented in the year 2021 in the Questionnaire table 4 as well in the EDP table 2A was removed. In addition, the downward correction (EUR -101 million) made to the F.8 asset related to fiscal claims in both EDP table 2A and the Questionnaire tables 4.1.1 and 5 was also removed.

([23]) A note was provided on the general functioning of the STA explaining the debit/credit entries in the STA relating to the treatment of tax refunds and tax deferrals (tax credits do not exist in Latvia). The note elaborates the mandatory social security contributions (including state funded pensions). The process of tax payments to STA is also provided. In a final paragraph, the statistical implications of the STA were explained.

***Action point 18*:** The Latvian statistical authorities will reflect on the appropriate presentation of the social contribution flows collected by the Treasury/Social security and subsequently passed to second pillar pension funds, in the Questionnaire table 5 and in the financial accounts. While Eurostat appreciated that the Latvian statistical authorities eventually followed the recommendation of Eurostat relating to AP.16 of the previous dialogue visit, Eurostat wondered (also considering the lessons of the STA) if a slightly different presentational approach could not be advantageously used. Following this new presentation, the Latvian statistical authorities may decide to report the payable to pension funds in Questionnaire table 4.1.2 but outside of Questionnaire table 5, and in addition may adjust the fiscal receivable (reported in Questionnaire tables 5 and 4.1.1.) for the amount to be passed to pension funds, and instead net those amounts from payables (Questionnaire table 4.1.2.).

Deadline: March 2023 ([24])

4.2.2. Interest and financial derivatives

Interest

Introduction

In Latvia, interest expenditures and revenues are recorded on a cash basis in the working balance (WB). For the calculation of central government securities interest on an accrual basis, the sources are the Treasury's financial accounting system and other data base of the Treasury.

Interest has two components: the amount of money expenditure payable as coupon payment each period and the amount of interest accruing each period attributable to the difference between the redemption price and the issue price. The interest relating to the difference between the redemption price and the issue price is distributed over the years to the maturity of the bond.

Eurostat thanked the Latvian authorities for providing the table on the recording of interest for S.1311 with data for the period 2018 - 2021.

Discussion

Eurostat appreciated the interest table provided before the mission. Eurostat noted that data on budgetary central government was generally exhaustive and plausible.

Eurostat began the discussion indicating that there were nonetheless some differences between the debt figure reported in the interest table and the debt reported in EDP Table 3B. This was explained by the difference in the scope between the two data sets, as the interest table reported the Treasury debt and not the Central government Maastricht debt.

The Latvian statistical authorities explained that they maintain a transition table between the Treasury debt and the Maastricht debt that is internally used as a routine verification tool. Eurostat welcomed this practice and asked to receive a copy.

([24]) The Latvian statistical authorities provided information that they agree to the Eurostat proposal to report the payable to pension funds in Questionnaire table 4.1.2, outside of Questionnaire table 5. The relevant corrections have been done for the 2023 April EDP notification.

The main items of the table on interest recording were then discussed. Eurostat indicated, in particular, that its own calculation of the premiums and discounts issued during 2021 based on data made public by the Treasury resulted in a higher number (EUR 28 million) than what is reported in the EDP notification (EUR 16 million). It also noted that the latter figure should in principle include some amounts corresponding to the SURE instrument, as it was confirmed by the Latvian statistical authorities (in the amount of EUR 5 million), aggravating the gap further (to EUR 17 million).

Eurostat noted that the table provided did not disclose the amount of premiums (item 7a) separately from the stock of premiums net of discount (item 7, already provided). This data was however needed in the context of validating the flows of amortization of premiums or discounts (lines 12a and 12b) which in the table provided appear relatively small compared to the stock of premiums or discounts. Moreover, when looking at the trend reported in lines 12a and 12b for the period 2018-2021, it seemed that there was a netting of amortization of premium/discount carried out for the year 2020. The Latvian statistical authorities confirmed that this seemed to be an error.

Finally, Eurostat indicated that the FISIM reported in the table seemed very large. The Latvian statistical authorities informed that the FISIM in their records was mostly imputed on borrowing towards non-residents, and that they will follow-up on this matter to provide further clarifications.

Eurostat also inquired about a perceived difference between the interest information of this table with that of the profit and loss account data on accrued interest (EUR 201 million and EUR 246 million respectively) and with the data of the budget on cash interest (EUR 204 million and EUR 223 million respectively). The Latvian statistical authorities agreed to provide a reconciliation between these data sets and enquired on the possibility that the difference between the interest table and the profit and loss may notably be due to derivatives (net amount of EUR 10 million, in IRS/Currency swaps, if the interest position in the profit/loss is reported after swap), and due to some gross recording (in derivatives for EUR 20 million).

To conclude, Eurostat thanked the Latvian statistical authorities for the progress shown in completing the interest recording table and kindly requested the possibility of reporting such a table covering general government.

Findings and conclusions

Action point 19*:* The Latvian statistical authorities will provide to Eurostat the transition table between the Treasury debt and the Maastricht debt that is internally used as a routine verification tool. Eurostat welcomed this useful practice, for both statistical compilers and users, and invited the Latvian statistical authorities to consider making a presentation to the EDPS WG on this important topic in case of interest by the Latvian statistical authorities.

Deadline: on-going ([25])

Action point 20: Eurostat appreciated the interest table provided before the mission, which data on central government were found generally informational and plausible.

([25]) The reconciliation table for 2021 was sent to Eurostat in advance of the videoconference held on 12 July 2022 and the table with 2022 data for the October 2023 EDP notification.

a) The Latvian statistical authorities will nonetheless provide a detailed calculation of the premium/discount for 2021, as Eurostat own calculation showed a higher number than in the EDP notification (33 EUR million = 28 EUR million + 5 EUR million, against EUR16 million in the notification – the EUR 5 million corresponding to the premium on SURE loan borrowing).

b) In addition, the Latvian statistical authorities will provide, if possible, the stock of premiums (item 7a) separately from the stock of premiums net of discount (item 7, already provided), and on this basis will explain why the flows of amortization of premiums or discounts appear relatively small compared to the stock of premiums or discounts.

c) The Latvian statistical authorities will also remove the netting of amortization of premium/discount that was carried out by mistake for the year 2020.

d) The Latvian statistical authorities will verify the FISIM reported in the table, which appears very large to Eurostat, seemingly imputed on borrowing towards non-residents.

e) The Latvian statistical authorities will examine the possibility of reporting to Eurostat such a table covering general government, as a separate sheet.

f) The Latvian statistical authorities will explain/reconcile the interest information of this table with that of the profit and loss on accrued interest (EUR 201 million and EUR 246 million respectively) and with that of the budget on cash interest (EUR 204 million and EUR 223 million respectively). The difference between the interest table and the profit and loss may notably be due to derivatives (net amount of EUR 10 million, in IRS/Currency swaps), and due to some gross recording (in derivatives for EUR 20 million).

Deadline: end-September for a) and c) ([26]), February 2023 for b) and f) ([27]), June 2023 for d) ([28]) and e)

([26]) A detailed calculation of the premium/discount for 2021 was provided. The netting of amortization of premium/discount for the year 2020 have been removed.

([27]) A table of interest was provided for b) and f). For b) the stock of premiums (item 7a) is now separated from the stock of premiums net of discount (item 7). The incorrect data were corrected from 2018 onwards. For f) the explanation was provided that the difference between the interest table and the budget on cash interest (EUR 204 million and EUR 223 million respectively) is mainly due to derivatives (EUR 14.9 million). Separately, the year 2020 was the first year when the Treasury created a report on the financial results of operations (Profit and loss account (CG+SSF)), so there could be some inconsistencies in calculations. The Latvian statistical authorities stated that they will continue to investigate differences between Profit and loss account (Report on the financial results of the operation) and the interest table for years 2021 and 2022.

([28]) The Latvian statistical authorities, in bilateral communication, asked for a clarification regarding the calculation of FISIM on the interest expenses as corrected entries of Riga Swap against Deutsche Bank affect D.41U. Eurostat explained that, in principle, FISIM should be calculated on the interest expenses (D.41U) of Riga Swap against the Deutsche Bank, although it might imply EUR 10 million more on imports. Eurostat also added that calculation of FISIM on interests would impact intermediate consumption (P.2), government final consumption expenditure (P.3) and consequently GDP. In case the Latvian statistical authorities consider the calculation of FISIM on interest not an optimal option, Eurostat would agree with a flexibility option/approach.

Financial derivatives

Introduction

In Latvia, central government uses the following types of derivatives in the management of risks associated to its debt portfolio: interest rate swaps, currency swaps and FOREX swaps. Local government units (only Riga Council) use interest rate swaps. Other central government bodies *(REVERTA, "Valsts nekustamie īpašumi", Captive financial institution "Development financial institution Altum")* use currency swaps. Social security funds do not use financial derivatives.

As regards the recording in EDP table 2, cash amounts related to swaps are reported in the working balance and excluded in the *'Other financial transactions, of which: net settlements under swap contracts'*. CSB confirmed that the interest on dollar bonds is recorded in D.41 before swap, i.e., the impact on B.9 is before hedge. The Latvian authorities informed in advance of the meeting that they had not issued nor purchased options or swaptions, nor did they enter into novation or restructuring of swaps.

Discussion

Eurostat thanked the Latvian statistical authorities on the table on financial derivatives provided for the period 2018-2021. The table builds on the good work done for previous dialogue visits and EDP notifications. Eurostat nevertheless noted that the table on derivatives still presents some small differences with EDP table 3 and ESA T27, which needed to be addressed accordingly.

