Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA 2010

Latvia

June 2023

Background

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

According to Article 8.1: *"The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 2010.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording."*

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

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States. This version introduces references to the ESA 2010 and the updates mirroring the changes introduced by the ESA 2010. It also includes changes introduced by the August 2019 MGDD version.

Contents

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

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

1. General Government

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

The general government sector is composed by three sub-sectors: central government S.1311, local government S.1313 and social security funds S.1314. It includes:

1.1. Central government subsector (S.1311)

Central government subsector includes following units:

1) Central budgetary organisations
   - ministries and central institutions (27),
   - ministries and central institutions subordinated institutions (144),
   - derived public persons partially financed from the budget (48) *(other public person established by law or on the basis of law. Such public person has been conferred its own autonomous competence by law, which includes also establishing and approval of its own budget, such a person may have its own property, mainly public),*
   - organisations not financed from the budget (7) (*institutions of direct State administration subordinated to a member of the Cabinet performing certain State administration functions or tasks and whose activities are fully, except the case provided for in this Law, financed from the revenues thereof for the paid services provided and other own revenues, gifts, donations and foreign financial assistance*);
   - public foundations (2) *(a foundation, also a fund, is an aggregate of property that has been set aside for the achievement of a goal specified by the founder, which shall not have a profit-making nature).*

2) Other central organisations
   - capital companies controlled and financed by central government (56) *(reclassified enterprises from S.11 to S.13 following 50% criterion) (ESA 2010, § 20.29-20.31).*

1.2. State government subsector (S.1312)

The state government subsector does not exist in Latvia.

1.3. Local government subsector (S.1313)

Local government subsector includes following units:

1) Local budgetary organisations
   - 7 state municipalities,
   - 36 regional municipalities,
   - 326 indirect local government organisations.

2) Other local organisations
   - capital companies controlled and financed by local government (86) *(reclassified enterprises from S.11 to S.13 following 50% criterion) (ESA 2010, § 20.29-20.31).*

1.4. Social security funds subsector (S.1314)

Social security funds subsector includes State Social Insurance Agency.

Further details relating to practical aspects of sector classification for individual units into general government sector could be found in Chapter B, section 5 Sector delimitation – practical aspects.

2. Institutional arrangements

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

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA 2010 Transmission Programme,
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables,
- general overview about bookkeeping system used by public units, internal quality checks and external auditing,
- communication between individual national authorities involved in EDP,
- publication of deficit and debt statistics.

Legal basis for the compilation of GFS and EDP data

Legal basis for the collection and compilation of fiscal data:

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

Legal basis for the collection and compilation of EDP data:

- Cabinet Regulations No 756 of 22 December 2015 „Procedures for preparing the Notification of General Government Deficit and Debt" prescribes the procedure by which the notification of general government deficit and debt specified in Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (Codified version), shall be prepared and submitted to the responsible structural unit of the European Commission – Statistical Office of the European Union *Eurostat.*

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

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

National accounts data for general government are transmitted to Eurostat[1] via the following tables (see the related EU legislation)[2] :

Table 2 – Main aggregates of general government (annual data)
Table 6 – Financial accounts by sector (annual data)
Table 7 – Balance Sheets for financial assets and liabilities (annual data)
Table 801 – Non-financial accounts by sector (quarterly)
Table 9 – Detailed Tax and Social Contribution Receipts by Type of Tax or Social Contribution and Receiving Sub-sector (annual data)
Table 11 – Expenditure of General Government by function (annual data)
Table 25 - Quarterly Non-financial Accounts of General Government
Table 26 – Balance sheets for non-financial assets (annual data)

[1] https://ec.europa.eu/eurostat/data/database
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1581327918231&uri=CELEX:32013R0549

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

Table 27 – Quarterly Financial Accounts of General Government
Table 28 – Quarterly Government Debt (Maastricht Debt) for General Government
Data on government deficits and debt levels are reported to Eurostat twice a year (in April and October) in EDP notification tables[3].

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

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

NSI - National statistical institute including units subordinated to the NSI (the latter is to be specified in comments)
MOF – Ministry of Finance/Economy including units subordinated to the MOF (to be specified in comments)
NCB – National Central Bank
Other – other national body, to be specified in comments

[3] https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables

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

Official names of the institutions involved in preparation of EDP notification:

Centrālā statistikas pārvalde	Central Statistical Bureau
Finanšu ministrija	Ministry of Finance
Valsts kase	Treasury
Aizsardzības ministrija	Ministry of Defence
Latvijas banka	Latvijas Banka
Valsts sociālās apdrošināšanas aģentūra	State Social Insurance Agency

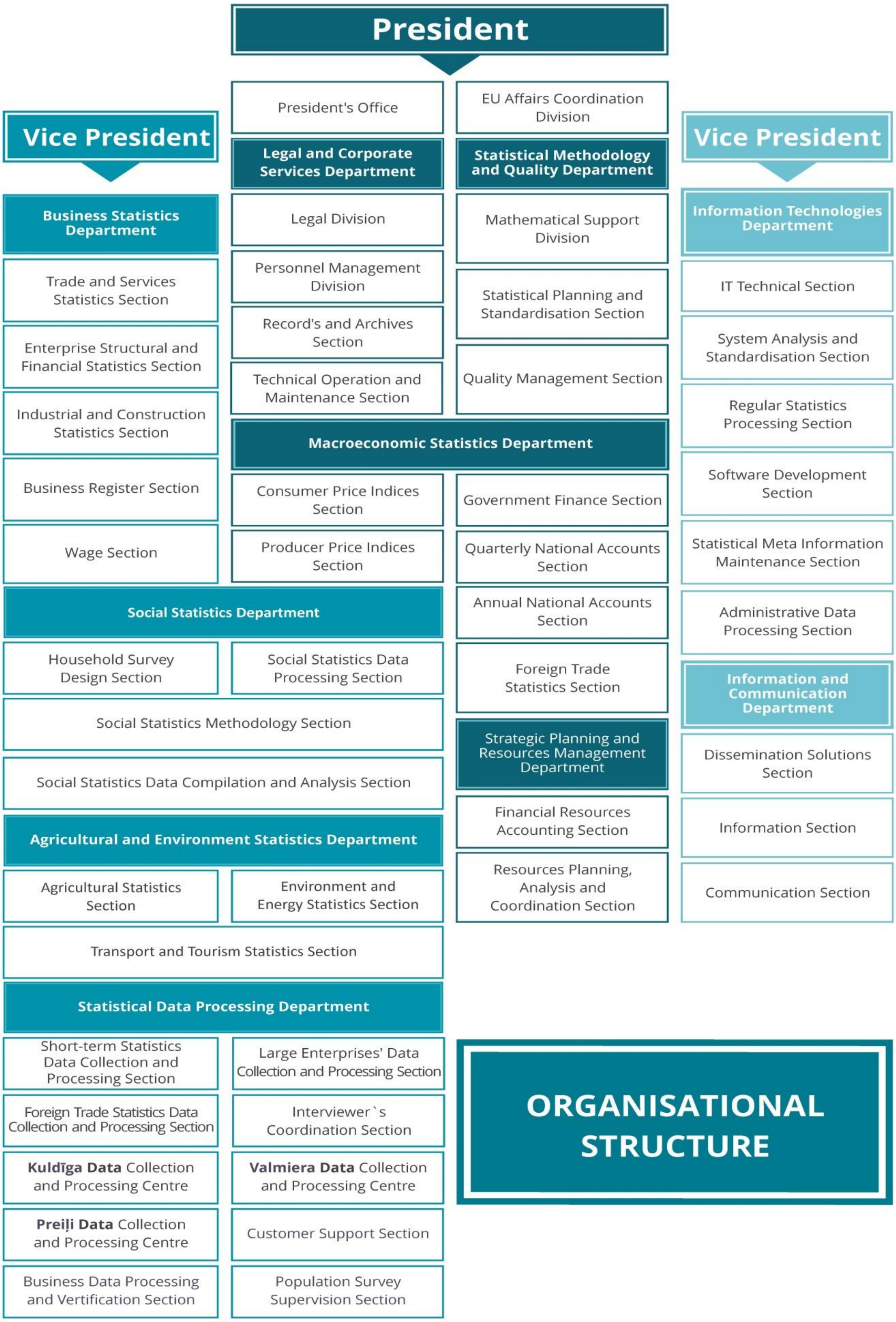
The Central Statistical Bureau (CSB) is responsible for preparing and submitting the EDP notifications (both April and October) to *Eurostat.* Institutions involved in preparation of the notification are the Ministry of Finance and the institution subordinate thereto – the Treasury. The CSB prepares the notification in accordance with the methodological principles of Regulation (EU) No 549/2013 of the European Parliament and the Council of 21 May 2013 on the European System of National and Regional Accounts in the European Union (hereafter – ESA 2010), using the data submitted by the involved institutions and the data collected by the CSB. The CSB organises working groups for comprehensive investigation of methodological issues and data sources, as well as for analysis and assessment of the notification results. Next to the above-mentioned involved institutions the CSB invites the Latvijas Banka and if necessary other organisations responsible for government financial statistics for collection and analysis of related data. Since 2018, the compilation of the annual financial accounts (ESA tables 6 and 7) is under the responsibility of the Latvijas Banka.
The CSB confirms the final EDP data prior to submitting to *Eurostat.*
The EDP tables officially signed by the CSB president are sent to *Eurostat* via eDAMIS.