The Latvian statistical authorities confirmed that the scope of the table is S.1311. Eurostat encouraged the CSB to expand the scope for future iterations of the table by including local government. Eurostat indicated that the data reported in the table were found generally very informational and plausible. It noted nevertheless some minor inconsistencies, e.g., the data on currency swaps reported in block 2 should likely be presented on the asset side, rather than on the liability side. Similarly, in block 2 the currency swaps should presumably be reported as zero for 2021, consistently with block 1 and block 5. Finally, the unwinding of swaps that took place during the period under reporting should have been reflected in items 30 and 30a within block 1.

Eurostat then enquired on the reason of the significant and constant flows of derivatives in local government observed in EDP Table 3D (EUR 10 million a year of 2018-2021), whose size is overall like the Treasury outflows on IRS. Eurostat recalled that the Treasury outflows are well understood, resulting from a hedging program put in place in 2011, mainly through the use of IRS that were contracted in instruments denominated in Euros, in 2011, 2012 and 2013, following a strategy to increase the weighted average duration of the sovereign debt portfolio. The Latvian statistical authorities explained that the flows related to local government corresponded to the 'Riga swap' with Deutsche Bank.

Eurostat expressed surprise at first, given that the 2006 letter on the South Bridge vendor financing arrangement (advice) entailed a derivative instrument but only for residual amounts. The 2006 advice essentially recommended that the vendor financing arrangement be transparent from the S.13 accounts point of view, with the Riga bridge construction being recorded as GFCF of government together with a debt liability, amortised over time through annual payments (similarly to financial leasing).

The Latvian statistical authorities clarified that these amounts corresponded to another swap, which was also subject to a Eurostat advice (in 2014) ([29]), relating to a ‘borrowing swap’, while acknowledging that these large outflows were however problematic to interpret.

Eurostat took note of the information provided and requested the Latvian statistical authorities to document the link, if applicable, between the 2008 swap that is the object of the 2014 letter and the original bridge construction contract that is the object of the 2006 letter.

A discussion ensued in relation to the 2008 swap, for which the Latvian statistical authorities presented an excel file summarizing the quarterly transactions, recorded as recommended in the 2014 Eurostat advice letter. The 2008 swap refers to a contract signed on 20 June 2008, and which was later amended (on 16.01.2009 and 05.03.2010). Eurostat and the Latvian statistical authorities agreed to verify the accuracy of the derivative flows currently notified (e.g., the net cash outflows reported in the excel file discussed). In this context, Eurostat presented several questions in relation to the nature of the swap and regarding the calculation of the variable part.

Eurostat also noted that there was a liability recorded in government accounts as of 2021, of EUR 119.2 million, towards Deutsche Bank (DB) and further questioned whether this figure was calculated from internal records or from DB’s reports. Eurostat finally asked why the related liability towards DB as of 2013 (EUR 152.2 million) was higher than the EUR 56.1 million recorded in AF.4L following Eurostat’s 2014 advice letter.

Following the answer to those questions, it was agreed that a joint analysis would be performed. If necessary, the data will be corrected, potentially with an impact on the deficit and/or on the debt. In case of need, Eurostat will issue an advice clarifying and/or amending the 2006 and/or 2014 letters.

Findings and conclusions

Action point 21: Eurostat appreciated very much the derivative table provided before the mission, which data on central government were found generally very informational and plausible. The Latvian statistical authorities will carry out minor adjustments, adapting the editing of the table by moving the data on currency swaps to the asset side in block 2 and putting to zero the entry for the year 2021, consistently with block 1 and block 5. The Latvian statistical authorities will report the unwinding of swaps in item 30 and 30a in block 1. The Latvian statistical authorities will also consider reporting this derivative table for general government, as separates additional sheets.

Deadline: June 2023 ([30])

Action point 22*:* Eurostat enquired on the reason of the significant and constant flows of derivatives in local government (EUR 10 million a year of 2018-2021), whose size is overall like the Treasury outflows on IRS, which resulted from a clearly identified and legitimate Treasury

(29) Eurostat advised that the 1st phase of the ‘borrowing swap’ be recorded as (gradual) incurrence of debt, while the 2nd phase would entail a repayment of debt (interest and repayment) as well as a flow of derivative for the remainder.

([30]) The minor adjustments recommended by Eurostat have been made to the derivatives table for central government. The coverage was confirmed only for the central government.

hedging program put in place in 2011. According to the Latvian statistical authorities, these S.1313 derivative flows originate from Riga swap(s) with Deutsche Bank. Eurostat expressed surprise given that the 2006 letter on the South Bridge swap entailed a derivative instrument but only for residual amounts. The Latvian statistical authorities indicated that it followed a Eurostat advice of 2014 related to another borrowing swap, while acknowledging that these large outflows were problematic to interpret.

a) The Latvian statistical authorities and Eurostat will jointly review the Deutsche Bank swaps signed on 20 June 2008 and its subsequent amendments (on 16.01.2009 and 05.03.2010), subject to the 2014 letter, and verify the accuracy of the derivative flows currently notified, or will correct the data, potentially with an impact on the deficit and/or on the debt.

b) The Latvian statistical authorities will provide the underlying documentation/contracts, if possible, as this confidential information provided in 2014 was removed from Eurostat internal folders.

c) The Latvian statistical authorities will answer/confirm the Eurostat detailed questions made on the working file provided during the mission on these Deutsche Bank swaps (that were resent via email after the I part of the EDP dialogue visit).

d) The Latvian statistical authorities will notably confirm the link between the 2008 swap that is the object of the 2014 letter (EUR 20.3 million in AF.4 liability, in the Maastricht debt end 2021) and the original swap for the bridge construction that is the object of the 2006 letter (EUR 178.5 million principal AF.4 liability in the Maastricht debt and EUR 33 million in capitalized interest in AF.4 in the ESA end 2021).

e) The Latvian statistical authorities will confirm that the EUR 119.2 million in liability to Deutsche Bank (DB) end 2021 is reported by DB to Riga and, will explain why this liability of EUR 152.2 million at the end of 2013 is much an excess of the EUR 56.1 million recorded in AF.4 following the Eurostat letter (the difference being recorded in derivatives). To this effect, the Latvian statistical authorities will provide the DB debt series for the previous quarters, since 2008.

f) The Latvian statistical authorities will also consider whether the capitalized interest on the main South Bridge loan should be reported inside the Maastricht debt, by analogy with the MGDD rule on capitalized interest deposits.

g) The Latvian statistical authorities will also confirm that the EUR 53.9 million correspond to cash outflows in 2021 relating to the main contract only, identified as reimbursement of principal (EUR 32.4 million), reimbursement of accrued interests (EUR 6.2 million), and interest. expenditure (EUR 15.2 million), and do not contain flows related to the 2008 swap.

h) The Latvian statistical authorities will confirm that the EUR 3.9 million per quarter since 2014 are net cash outflows paid by Riga, while the expected outflows were four times smaller.

i) In case of need, Eurostat will issue an advice clarifying and/or amending the 2006 and/or 2014 letters.

Deadline: end-September 2022 ([31]) and end-March 2023 for i) ([32])

4.2.3. EU flows

Introduction

The management of the European Union structural funds, i.e., European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF) in Latvia is provided by the Ministry of Finance, through the Central Finance and Contracting Agency (CFCA). The European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) is administrated by the Ministry of Agriculture. The source of data for EU flows is the Treasury (S.1311) which can collect data on EU flows on central and local government level. Data on date of expenditure are reliable and is on time of expenditure basis.

Discussion

Eurostat thanked to the Latvian statistical authorities for the updated table on recording of EU Flows for the period 2018-2021, provided prior to the dialogue visit.

Eurostat enquired on what level the amounts from EU enter the working balance. The Latvian statistical authorities answered that amounts received from the EU are entering the working balance only at central government level. The EU flows which go to the final beneficiaries that are outside government sector are then removed from ESA table 2. The identification of such flows is done from the data provided by the Treasury (the paying agency). In addition, the accrual adjustment is done in EDP table 2A (Other accounts receivable) following an analysis of the CFCA. The Latvian statistical authorities explained that they carry out the neutralization on a cash flow basis (net receivables).

([31]) The answers were provided on the parts of this action point and continuously were discussed with Eurostat. After Eurostat reviewed them during the October 2022 EDP notification, Eurostat considered the answers did not fully address Eurostat questions and requested the Latvian statistical authorities to provide more elaborated and detailed answers. In the meantime, the Latvian statistical authorities provided on 7 October 2022 the Deutsche Bank swap contracts signed on 20 June 2008 and its subsequent amendments (on 16.01.2009 and 05.03.2010). In addition, on 11 November 2022, the Latvian statistical authorities provided to Eurostat the Deutsche Bank vendor financing contracts signed in the period 2005 - 2007.

([32]) The case was discussed (among others) at the EDPS WG of December 2022 (document C.7.b). Based on this document, two alternative recordings of this 'swap' were envisaged: either recognize the contract as an off-market swap (in the spirit of the 2014 advice), which however implies an ability to measure the derivative component accurately at market value since inception (2008), or alternatively as a variable interest debt rate instrument (which means that the 10 million a year are additional interest, impacting B.9). On 3 March and 13 March 2023, Eurostat provided to Latvian statistical authorities a recommendation on the recording of the Riga swap (Ares (2023)1551038 and Ares (2023)1795417)). During the April 2023 EDP notification, the Latvian statistical authorities opted for the variable interest debt instrument, revising B.9 (by way of a simplified recording, through a D.7 adjustment), and informed Eurostat that the full recording of the Riga swap would be implemented in the October 2023 EDP notification (D.41 and FISIM elements).