2.1.1 Existence of an EDP unit/department

Government Finance Statistics Section is a part of the Macroeconomic Statistics Department. One of the functions of the CSB Government Finance Statistics Section is preparation of EDP notifications. Next to drafting the EDP notification the Government Finance Statistics Section is also responsible for preparing General government sector non-financial and financial accounts, government debt calculations.
The CSB Government Finance Statistics Section in line with the above-mentioned (see Paragraph 2.1 Cabinet Regulations No 756 of 22 December 2015 receives information from the Treasury, the Ministry of Finance and the Ministry of Defence and summarises information from statistical reports. For the preparation of the April notification provisional information is provided, while for the October notification – information from the annual report. The CSB performs calculation in all EDP tables. The forecast data are provided by the Ministry of Finance. Inter-institutional meetings chaired by the CSB are organised on a range of methodological matters and the possible corrections in the EDP table data.

The organisational chart of the CSB is included below but can also be found at: https://www.csb.gov.lv/en/about-us/overview/organisational-structure

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



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

2.1.2 Availability of resources for the compilation of GFS data

The Government Finance Statistics Section is responsible for preparing statistics for quarterly and annual government finance statistics, as well as for EDP preparation. There are 9 employees at the CSB who are responsible for preparing government financial statistics.
Employees are involved in creating data source questionnaires, data analysis and checking. The responsible employees if needed prepare data upon a request from international and national organisations.