Revenues from the EU are recorded on an accrual basis at the time when the funds are spent on behalf of the EU by local and other government bodies and not at the time when advances are transferred from the state to these bodies. These advances are not considered as prepayments by government on behalf of EU but are rather reflected as other accounts receivable of the state and other account payable of local government and other government bodies (and thus consolidated within government).

Eurostat thanked for the information provided.

Regarding the EDP Questionnaire Table 6 - Adjustments for transactions of general government with the EU in EDP tables, Eurostat asked the Latvian statistical authorities on the data provided. Eurostat noted that the amounts related to advance payments and total outflows (sum of expenditure made on behalf of EU and expenditure financed from advance payments) are not completely clear and quite large for the reported period. The Latvians statistical authorities explained that huge amount of expenditure done for agricultural purposes was in the period January – March 2022.

Eurostat enquired about data sources, about data available from the CFCA on expenditure (i.e., whether it represents work done but not paid, work expected to be done or something else). The Latvian statistical authorities explained they use a survey for the classification of the data and the approval of expenditure is work done and paid, but without advance payment. Eurostat also enquired whether the gross fixed capital formation (P.51) is on accrual or cash basis. The CSB answered that P.51 are on accrual basis. Eurostat furthermore asked what source data is used for the calculation of gross fixed capital formation (P.51) for the budgetary central government (S.1311) and local government (S.1313) and are the final data on P.51 on accrual basis. The Latvian statistical authorities explained that the data on P.51 for central budgetary government are from statistical statements and for local government the data from Central Financial Agency are used. The Latvian statistical authorities informed that there could be gap between the data on accrual P.51 and the capital transfers (D.9) from Central Financial Agency database. Eurostat emphasized statistical office should ensure that this gap does not get large especially concerned budgetary central government (S.1311) and to pay attention that there is no impact on B.9 (net lending (+)/net borrowing (-)).

4.2.3.1. RRF Table

Introduction

Total Recovery and Resilience Facility (RRF) grant allocation for Latvia amounts to a total of EUR 1.8 billion. The Latvian plan is structured around six components: green and digital transitions, health care, reduction of inequality, economic transformation, and the rule of law. The plan includes reforms in health care, social policy, higher education and skills, and measures on sustainable transport, affordable housing, energy-efficiency in buildings and businesses, digital skills, research, and innovation. Projects in the plan cover the entire lifetime of the RRF until 2026. These resources represent 0.3 % of the entire RRF, equal to 6 % of the country's gross domestic product (GDP) in 2019 (the RRF being 5.2 % of EU-27 GDP in 2019).

Discussion

The Latvian statistical authorities provided, as part of the April 2022 EDP notification, the RRF table with the total RRF grants received from the EU – cash basis for 2021 and 2022.

During the April 2022 EDP notification, Eurostat enquired the Latvian statistical authorities to clarify if the reported amount of EUR 237 million received from the EU in 2021 had entered the working balance, and if so, Eurostat asked the Latvian statistical authorities to include that amount in the part 1.3 of the RRF table under the question in line 3 and as an adjustment in line 9. Latvian statistical authorities confirmed that the RRF amount of EUR 237 million is indeed a prepayment on RRF grants, it received cash from EU in 2021 and entered the working balance and the line 3 and 9 in table 1.3 of the RRF table are corrected.

In addition, Eurostat asked for a confirmation from the Latvian statistical authorities that no expenditure has been carried out in 2021 to be funded by RRF grants, given that zero (0) was entered in block 1.2 of RRF table. The Latvian statistical authorities confirmed that no expenditure was undertaken neither in 2021, nor in 2020.

The Latvian statistical authorities explained that according to budget program on Implementation of the RRF 74.000 projects and measures has been established in the basic budget of the central government. RRF data will also be included in the EU Structural Fund and Cohesion Fund management system administrated by the Central Financial and Contract Agency.

Findings and conclusions

Eurostat took note of the information provided.

4.2.3.2. Recording of the undervalued imports of textiles and footwear from China

Introduction

Under this point of the agenda, Eurostat and the Latvian statistical authorities discussed the statistical recording of the additional contributions to the EU budget stemming from the undervalued imports of textiles and footwear during the years 2012-2019.

Discussion

Eurostat had requested the Latvian statistical authorities to identify the miscellaneous non-tax contributions of the government to the institutions of the European Union (D.763) that were accrued in 2021 related to this issue, and to further indicate if all or some amounts were not paid in 2021. In addition, Eurostat required the Latvian statistical authorities to split the D.763 amount between the contributions and the penalty/accruing late interest element.

During the April 2022 EDP notification, the Latvian statistical authorities had confirmed that the miscellaneous nontax contributions of the government to the institutions of the European Union (D.763) are amounts accrued in 2021 and were recorded in ESA Table 2 and in B.9.

The Latvian statistical authorities also explained that the whole D.763 amount is for settlement of the contribution and does not include accrued interest. Eurostat added that D.763 could include the penalty/ interest, with B.9 impact in 2020 and presumably an adjustment line as payable in EDP table 2A and in Questionnaire Table 6. In addition, Eurostat asked the Latvian statistical authorities to recall the amounts in question for the principal in the WB and for penalty/interest to add as an adjustment.

The Latvian statistical authorities explained that, in November 2021, Latvia paid the principal amount (EUR 11.535.553,14) to avoid the accumulation of late payment interest, and that the

MoF does not know the exact amount of late payment interest that will have to be made available to the EU budget. The Latvian statistical authorities explained that the Commission calculates these amounts and MoF has not received the information yet.

The Latvian statistical authorities confirmed that the D.763 amount fully impacted B.9 in 2021 (EUR 11.5 million, or 0,034% of GDP).

Findings and conclusions

Action point 23: In relation to EU flows, the Latvian statistical authorities will:

a) Explain whether the data of the Central Financial Agency on accepted EU financed expenditure carried out by local government follow a *'work done basis"* or a *'work done and accepted bases"*.

b) Describe more in detail, in the EDP Inventory, the source data and methods used for compiling EU revenue, for the different groupings of units (budgetary central government, budgetary local government, reclassified enterprises) as discussed during the meeting.

Deadline: June 2023 ([33])

Action point 24*:* In relation to EU flows, the Latvian statistical authorities will, otherwise monitor that the gap between the EU revenue and the related government spending remains small, notably for budgetary central government.

Deadline: on-going

4.2.4. Military expenditure

Introduction

In Latvia, military equipment expenditure is compiled using data from Ministry of Defence that are included in the summary reports of the Treasury in the central government level.

Discussion

The Latvian statistical authorities informed Eurostat that no unit manufacturing military equipment is classified inside the General Government sector. Purchases from industrial suppliers are undertaken with government pre-financing. Long-term lease agreements for military equipment are not used. Around 50-80% of the payment is upon delivery and delivery is usually completed within 120 days. However, in some cases there could be longer payment schedules agreed.

Eurostat asked about data sources for the recording of the military equipment. Eurostat recalled that, for the April 2022 EDP notification, data for 2021 were not filled in the Questionnaire table

([33]) The Latvian statistical authorities provided all required information.

The Latvian statistical authorities explained that a letter had been sent to the Ministry of Defence (MoD), but that no answer was received within the deadline for submitting the April 2022 EDP notification. This situation follows some structural changes in the MoD and will be solved by the 2022 October EDP notification.

The Latvian statistical authorities further explained that the available information on the payments has been recorded in the national accounts in compliance with the ESA and the MGDD. Deliveries of military equipment have been recorded as gross fixed capital formation (P.51) in the production of defence services, at the time when the economic ownership of the military good occurs, when the military equipment is delivered. Eurostat recalled the importance of establishing solid and timely data sources to avoid a situation such as that experienced in the April 2022 notification, when the military equipment for 2021 was reported in a cash basis in the absence of data.

Eurostat enquired where the military inventories (according to ESA classified as AN.124) are reported. The Latvian statistical authorities explained that these are recorded as P.52 when delivered. Eurostat further questioned the Latvian statistical authorities on the existence of military equipment delivered to Ukraine. The Latvian statistical authorities explained that they observed such transfers from Balance of Payments data, but no other data was available. Eurostat recalled that these are gifts and should have no impact on the B.9 of general government (recording the related transactions in P.51/P.52 and D.9). If the information is not available, the Latvian statistical authorities should use some kind of imputation or estimates for the missing parts, so to avoid having an impact on B.9.

Findings and conclusions

Action point 25: The Latvian statistical authorities will provide the data for the year 2021 in Questionnaire table 7.1 Military equipment, that were left empty in the April 2022 EDP notification. Eurostat noted that because of that the 2021 military expenditure was de facto recorded on a cash basis in Latvia for this year.

Deadline: end-September 2022(34)

Action point 26: The Latvian statistical authorities will reflect on how to properly account for the military equipment delivered to Ukraine, by way of estimation, if necessary, with entries in gross fixed capital formation (P.51) and changes in inventories (P.52) counterpartyed with capital transfers (D.9) expenditure, unless the equipment provided would come from a third party, in which case Latvia would be merely a transiting point and no expenditure and revenue would needed to be recorded in Latvian account. The GFS compilers will also liaise with Balance of payments and foreign trade statisticians so to ensure consistent treatment.

Deadline: end-September 2022 for first elaboration, March 2023 (35)

(34) The 2021 data was reported during October 2022 EDP notification.

(35) The data were included in all: EDP, GFS tables, foreign trade statistics and Balance of payments, with entries in P.51, with a counterpart D.9 expenditure, during the 2022 October EDP notification.