2.2. Institutional arrangements relating to public accounts

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

2.2.1 Legal / institutional framework

The general legal basis regulating the compilation of public accounts and the accounting rules is the Law "On Accounting" (adopted on 14.10.1992 with amendments). This law is the main law in the field of accounting and applies to all companies, co-operative societies, branches of foreign entrepreneurs as well as non-residents (foreign entrepreneurs), associations and foundations, political organizations (parties) and their associations, religious organizations, trade unions, institutions which are financed from the state budget or local budgets, state or governmental agencies, as well as other legal and natural persons carrying out economic activity.
Law "On Budget and Financial Management" determines the procedure for the formulation, approval and implementation of the State budget and local government budgets and the responsibility in the budget procedure. Financial management applies to the funds of the state budget and local government budgets.
The Treasury is responsible for the state budget financial accounting.
Cabinet regulations No 87 of 13 February 2018 issued in line with Section 3 of Article 29 of Law "On Budget and Financial Management" stipulate the order how budget institutions shall organise accountancy.
Accounting records and evidence of all public units are regularised by a related national legislation.
The Ministry of Finance develops and implements the accounting rules. Regulations for the accounting and organisation, as well as cash operation are issued by the Cabinet of Ministers. In creating, improving and coordinating new financial statements the Ministry of Finance cooperates with the Treasury, sworn auditors, ministries and other institutions involved.
Concerning the implications of the accounting reform, due to the entering into force of Regulation No.87 of the Cabinet of Ministers from 13.02.2018, particular attention should be given to any changes that might have effects on the compilation of data reported for EDP and GFS purposes. Main changes:

- State security institutions' (the Constitution Protection Bureau, the Defence Intelligence and Security Service and the Security Police) data (budget execution and cash flow report) are included in the Annual Report of the Republic of Latvia but not in the balance sheets;

- investments in the capital of affiliated and associated companies are valued according to the equity method;
- accounting for financial leases for the lessor (financial lessor) has been introduced.

More detailed information is described in sections 3.2. Central Government sub-sector, EDP table 2A and 3B, 3.4. Local government sub-sector, EDP table 2C and 3D and 3.5. Social security sub-sector, EDP table 2D and 3E.

2.2.2 Auditing of public accounts

2.2.2.1 General government units

State and local government institutions, derived legal persons and Saeima

The State Audit Office audits state and local government institutions, as well as derived public persons, except the Saeima (parliament of the Republic of Latvia). The Saeima is financially independent. Legitimacy of the Saeima, accounting and annual statements, cost-effectiveness of expenditure, as well as annual reports are checked by the Public Expenditure and Audit Committee.
The State Audit Office audits income and expenditure of state and local government institutions, as well as of derived public persons, expenditure of funds of the European Union and other international organisations included in the state or local government budgets.
Ministries and other central institutions as well as local governments submit the consolidated annual statement to the Treasury till May 1 of the financial year following the reporting year in the order as stipulated by regulatory enactments for annual accounts. Ministries and other central State institutions shall attach to the annual accounts the opinion of the State Audit Office regarding the correctness of the preparation of the annual accounts. Local governments shall attach a sworn auditor's report to their annual statement. The State Audit Office attaches a sworn auditor's report or a report of sworn auditors' commercial company.
The Minister of Finance submits to the State Audit Office a report on the financial year (annual statement) by 1 July of the year following the financial year.

The State Audit Office submits to the Minister of Finance an opinion regarding the annual statement on the financial year by 15 September of the year following the financial year.
The Minister of Finance submits the annual statement together with the State Audit Office's opinion to the Cabinet till October 1 of the following financial year.
The Cabinet shall submit to the *Saeima* the report on the financial year concerning the implementation of the State budget and local government budgets together with the opinion of the State Audit Control by 15 October of the financial year following the reporting year.
The results of ministry audits are available from May 1 of the financial year following the reporting year.

The Treasury's annual statement on the financial year concerning the implementation of the State budget and local government budgets is available from July 1 of the financial year following the reporting year for the CSB as data source.
The State Audit Office provides an opinion on the correctness of the preparation of annual statements of ministries and other central institutions no later than within 60 days from the date of receipt of the respective statement.
Audit reports are published in the State Audit Office's homepage, in the individual homepages of each institution.

Reclassified capital companies

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

In accordance with the Annual Accounts Law and the Law "On State Audit Office" state capital companies are subject both to the State Audit Office and sworn auditors' audit procedure.
The State Audit Office controls financial funds of state and local government capital companies, as well as financial funds of those capital companies, where shares belong to state and local government capital companies.
All flows and all accounts of the unit are audited.
In line with the Annual Accounts Law all capital companies are audited, except capital companies, where two of the indicators (balance total – 800 000 EUR, net turnover – 1600 000 EUR and average number of employees in the reporting year –50) do not exceed the criteria. Statements of these units need not be checked by a sworn auditor as provided for in the Law „On Sworn Auditors".
In the event indicators of a capital company exceeds two of the criteria mentioned before, as well as if the company's transferable securities are included in the market regulated by Member States, the financial statement of the company is checked by a sworn auditor in line with the Law on "Sworn Auditors". Verification of the annual statement also includes accounting check in order to establish, whether the accounting complies with the general principles of accounting and if the provisions of the regulatory enactments for drafting annual statements and the provisions of the company statutes are met.
Annual statements prepared by capital companies in line with the provision of the Law "On Accounting" are verified by a sworn auditor, who prepares an audit report as provided for in the Law "On Sworn Auditors". The annual statement consists of the financial statement and management report on the company's development in the reporting year. The annual statement provides information on the company's funds, liabilities, financial situation, profit or loss and cash flow. Verification of the annual statement also includes accounting check in order to establish if the practice complies with the general accounting principles. It is also established, if the provisions of the regulatory enactments stipulating the order for preparing annual statements and company's statute are observed.
Capital companies submit the annual report to a sworn auditor right after it is drafted.
Capital companies no later than a month after the approval of the annual statement and no later than four months after the end of the reporting year, i.e. till May 1, while companies with the activity scope exceeding two of the criteria mentioned before and capital company – the parent capital company of the group, which prepares the consolidated annual statement no later than seven months after the end of the reporting year, i.e. in August, shall submit a copy of the annual statement and sworn auditor's report (if there is such) to the State Revenue Service (SRS) together with a certificate stating that the annual statement is approved.
The SRS electronically sends all capital company statements to the Register of Enterprises (RE) no later than within five working days after receiving. The RE ensures public accessibility of the received documents.
In line with Cabinet Regulations No 7 of 3 January 2020 "Issue of the information of the Register of Enterprises of the Republic of Latvia and price list of paid services", determining the order for issuing the information of the Register of Enterprises, SIA Lursoft IT (Lursoft) has concluded a licence agreement with the RE, which means that Lursoft as the re-user has the right to provide the RE information to third persons. Information from Lursoft on the annual statements of capital companies is a chargeable service.
In line with the terms mentioned before information on the annual statements of capital companies is available in Lursoft homepage and in homepages of the largest capital companies. Audit reports may also include a risk analysis and other relevant details established in the course of the audit procedure.

2.2.2.2 Public units, not part of general government

See 2.2.2.1 section “Reclassified capital companies”.

2.3. Communication

2.3.1 Communication between actors involved in EDP

2.3.1.1 Agreement on co-operation

Inter-institutional cooperation (the Ministry of Finance, the Treasury, the Ministry of Defence, the Central Finance and Contracting Agency, the Social Insurance Agency and the Bank of Latvia), involved in the EDP preparation is regulated by the Cabinet Regulations referred to in Paragraph 2.1.

There is no special agreement, while the Cabinet Regulations referred to in Paragraph 2.1 determine the deadlines for the involved institutions to submit the required data to the CSB.

Cabinet Regulation referred to in Paragraph 2.1 determine duties of each institution for the preparation of the EDP notification.

Within the framework of the current EDP notification procedure the CSB may convoke inter-institutional working group for comprehensive analysis of methodological issues and data sources and for the analysis and assessment of the notification results. Meetings are held on weekly basis in run-up to the submission of notification. Short minutes are prepared on the discussed themes.

Cabinet Regulation referred to in Paragraph 2.1 determine the deadlines for the involved institutions (the Ministry of Finance, the Treasury) to provide information for the preparation of the EDP notification.

When the Ministry of Finance and the Treasury improve or introduce changes to financial statements, it is coordinated with the CSB. The CSB takes part in the discussions on the changes in the financial statements with regard to both – the content and deadlines.