4.2.5. Gross fixed capital formation (GFCF)

Introduction

Data sources used to compile accrued GFCF in Latvian government accounts were discussed under this agenda point.

Discussion

Data source for budgetary institutions for calculation gross fixed capital formation for April notification is cash information from monthly Treasury reports, but for reclassified enterprises to government, sector quarterly balance sheet data are used.

Data source for the October EDP notification for central and local government budgetary institutions is "*Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia*"- Form 5 *"Report on Changes of Intangible Investments and Fixed Assets*", which includes annual balance sheet data for budgetary institutions. The data sources for reclassified enterprises to the government sector are the annual balance sheets. The difference between budget cash flow data and balance sheet data is included in intermediate consumption (P.2).

Eurostat thanked the Latvian statistical authorities for the information and asked about the reasons for having recurrent differences between the April and October EDP notifications regarding GFCF. The Latvian statistical authorities explained that for April EDP notification the source data is Treasury reports (on a cash basis) except for reclassified enterprises, for which data from quarterly financial reports are already available. In October, accrual data for all government units is available through the change in assets statements. An example of revisions between April and October EDP notifications regards capitalized research and development expenditures, first reported as P.2 and then as P.5. Data in October is complemented through an investment survey, and the differences versus April are mainly affecting P.2 (with no impact on B.9). Eurostat took note of the information provided and requested to see a summary of all existing data in the compilation of GFCF, starting with the P.5 recorded from the change of assets in financial statements, the corrections due to software and research and development and the further corrections due to the results of the survey.

Findings and conclusions

Action point 27*:* The Latvian statistical authorities will provide the transition table showing, for specific grouping of units (e.g., budgetary central government, reclassified enterprises etc.), the link between P.52 observed in the change in asset statements (public account), R&D and software corrections, reconciliations with the investment statistical survey, and the published the P.52 in GFS.

Deadline: end-February 2023([36])

([36]) The transition table was provided for four budget classification codes of P.52 revenues showing corrections for the changes in inventories of reclassified enterprises as well as changes in inventories and acquisitions less disposals of valuables in 2020.

4.3. Recording of specific government transactions

4.3.1. Measures in response of the COVID-19 crisis: expenditure and non-tax revenue, taxes and social contributions, loans and guarantees

Introduction

Prior the dialogue visit, the Latvian statistical authorities provided a note on the measures undertaken by government in the context of the COVID-19 pandemic. The note also included the amounts and the recording of the measures in national accounts.

Discussion

Eurostat thanked the Latvian statistical authorities on filling the COVID-19 pandemic table for the 2022 April EDP notification and for the information provided prior the dialogue visit. The Latvian statistical authorities explained that the Supplementary table for reporting measures taken in the context of the COVID-19 pandemic is prepared by the CSB once a quarter. The CSB receives information from the State Revenue Service on a quarterly basis regarding the granted amount of tax payments deferral. It is considered that postponed tax duties will be paid back to budget within next three years in amount of 70%. Thus, a coefficient 70% has been applied to gross deferral of tax payments for 2020 and 2021. The estimated recovery rate of 70% of these deferred taxes (net deferrals amounted to EUR 80,1 million in 2020 and EUR -10,9 million in 2021) is reported in item 26a of annex 8, table 8.1 annual.

The Latvian statistical authorities also explained that the amount of 30% of the deferred taxes that would not be collected as is reported in Annex 8 as negative revenue in 2020 EUR-36,1 million and in 2021 EUR-13,3 million. Eurostat expressed concern that the 30% expected loss may be too high, indicating that the observed repayments compared to expected repayments compared to expected repayments and/or legally foreseen repayments are relevant. In that sense, Eurostat wanted to know if there were deviations from forecasts and/or if the public accountants had booked a provision to the legal claims. Eurostat requested the Latvian statistical authorities for an update of the percentage of expected losses based on actual data.

All data for budgetary central government and social security fund on COVID-19 expenditures are taken from a special Treasury report, which is prepared weekly and is available on the Treasury's website ([37]). The Latvian statistical authorities clarified that, when preparing the quarterly Supplementary table for reporting measures taken in the context of the COVID-19 pandemic, the CSB adjusts the total expenditures reported in the special Treasury report.

The SURE related guarantees are properly shown in Part 3 of COVID-19 table under the section J Contingent liabilities Guarantees to EU institutions.

Eurostat enquired about the reason for having, in the COVID-19 table, a loan asset under indirect liabilities instead of in the asset side of the table. The CSB responded that these data correspond to a Treasury loan to local government, which should in principle be consolidated for the purpose of Supplementary Table 8.

In addition, Eurostat requested the Latvian statistical authorities to ensure consistency in the stocks reported in part 3 and part 2 of table 8.1 (between item 44a and d for 2021).

Findings and conclusions

Action point 28: In relation to the Supplementary table for reporting measures taken in the context of the Covid-19 pandemics (Covid-19 table):

a) The Latvian statistical authorities will reclassify the F.4 loan asset into indirect liabilities in bloc 4 of Covid-19 table 8.2 as this flow corresponds to a Treasury loan to a local government for fixed asset funding, which should be consolidated in Covid-19 table 8.1. Similarly, the corresponding loan entry in item 24 of table 8.1 will be removed as well as the equivalent amount in item 29 on indirect liabilities.

b) The Latvian statistical authorities will ensure the stock consistency with the flows between part 3 and part 2 of Covid-19 table 8.1 in (item 44 a) and d) for 2021).

c) The Latvian statistical authorities will consider including *Altum* in the Covid-19 table 8.1.

d) The Latvian statistical authorities will, in consultation with the Tax authorities and in the light of recent developments, review the 30% coefficient for expected losses on tax deferral, which appears rather large to Eurostat, and adjust the data if necessary. The Latvian statistical authorities will also clarify what will happen after three years.

([37]) Treasury web site: https://www.kase.gov.lv/noderigi/izlietojums-covid-19

Deadline: end-September 2022([38])

4.3.2. Guarantees

Introduction

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is normally recorded as government expenditure.

The Latvian statistical authorities provided prior to the dialogue visit a table on Guarantees – on debt guaranteed by government listing the guarantees on borrowing and guarantees on assets for the period 2018-2021.

Discussion

Eurostat then inquired about the one-off guarantees included in the ad hoc table reporting the measures undertaken in the context of the COVID-19 pandemic, as well as in the EDP Questionnaire table 9.1. Eurostat considered the amounts reported relatively small considering the significant debts of public corporation (EUR 6 billion, including 1 billion to the company *Air Baltic*). It further inquired whether it exists in Latvia a system of implicit government guarantees provided to public corporations (not included in the Questionnaire table 9.1). Finally, Eurostat recalled that EDP Questionnaire table 9.1 should not include standardized guarantees and the Latvian statistical authorities confirmed that they will modify accordingly in the next transmission.

Eurostat inquired about the guarantees reported in line 37 of the COVID-19 related table. The Latvian statistical authorities explained that it referred to a loan provided by the Treasury to a corporation (*Jūrmalas ūdens SIA*) and guaranteed by the local government. Eurostat recalled that this guarantee should in fact be consolidated at the level of general government and not disclosed in the ad-hoc table.

([38]) Prior the 2022 October EDP notification, the Latvian statistical authorities provided detailed information explaining that the F.4 loan assets has been reclassified into indirect liabilities in bloc 4 of Covid-19 table 8.2, and that the stock consistency with the flows between part 3 and part 2 of Covid-19 table 8.1 in (item 44 a) and d) for 2021) has been ensured. In addition, *Altum's* expected losses (EUR 32 million) from Covid-19 support is included in the item 18 f) for 2020 of the Covid-19 table 8.1 and represents the impact on B.9; now, they are not able to broaden the scope of data (e.g., by introducing corresponding F.4A) as provided in Covid-19 table. In 2020, granted extensions of the tax payment periods for Covid-19 for all taxes were EUR 162.0 million. Until the 1st half of 2020 EUR 86.3 million were repaid (53 %). In 2021, granted extensions of the tax payment periods for Covid-19 for all taxes were EUR 61.8 million. Until the 1st half of 2021 EUR 22.7 million were repaid (37 %). Since the refunds do not come close to the allocated amount, the assumption of expected losses from the extension of tax payment periods due to Covid-19 is kept at the previous level 30%. When the refund period ends, the entire time series will be recalculated using the actual loss. Eurostat questioned what justifies the 30% ratio of expected loss; the Latvian statistical authorities explained that the data are on the best estimate basis, as there is no other alternative.

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In relation to EDP Questionnaire table 9.4, Eurostat recalled that column 4 should include cash calls net of recoveries and inquired about the data sources for compiling this data. As data from business accounts is used, notably from *Altum* (a state-owned development finance institution), Eurostat indicated that it may contain also holding losses on the portfolio. Similarly, column 3 should record the D.9 net of fees collected, while it may also include gross holding losses not netted with holding gains. The Latvian statistical authorities agreed to follow-up.

Findings and conclusions

***Action point 29**:* Regarding one-off guarantees:

a) The Latvian statistical authorities will adapt Questionnaire table 9.1 so to exclude standardized guarantees data (that are already included in table Questionnaire table 9.4).

b) The Latvian statistical authorities will investigate the reason why so little number of one-off guarantees are included in the ad hoc table as well as in the Questionnaire table 9.1 (considering the significant debts of public corporation: 6 bn. EUR including 1 billion EUR to Air Baltic), and whether it exists in Latvia a system of implicit government guarantees provided to public corporations (not included in the table Questionnaire 9.1).

c) Additionally, they will remove from the ad hoc table on guarantees provided before the dialogue visit and Questionnaire table 9.1 the amount of guarantees granted to *Jūrmalas ūdens SIA* by its municipality (as well as other guarantees in a similar situation), as it refers to a loan provided in fact by the Treasury, which therefore should in principle be consolidated in guarantee tables.

Deadline: end-September 2022 ([39]) (June 2023 for c other than Jūrmalas ūdens SIA)

Action point 30**:** Regarding standardized guarantees the Latvian statistical authorities will verify whether the capital transfer for *Altum* in relation to such guarantees is not overestimated given that column 4 of Questionnaire table 9.4 on Standardized guarantees should include cash calls net of recoveries, while it seems that it contains also holding losses on the portfolio. Similarly, column 3 should record the D.9 net of fees collected, while it seems to also include gross holding losses not netted with holding gains.

Deadline: end-September 2022([40])

([39]) The Questionnaire table 9.1 was adapted during the 2022 October EDP notification. The liabilities of public corporations were included in the 'Questionnaire on government-controlled units classified outside general government' composed not only from loans, but also from accounts payable to suppliers and contractors. The amounts of guarantees granted, to *Jūrmalas ūdens SIA* by its municipality, were removed from the guarantees table and Questionnaire table 9.1.

([40]) During the October 2022 EDP notification, the column 3 and 4 of Questionnaire table 9.4 on standardized guarantees, was corrected and that the holding losses on the portfolio have been excluded.

4.3.3. Capital injections in public corporations

Introduction

In Latvia the information on capital injections (in cash and in kind) reported in the April EDP notifications is obtained from the quarterly "*Report on changes of investment in shares and other equity*", retrieved from the Treasury information system of state and local government budgets. In the context of the October EDP notifications, data from the annual "*Reports on changes of government participation in associated and related capital companies*", submitted by the Treasury according to *Cabinet Regulation No 756 of 22 December 2015*, are used.

Discussion

The CSB provided in advance of the meeting a table disclosing the capital injections in public corporation and investment in kind, for the period 2018-2021.

The Latvian statistical authorities explained that individual data on capital injections in public corporations at central and local government level are available and the split by ESA sector allows excluding those public corporations which are controlled and financed by central and local government. Capital injections in kind can be identified whether they are in non-financial or financial assets. CSB applies the capital injection test to all capital injection cases gathered from quarterly and yearly information, profit / losses of previous year. Accumulated losses (if such are recognized) of the public corporations are considered in applying capital injection test.

Eurostat thanked on the information provided and questioned on the 2022 capital injection in *Air Baltic*. The Latvian statistical authorities replied that they will report in 2022 the capital injections in *Air Baltic*.

4.3.4. Dividends

Introduction

In Latvia, information on dividends received by the government (central and local) is obtained on a cash basis from Treasury reports. Payment of dividends is regulated by the "Law on governance of capital shares of a public person and capital companies" and the subsequent Cabinet Regulations No 806 of 22 December 2015 "Procedure by which State companies and public private companies having State as a shareholder estimate and determine the profit share payable as dividends and make payments to the State budget for the use of State capital".

Discussion

Eurostat thanked the Latvian statistical authorities on the provided table on dividends for the period 2018-2021. The table shows the companies that paid the dividends in the requested period and the results of the super-dividend test.

The Latvian statistical authorities explained that the main data sources for super dividend test are financial statements and profit and loss accounts of the public corporations. In particular, net profit after taxes is considered, ensuring that revaluations are not included. For testing dividends paid to government by holding companies, the consolidated group financial statements are used. In addition, Eurostat questioned about the performing the super-dividend test on the level of local government (S.1313). The Latvian statistical authorities explained that test on super-dividends on local government level is not being carried out because the information needed are not available.

Eurostat recommended the Latvian statistical authorities to consider applying a coefficient to calculate the super-dividend test on the level of local government, possibly using the same figure as observed in the super-dividend test performed at the level of central government. The Latvian statistical authorities replied that they would try to carry out an exercise to determine a coefficient applicable to dividends at local government level.

Findings and conclusions

Action point 31: The LSA will verify, for the five largest dividends, that the profit used for the super-dividends test does not include significant holding gains/losses and other proceeds relating to extraordinary sales of assets that could change the result of the test.

Deadline: end-January 2023 ([41])

Action point 32: The Latvian statistical authorities will envisage carrying out a one-off exercise so to determine a coefficient that could be applicable to dividends earned by local government as a proxy of the super dividend test.

Deadline: June 2023 ([42])

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

Introduction

Latvian statistical authorities informed prior the 2022 dialogue visit that there were no cases of debt assumption at inception in national accounts except the case of the *Latvian Olympic Committee (Latvijas olimpiskā komitej*). In the previous dialogue visit, Eurostat had requested the Latvian statistical authorities to analyse whether government had control, in the meaning of national accounts, over the *Olympic Committee* (*Latvijas olimpiskā komitej*) notably in the light of debt assumptions carried out in the past.

([41]) Latvian statistical authorities informed on carried out an analysis of the five largest dividends paid to the State budget and concluded that the profit used for the super-dividends test does not include significant holding gains/losses and other proceeds relating to extraordinary sales of assets that could change the result of the test.

([42]) A note and Excel table was provided explaining performed analysis of the 15 largest municipal companies that have been paying the dividends for the last three years. In addition, it was explained that information on dividends paid in the local government budget is available in the Treasury information system from 2020. As the information will be available annually, the coefficient will not be applied, but the largest dividend payers will be surveyed to perform the super dividend test. Out of the 15 analysed companies, 2 companies showed super dividends: "*SIA Liepājas enerģija* " EUR 0.610 million in 2021, and "*AS Daugavpils specializētais autotransporta uzņēmums"* EUR 0.003 million in 2020 and EUR 0.359 million in 2022.

The Latvian statistical authorities provided prior the dialogue visit a list of debt cancellations and debt write-offs for the period 2018-2021 (by title and amount).

Discussion

Eurostat thanked the Latvian statistical authorities on the table provided with the list of debt assumptions and debt write-offs for the period 2018-2021. In the provided data for 2018, Eurostat noted the liquidation of EUR 30 million for *Lata International SIA*, classified in the sector of non-financial corporations (S.11). Eurostat inquired whether the debt of this unit had already been assumed by government in the past. If the answer was yes, then the claim should have not been in the stock of claims anymore, whether if not, at time of debt assumption it had not impact on B.9 (and then it should have now). The Latvian statistical authorities agreed to follow-up.

In addition, Eurostat noted that the tables show negligible amounts of write-offs and asked how these are recorded in the GFS tables. The Latvian statistical authorities responded that the write-offs are recorded as other change in volume in the GFS and EDP tables. Furthermore, Eurostat asked how the decision is made that these write-offs are to be recorded as other change in volume and not capital transfers.

Findings and conclusions

Action point 33: The Latvian statistical authorities will enquire on the origin of the claim against *Lata International* during the 1990s that was written off in 2018 through another change in volume following the liquidation of the entity (30 MEUR). In case the claim arises from a debt assumption, the Latvian statistical authorities will ensure that a capital transfer is recorded in 2018 unless a capital transfer was recorded at time of debt assumption.

Deadline: end-September 2022([43])

4.3.6. Eurostat questionnaire on government support to households for high energy prices

Introduction

In the European countries energy prices increased through 2021 and into 2022. Some governments responded introducing measures to protect consumers and producers of electricity. In May 2022, Eurostat launched among the EDPS and GFS WG members a survey to collect some information on government measures in response to the rapid increases in energy prices as a first step towards providing its advice on their harmonized treatment following ESA 2010 principles. The Latvian statistical authorities provided answers within the survey, declaring six schemes to alleviate the financial burden of rising electricity prices on end-users: households, companies, and other legal entities.

([43]) A note was provided explaining that the claim against *Lata International* did not arise from a debt assumption. The claim was, from the very beginning in 1992, a loan from the Treasury and in 2018 was administratively written off through another change in volume.

Discussion

Prior the dialogue visit, the Latvian statistical authorities provided information on the measures designed to alleviate high energy/electricity prices, explaining six schemes. Scheme 1 is based on an electricity system service fee compensation in full for all end users, from 1 December 2021 to 30 April 2022. Scheme 2 is a reduction of the mandatory procurement component in 2022, to EUR 7.5 per megawatt hour and a further compensation, from 1 January 2022 to 30 April 2022. Scheme 3 is a reduction of the fee for consumed natural gas, from 1 January 2022 to 30 April 2022. In Scheme 4 a compensation of the district heating service fee was introduced from 1 January 2022 to 30 April 2022. Scheme 5 is a support measure for certain groups of the population and Scheme 6 refers to an increase of the support for protected users, from 1 November 2021 to 31 December 2022.

Eurostat thanked the Latvian statistical authorities for their inputs provided within the survey as well as for the information given prior the dialogue visit. Furthermore, Eurostat questioned the scheme 1 is being reported under social assistance benefits in cash (D.623) and not as a subsidy on product (D.31). In addition, Eurostat enquired whether the scheme 1 is applicable to all consumers or just for the necessitous ones and what would be the associated budget. The Ministry of Finance replied that scheme 1 is applicable to all consumers and that the budget for this scheme is EUR 141.1 million. Eurostat noted that part of this measure should be accrued in 2021. CSB replied that they would report all the measures within the Questionnaire related to EDP tables and that the amount of EUR 16.1 million (part of total of EUR 141.1 million) will be accrued in December 2021, as the accrual principle needs to be followed, on what Eurostat agreed.

Regarding the scheme 2, Eurostat suggested to the Latvian statistical authorities that this measure should be reported as subsidies on production (D.39).

Eurostat also mentioned that the schemes 3 and 4 should be reported as either subsidies on products (D.31) or other miscellaneous current transfers (D.75). In addition, Eurostat asked whether the measures with the deadline 30 April 2022 would be extended. The Latvian statistical authorities replied that there would be a new package of measures, which is currently under government discussion.

For the scheme 5, Eurostat asked for the budgeted amount. The Ministry of Finance responded that the total budgeted amount for scheme 5 is EUR 407 million. Eurostat further recommended that scheme 6 should be reported under social assistance benefits in cash (D.623). CSB thanked Eurostat on the recommendation and replied that they will implement corrections accordingly.

Findings and conclusions

Action point 34: In relation to the energy alleviation schemes established end 2021/ beginning 2022, the Latvian statistical authorities will implement the expenditure classification discussed during the meeting (scheme 1: D.31, scheme 2: D.39, scheme 3: either D.75 or D.31, etc.).

Deadline: end-September 2022([44])

([44]) The expenditure classification was implemented ((Scheme 1 as D.31, Scheme 2 as D.39, Schemes 3 and 4 as D.31, Scheme 5, and Scheme 6 under D.632).

Action point 35: Eurostat appreciated that the part of the EUR 141 million subsidy of scheme 1 that accrues in December 2021 is already recorded as 2021 expenditure in GFS. The Latvian statistical authorities will nonetheless classify the EUR 16 million concerned as D.31 (instead of D.75, see above) and will explain why the amount is not closer to 1/5 of the EUR 141million.

Deadline: end-September 2022([45]*)*

4.3.6.1. EPT
4.3.6.2. Latvenergo

Introduction

The activities of the *Enerģijas publiskais tirgotājs AS (EPT)* and *Latvenergo* were subject of extended discussion during the 2017 and 2019 EDP dialogue visit to Latvia, as well as during the requests for clarification within the EDP notifications that followed. The Latvian statistical authorities provided a short note prior to the meeting summarising the issue.

Discussion

The Latvian statistical authorities recalled that *Enerģijas publiskais tirgotājs AS (EPT)* performs the functions of public electricity trader in Latvia, implementing the mandatory procurement of electrical energy in accordance with the Latvian *Electricity Market Law* ([46]). In national accounts, *EPT* is classified in the general government sector. *EPT* is a subsidiary of *Latvenergo*.

Latvenergo is a state-owned electric utility company in Latvia. The company generates about 70% of the country's electricity. In previous EDP dialogue visits, the involvement of *Latvenergo* in the government’s scheme to support producers of electricity from renewable sources was discussed (the so- called mandatory electricity procurement scheme).

The renewable energy support system is mainly based on subsidies to producers paid by *EPT*. This takes the form of a feed-in tariff that requires *EPT* to buy electricity generated by renewable energy producers at a tariff which includes a pre-determined premium (determined by law) above or additional to the actual market price for electricity. Electricity bought as part of mandatory procurement is paid at tariffs set by the State.

Eurostat had been informed in previous discussions about a forthcoming update of the relevant legal provisions in this context. The statistical office provided the information that the Parliamentary Commission continues to work on the Amendment to the *Electricity Market Law*, which envisages significant changes to the existing mandatory procurement system. Furthermore, the CSB explained that the Amendment envisages maintaining the mandatory

([45]) A note with explanation was provided that EUR 16.1 million has been recorded as D.31 in 2021. The amount was not closer to 1/5 of the EUR 141 million, as in December 2021, subsidy *Scheme 1 - Electricity system service fee compensation in full for all end users* - was not in full amount, but only 50 %.
([46]) The law was adopted in 2005 and had several amendments. This Law governs the types of activities to be performed in the electricity market which shall include the generation of electricity, transmission of electricity (hereinafter - transmission), distribution of electricity (hereinafter - distribution), trade in electricity as a free circulation commodity and the provision of services necessary for the trade therein.

purchase of electricity in the future, however electricity will be purchased from producers at the price of electricity traded on the exchange.

Eurostat recalled that previous discussions had been held in relation to the statistical treatment of the mandatory electricity procurement scheme and to the recording of a so-called ‘lump sum’ payment to *Latvenergo* made by government in 2018. Consequently, this company would partly waive its rights to receive future support for high efficiency cogeneration (under another government scheme, electricity companies in Latvia receive a compensation from government in order to maintain a specific capacity of electricity production from conventional sources available in case of future needs).

Eurostat had argued in the past that the totality of the one-off payment was to be recorded in national accounts spread over the production period intended to be subsidized (sort of prepayment of future subsidies). On the other hand, the Latvian statistical authorities considered that a significant part of the one-off payment was unconditional and should be recorded in 2018 when the decision was taken (one-off government expenditure). The difference between Eurostat’s position and that of the Latvian statistical authorities concerned increasing or not the spread of the subsidy (D.39) over the time of validity of the scheme, from EUR 30 million (Latvian statistical authorities) to EUR 45 million (Eurostat), annually.

Eurostat considered that the absence of contingency element on part of the one-off payment was not so convincing argument to justify immediately expensing that part (in 2018), because the contingency or absence thereof are largely notional in this case, given that *Latvernergo* cannot actually decide to stop operating its assets (in view of the dependence of the Latvian economy on these). Also, in the past Eurostat had noted that the non-contingent part had been arbitrarily increased in 2019, with the risk of leaving the government B.9 subject to similar arbitrary decisions. In addition, Eurostat noted that only *Latvernergo*, which is publicly controlled, elected to opt for this arrangement (of prepayment of subsidy), no other companies were participating in the scheme. Finally, the fact that government did not actually pay out the lumpsum but decapitalized instead *Latvernergo* added to the feeling of artificial arrangement, also supporting seeing through it in statistical reporting and keeping recording the subsidy spread over the years in full.

The CSB emphasized that, at the time of preparation of the EDP dialogue visit the draft law did not require *Latvenerg*o to refund any amount with respect to the one-off payment. However, there was a possibility that the new law would fundamentally change the characteristics of the remuneration scheme and the involvement of *Latvenergo* in it. Therefore, once the law is passed, the Latvian statistical authorities will request a formal advice from Eurostat on the accounting treatment of the measure.

Furthermore, Eurostat noted from the table on super-dividend test that *Latvenergo* didn’t pass the test for the 2019 and 2020, while at the same time significant dividends were paid in these years. Furthermore, the government, in its quality of shareholder, has received dividends from *Latvenergo*, which is itself receiver of renewable energy support.

Eurostat also enquired on the recording of the subsidies to the producers of electricity from renewable sources, stating that they should be recorded as other subsidies on production (D.39) as they, according to the ESA 2010 §4.36, consist of subsidies except subsidies on products which resident producer units may receive as a consequence of engaging in production.

In addition, Eurostat enquired regarding the *Latvenergo* one-off operation whether there may be a debt issue, given that the prepayment of subsidy was not actually paid to *Latvenergo*, which could be seen as extending credit to government.

Finally, Eurostat inquired the Latvian statistical authorities about the recording of the purchase of certain quantities of liquified natural gas (LNG) made by *Latvenergo* at the request of government. The issue will be followed up.

Findings and conclusions

Action point 36: The Latvian statistical authorities will ask a clarification from the Ministry of Economy on the exact arrangement between government and *Latvenergo* for compensating the latter for an early purchase of LNG in 2022 Q2 (in anticipation of the routine post summer purchases) that was carried out upon the request of government. The Ministry of Economy will notably indicate if the compensation is against a fixed price or against the market price observable in autumn and if the compensation could become negative. Based on the information provided, the Latvian statistical authorities will decide on the GFS/EDP impact (presumably with subsidy recordable in 2022 Q2).

Deadline: end-September 2022([47])

Action point 37: The Latvian statistical authorities will review the new law directing *Latvenergo* to add to LNG/gas inventories, possibly for a significant fiscal impact (EUR 200 million), and conclude on the appropriate GFS/EDP recording, i.e., whether gas inventories should be recorded in general government accounts or not.

Deadline: end-December 2022([48])

Action point 38: Eurostat thought that the current recording of the government agreement with *Latvenergo* of 2017/2018 related to the anticipated early settlement of promised capacity subsidies (for the following 10 years, for a total EUR 450 million) and the simultaneous ensuing decapitalisation of *Latvenergo* was not commendable. Eurostat thought it necessary to conclude on this issue, which has been under repeated discussions between Eurostat and the Latvian statistical authorities in the past three years. Eurostat considered necessary to keep recording the subsidy in the accounts spread over the production period intended to be subsidized and, at the same time, thought it inappropriate to distinguish between conditional and unconditional settlements of subsidy.

a) The Latvian statistical authorities will review the subsidies D.39 recorded over the period 2018-2027 (from EUR 30 million to EUR 45 million).

([47]) A note was provided explaining that the Government instructed *Latvenergo* to purchase gas that remains in *Latvenergo's* property. The Government's decision was that the difference between the current (spring) gas price and the average gas market price in the 3rd quarter (when gas should theoretically have been cheaper) will be compensated by the State. Since gas was more expensive in the 3rd quarter, compensation was not necessary.

([48]) A note was provided explaining that the law considers the gas reserves as the property of the State. *Latvenergo* will purchase them and transfer to the State to be re-registered in the name of the State. Thus, the Latvian statistical authorities explained, these gas reserves should be recorded in general government accounts from January 1, 2023.

b) The Latvian statistical authorities will review the capital transfer currently recorded in 2018 (EUR 140 million) and in 2019 (EUR 40 million).

c) The Latvian statistical authorities will also consider if a government debt should in fact exist in relation to this operation from 2017/2018 onwards and what would be the appropriate recording to reflect this.

Deadline: end-September 2022 ([49]*)*

4.3.7. SDR recording (EDP Table 3B)

Introduction

The Latvian statistical authorities had asked, on 1 April 2022, Eurostat's opinion regarding the treatment of latest transactions of the Financial Transaction Plan (FTP) that closely relates to the Reserve position in the IMF, particularly concerning the government finance statistics and annual financial accounts (Table 6 and 7).

The Bank of Latvia has also consulted the ECB in the framework of preparing the balance of payments with the background information: "*Pursuant to the Law on the Republic of Latvia Joining the International Monetary Fund, Bank of Latvia serves as a depository for the IMF and services the IMF accounts in the member state currency. In the meantime, the fiscal agent of Latvia for operations and transactions with the IMF is the Ministry of Finance. The reserve position in the IMF is the difference between Latvia's quota in the IMF and the IMF holdings in euro according to the SDR denominated Promissory Notes (issued by the Latvian government) and Account No. 1 (used for financial transactions with the IMF*)".

Discussion

Eurostat wanted to clarify the issue of SDRs recording as it had provided to the Latvian statistical authorities it's view on FTP in June 2022.

According to Eurostat the participation of Latvia in the FTP leads to following entries/transactions:

The Treasury (on behalf of the MoF) as a fiscal agent encased the promissory note and transferred EUR 14.76 million to the IMF Account No. 1 opened within the Bank of Latvia with

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([49]) Prior the October 2022 EDP notification (on 28 September 2022) LV authorities provided to Eurostat a note flagging that they will not be able to meet the deadline set for Action Point 27 since they have received information about a decision of government to fully finance mandatory procurement component using the dividends of *Latvenergo*. Considering recent developments, the Latvian statistical authorities believe the scheme has been changed conceptually, and therefore there is a need to review the recording of all transactions (including historical) involved in the scheme and that the Latvian statistical authorities would request an official advice from Eurostat on the issue. Official request for an advice was sent to Eurostat on December 22nd, 2022. Eurostat published its advice letter on the statistical recording of the mandatory procurement scheme in Latvia on 28 March 2023.(424797bf-a414-9cdc-4152-992b57209cc2 (europa.eu)) a counterpart entry of increase in investment in international organizations (in this case the IMF) on balance sheet.

In the meantime, Bank of Latvia as a depository received EUR 14.76 million in the IMF Account No.1 with a counterpart entry of reducing Treasury (MoF) EUR holdings. IMF Account No. 1 is in the balance sheet of the Bank of Latvia. In addition, a reduction is made in the account of Government`s Promissory Note to IMF in the off-balance sheet of the Bank of Latvia.

Then according to the payment order of the IMF, Bank of Latvia decreases IMF Account No.1 and increases the Reserve position in the IMF. The Reserve position in the IMF is not in the balance sheet of the Bank of Latvia (however the Reserve position is an item in the BOP (Reserve assets), nor in the Government Balance sheet.

The Latvian statistical authorities asked to confirm whether their understanding is correct that they must show EUR 14.76 million in the Reserve position of the Bank of Latvia. In addition, the Latvian statistical authorities asked what the ECB view on the statistical treatment of payments made by the Treasury (Government) would be concerning FTP (e.g., how to show it in the BoP statistics).

The ECB representative had confirmed that it was correct to show the increase of reserve position in the IMF in the reserve assets of the Bank of Latvia.

Eurostat understood that, from a statistical point of view, the Latvian statistical authority's proposal is that the reserve tranche is to be statistically shown in the Bank of Latvia accounts rather than in central government accounts, similarly, to recording of SDRs. Therefore, Eurostat understood that Latvian statistical authorities would like to re-route this transaction, similarly to the re-routing that takes place with SDR-related transactions as agreed with Eurostat in the past.

Findings and conclusions

In principle, Eurostat stated that is not opposed to this approach considering the discussions held with the Latvian statistical authorities in the past around the topic of the relation with the IMF.

4.3.8. PPPs, Concessions and Energy Performance Contracts (EPC)

Introduction

Eurostat requested from the Latvian statistical authorities to send, prior the dialogue visit, a note on the existing and planned PPPs, concessions and EPCs with the relevant amounts.

Discussion

The Latvian statistical authorities provided list of the on-going PPP projects in Latvia, explaining that all information is included in Questionnaire related to the EDP Table 11. In addition, the Latvian statistical authorities explained that there are four on-going PPP projects in Latvia: Construction of the *"Kekava Bypass*" (S.1311), Construction of kindergarten in *Kekava* (S.1313), Construction of kindergarten in *Tukums* (S.1313) and Construction of kindergarten in Marupe (S.1313). Eurostat thanked the Latvian statistical authorities for the information provided. In addition, Eurostat recalled that, within the Questionnaire table 11, there was an off - balance sheet project, the "*Ķekava bypass*", which was discussed in 2019 dialogue visit. In July 2018, Eurostat provided to the Latvian statistical authorities an ex-ante opinion on the statistical treatment of the assets to be created through the implementation of the PPP Project E67/A7 "*Kekava bypass*", in which it was confirmed that the assets under the draft PPP contract available at that time should be classified off government balance sheet ([50]). Since a number of changes have been introduced into the PPP Contract, the Central Statistical Bureau of Latvia (CSB) considered it necessary to reassess the situation and repeated their request in 2021 for an ex-ante opinion from Eurostat on the statistical treatment of the assets of the "*Ķekava bypass*" PPP project.

In the second Eurostat ex-ante opinion ([51]) Eurostat agreed with the opinion of CSB, as understood that most of the risks and rewards of the "*Ķekava bypass*" PPP project attached to the asset during the whole duration of the contract are with the private partner and that the assets therefore are to be recorded in the accounts of the partner. Following the analysis of the changes introduced in the finalized PPP contract according to the PPP Guide and of the table provided by the Latvian authorities of the revised PPP contract, provisions that influenced the statistical treatment, Eurostat agreed with the Latvian authorities and considered that the PPP assets are to be classified off balance sheet for government. The contractual capital value of the *"Ķekava bypass"* PPP project is EUR 250 million and it will end in November 2023([52]).

Latvian statistical authorities informed also on a planned PPP project - Management and improvement of commercial premises of the State Joint Stock Company "Riga International Airport", with an expected duration of the project (10 years) 2023-2032.

On the issue of concessions, the Latvian statistical authorities explained that the register of concessions is maintained by the Register of Enterprises of the Republic of Latvia. The concession agreements are mostly concluded by state or municipal institutions with corporations for the provision of services. In Latvia, concession agreements are mainly concluded for the provision of public transport services, the provision of heating services, the provision of waste management services, the management of historical and cultural monuments, etc. Concession agreements for the provision of public transport services are concluded by the municipality or the Road Transport Directorate (S.1311).

As regards EPC contracts, Latvian statistical authorities informed that, according to the Ministry of Economy, no EPC contracts involving the government sector were concluded.

Findings and conclusions

Eurostat took note on the information provided by Latvian statistical authorities.

([50]) https://ec.europa.eu/eurostat/documents/1015035/8683865/Advice-2018-LV-Ex-ante+advice_PPP++Project+E67+A7+Kekava+bypass.pdf/ab49a2c1-3a30-4ee2-84f2-148e14ba484f

([51]) https://ec.europa.eu/eurostat/documents/1015035/12427511/Latvia_2021-advice.pdf/62ad8817-23f0-53c7-ed94-f10a6d83ce86?t=1625821196085

([52]) On the request of Latvian statistical authorities, Eurostat provided preliminary view on statistical treatment of the Public Private Partnership (PPP) Project E67/A7 "*Kekava bypass"* with regard the recent amendments. (Ares (2023)6402680).

4.3.9. Emission trading permits (ETS)

Introduction

In Latvia, the proceeds from the sale of ETS are recorded in national accounts using a time-adjusted cash approach of eight months. Proceeds of permits generated from January to April of a particular year are recognised in the same year, whereas proceeds generated in May – December are recognised in the following year. At the same time, the allocation of the ETS auctioning proceeds is recorded in the central government account (S.1311) split between other taxes on production - D.29 (for residents) and current international cooperation - D.74 (for non-residents), based on information from the Environment and energy statistics section of CSB.

Discussion

The Latvian statistical authorities provided prior the meeting a note on ETS recording, including their position regarding the forthcoming revision of the MGDD chapter on this matter.

Regarding the implementation of the new methodology, the Latvian statistical authorities informed Eurostat that they supported the TAC variant of the new methodology, which they believe is much more realistic for countries with large cross border flows and easier to implement.

Eurostat thanked the Latvian statistical authorities for the information but expressed concern regarding the current ETS recording in Latvia, noting that this issue was also discussed during the 2019 EDP dialogue visit when Eurostat tentatively agreed with the Latvian approach, pending EDPS WG deliberations. In the action point 28 of 2019 dialogue visit, the Latvian statistical authorities needed to provide a note on their reflections on recording for the benchmark revision of 2020, with a possible switch to a D.29 paid by companies to the Rest of the World together with government revenue coded in full as D.74 (so-called EU revenue approach, which was discussed during EDPS WG deliberations).

Eurostat also recalled that cash or time-adjusted cash is a proxy of the so-called FIFO method, which would generally prevent recording the entire amount (time-adjusted) in 2019 relating to a large one-off sale carried out in 2018. Eurostat would nonetheless reflect on the potential implication of the fact that this large one-off operation followed a court decision (as argued by the Latvian statistical authorities).

Nevertheless, Eurostat emphasised that, given the orientations taken by the EDPS WG and the MGDD, the full amount of revenues should now be recorded as D.29. The Latvian statistical authorities replied that the proposed recording all in D.29 would distort the tax on resident producers, which Eurostat acknowledged, and would create inconsistencies with Latvian balance of payments data (BoP). Also, inconsistencies with balance sheets would then occur.

Eurostat took note of those points and stated that the Latvian statistical authorities would need to monitor the recording of the ETS. In addition, Eurostat noted that the current EDP Inventory describes a TAC method of four months, and not the TAC method of eight months that is currently implemented according to the information provided from Latvian statistical authorities.

Findings and conclusions

Action point 39: In relation to the ETS, the Latvian statistical authorities will reclassify the part of the ETS revenue currently recorded under D.7 revenue government, expenditure of the Rest of the World (RoW) as D.29 revenue of government (expenditure of S.11), in line with the recording followed by the other Member States. Eurostat will nonetheless reflect on the guidance that could be usefully inserted in the new MGDD chapter in relation to the appropriate recording in the Rest of the World (RoW), account (and associated BoP) and in the S.11 account, so to reconcile the flows and the stocks in an appropriate manner.

Deadline: June 2023([53])

Action point 40: In relation to the ETS, the Latvian statistical authorities may also need to adapt to changes, if any, to the Time Adjusted Cash -TAC method that would be chosen by the EDPS WG. They will nonetheless keep the cap approach for the one-off ETS proceeds of 2018. Finally,

([53]) Latvian statistical authorities provided information on developed new methodology on recording of ETS revenue according to the 2022 MGDD requirements. All ETS revenue was intended to be recorded as D.29 revenue of government and the method 2.a (TAC of 1 year) is chosen. They added that the maximum revenue ceiling from 2019 was recalculated accordingly and that the implementation of the changes was planned for the EDP September 2023 notification. Latvian statistical authorities explained that it is nonetheless not clear how to record the related transactions in the S.2 and S.11 sector accounts in Latvia. Accordingly, they consider that the implementation of the new methodology to time series will be possible only during the benchmark revision in 2024, when an appropriate solution will be found for recording the related flows in the accounts of other sectors.

they will adapt the EDP Inventory, which erroneously refers to a TAC of 4 month (instead, a TAC of 8 months is currently implemented).

Deadline: June 2023([54])

4.4. Others: UMTS, sale and leaseback operations, securitisation

Introduction

The Latvian statistical authorities provided, prior the visit, information note on the current and future sale and leaseback operations, securitizations, UMTS and privatization, as well as a summary referring to past and pending court cases with a possible impact in the accounts of general government, and the table on disposals of non-financial assets by general government for the period 2018-2021.

Discussion

Mobile telephone licences

The Latvian statistical authorities informed Eurostat that according to the MGDD methodology cash inflows from the sale of mobile phone licenses are excluded from central government revenue and the proceeds from sales of licenses are recorded as F.8L. Government revenue (D.45) over the lifetime of the license is instead recognised and the impact on government B.9 is spread over the duration of the license.

Sale and leaseback operations

The Latvian statistical authorities explained that they are not aware of any current or future expected sale and leaseback operations and/or securitizations.

Decommissioning costs

There are no nuclear plants in Latvia, but some polluted areas exist from the past as between the 1950s and the 1980s, during the Soviet occupation of Latvia, the ponds – which were originally sand quarries – were used as dumping sites for waste from Riga's pharmaceutical and fragrance industries. Much of the waste contained a mixture of used lubricating oils and sulphonic acid tar from a lubricating oil processing plant. Other waste from medical and perfume oil production was also disposed of there.

Currently there are the recovery project of two acid ponds is ongoing, in *Inčukalns* county, around 35 km north-east of the capital, Riga. The project aims at the elimination of the polluting source and the rehabilitation of the land, and it contains two phases. First phase of this project ran from 2013-2015 with cost EUR 27.6 million including 70% EU financing. Second phase has

([54]) The EDP inventory has been adapted referring to a TAC method of 8 months. In addition, it was explained when new methodology on recording of the ETS revenues will be agreed and implemented, the EDP inventory will be adapted accordingly. An information is provided that the cap approach for the one-off ETS proceeds of 2018 is kept.

been ongoing since 2015 and is estimated to end in December 2023. The main element of phase two is the installation of a monitoring system to help ensure the quality of the groundwater in the area around the ponds meets legislative requirements. After the completion of the project, the Latvian State Environmental Service will maintain the site for at least five years and continue to monitor environmental quality in the area for at least 30 years, to ensure the long-term sustainability of the remediation works.

Total investment for the *project "Historically contaminated sites 'Inčukalns acid tar ponds' remediation works – phase II"* is EUR 29 699 997, with the EU's European Regional Development Fund contributing EUR 24 869 085 through the *"Growth and Employment" Operational Program for the 2014-2020 programming period.* The investment falls under the priority *"Environment and resource efficiency".*

The Latvian statistical authorities explained that annual payments for the projects are recorded as gross fixed capital formation – GFCF.

Eurostat noted a mistake within the EDP Inventory ([55]) on the description of the finalization of the phases of the ongoing project. The Latvian statistical authorities replied they would correct it upon newest information from the Ministry of Environmental Protection and Regional Development in Latvia.

Considering the situation, Eurostat noted that the new MGDD chapter on decommissioning would not be relevant for Latvia.

Pending court cases with a possible impact in the accounts of general government if any

In connection with the Competition Council Decision No. 22 of 30 July 2021 "*On Establishment of Infringements and Imposition of Fines*", the Central Financial and Contract Agency (CFCA) has taken 25 decisions on improperly incurred expenditures within the framework of 23 EU fund projects. Source of fundings is European Regional Development Fund (ERDF) with around 87% of financing and National co-financing with around 13% of financing. The total amount of financing for 25 decisions is EUR 18.9 million.

The Latvian statistical authorities explained that decisions have been appealed in 18 cases, in 1 case the repayment schedule for repayment of the paid support amount by 2024 has been agreed, in 6 cases no appeals have been lodged to the CFCA.

Disposals of non-financial assets by general government for the period 2018-2021

The Latvian statistical authorities provided a table on disposal of produced non-financial assets as reported within the gross capital formation (P.5g) of ESA Table 2 and non-produced non-financial assets within acquisition less disposal of non-produced assets (NP) in ESA Table 2. Eurostat thanked to the Latvian statistical authorities on the provided table with the data for 2018-2020, the Latvian statistical authorities explained that currently they have no information on the data for 2021 and they will update the information when available.

([55]) This issue is subpoint *e)* of the action point 4, under agenda point 1.2.3. EDP Inventory. Updated information is included in chapter 7.17. Decommissioning costs.

Findings and conclusions

Eurostat took note of the information and explanation provided by Latvian statistical authorities as regards the UMTS, sale and leaseback operations, securitisation, decommissioning costs, and disposals of non-financial assets by general government.

5. OTHER ISSUES

5.1. Other important issues relevant for the October 2022 EDP Notification

5.2. GFS related matters

5.3. Any other business

Eurostat took note on the information provided by Latvian statistical authorities' explanation, as regards recent or foreseen large government transactions in 2018-2021 (not covered under other points) and their treatment in national accounts, that there is nothing else relevant to mention for the period 2018-2021.

EDP dialogue visit to Latvia

5-7 & 12 July 2022

Agenda

1.Statistical capacity issues

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

1.2. Data sources and revision policy, EDP inventory

1.2.1. Availability and use of data sources, revision policy

1.2.1.1. Status of ESA Table 6/7 versus ESA Table 27/EDP Table 3

1.2.2. Compliance with Council Directive 2011/85

1.2.3. EDP Inventory

2. Follow-up of the EDP dialogue visit of 2-4 December 2019

3. Analysis of EDP tables – follow up of the April 2022 EDP notification

4. Methodological issues and recording of specific government transactions

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

4.1.1. Application of market/ non market test qualitative and quantitative criteria

4.1.2. Sector classification of specific units (*Rigas Satiksme - Riga Bus Company); (Latvijas Dzelzceļš - Railway Company*)

4.1.3. Public holdings and units engaged in financial activities

4.1.4. Government controlled entities classified outside the general government sector

4.2. Implementation of accrual principle

4.2.1 Taxes and social contributions

4.2.1.1 Impact of the implementation of the Single Tax Account (STA)

4.2.2. Interest and financial derivatives

4.2.3. EU flows

4.2.3.1. RRF Table

4.2.3.2 Recording of the undervalued imports of textiles and footwear from China

4.2.4. Military expenditure

4.1.5. Gross fixed capital formation (GFCF)

4.3. Recording of specific government transactions

4.3.1. Measures in response of the COVID-19 crisis: expenditure and non-taxes revenue, taxes and social contributions, loans and guarantees

4.3.2. Guarantees

4.3.3. Capital injections in public corporations

4.3.4. Dividends

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

4.3.6. Eurostat qquestionnaire on government support to household for high energy prices

4.3.6.1. EPT

4.3.6.2. Latvenergo

4.3.7. SDR recording (EDP Table 3B)

4.3.8. PPPs, concessions and Energy Performance Contracts (EPC)

4.3.9. Emission trading permits (ETS)

4.4. Others: UMTS, sale and leaseback operations, securitisation

5. Other issues

5.1. Other important issues relevant for the October 2022 EDP Notification

5.2. GFS related matters

5.3. Any other business

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