2.3.1.2 Access to data sources based on public accounts

Summarised data are submitted electronically in excel. However, if needed individual data are also provided.

Officially submitted data are confirmed with the electronic signature of the head of the institution.

The CSB has the access right to view Treasury's state and local government budget statement information system, containing summarising information and partially individual information on institutions and local governments – both on transactions and residue.

The CSB has access to the information system of the management of European Union Structural Funds and Cohesion Fund containing information on the implementation course of separate projects in each planning stage by a separately selected period (administrated by the Ministry of Finance for 2007-2013 planning period and by the Central Finance and Contracting Agency for 2014-2020 planning period).

Available data via different means (paper, electronic form, database, etc.) are consistent. Main aggregates and balancing items are identical in different documents.

2.3.2 Publication of deficit and debt statistics

2.3.2.1 Publication of EDP data

In a press release the CSB publishes the main EDP data shortly before the Eurostat press release once the data are coordinated with Eurostat (around April 20 and October 20).

All EDP tables and explanatory document concerning EDP data are published in the CSB homepage – both in Latvian and English:

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

https://www.csb.gov.lv/en/statistics/statistics-by-theme/economy/government-finance/notification
Prior to the official Eurostat press release the CSB publishes a press release on the key notification results. After the Eurostat press release full content of all EDP tables is published, providing general description of the notification.
Practically, data are published only when the explanatory process between the state and Eurostat is completed, therefore the data are consistent.

2.3.2.2 Publication of underlying government ESA 2010 accounts

ESA 2010 Table 2, 25, 27, 28, 9, 11 data are partially published in the CSB data base according to CSB press release calendar:
https://www.csb.gov.lv/en/statistika/kalendars/planots?statistics_theme%5B0%5D=7&publication_date_range=5

3. EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA 2010 based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

3.1. EDP table 1

EDP table 1 provides the core, summary information for the reporting period, as requested by the related EU legislation[4]: net borrowing(-)/net lending(+)(B.9) for general government sector and its subsectors, outstanding amount of Maastricht debt by instruments, Gross Domestic Product (GDP), gross fixed capital formation (GFCF) for GG sector and data on interest expenditure (D.41) .

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

3.1.1 Compilation of Maastricht debt

3.1.1.1 Specification of debt instruments

AF.2 – Currency and Deposits

Liabilities for currency and deposits – registered only in the central government subsector.
These are the currency and deposits in the Treasury for public authorities, local government authorities, capital companies reclassified to government, Social security fund and other authorities.
This position includes the subordinated debt attributable to the former related parties of the JSC "Reverta".

AF.331 and AF.332 – short-term and long-term debt securities

S.1311: Short-term bonds are government securities with the maturity of up to one year (including). Long-term bonds are government bonds with the maturity of more than a year and notes of JSC "Reverta" – private placement and public issue.

S.1313: Local governments have not issued any debt securities.

S.1314: Social security fund is not authorised to issue debt securities (in line with the applicable legislation).

AF.41 and AF.42 – short-term and long-term loans

S.1311: These positions include the received loans, guaranteed loan payment, financial leasing.

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.069.01.0101.01.ENG

S.1313: Loans from financial institutions and the Treasury received by local government budget institutions and capital companies reclassified to local government.
Loans for local government budget institutions and capital companies controlled and financed by local government received from financial institutions and the Treasury.

S.1314: Social security fund has received loans from financial institutions and the Treasury.

3.1.1.2 Data sources used for the compilation of Maastricht debt

The main data sources used for the compilation of Maastricht debt are the following:

- for the April notification –
  - Report “Information for the calculation of the general government budget deficit and debt”,
  - Quarterly statistical statement of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” by quarter of year n-1 (2-FAP) consisting of the profit and loss accounts and balance sheets,
- for the October notification –
  - Report “Information for the calculation of the general government budget deficit and debt”,
  - Annual statistical statement of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” in year n-1 (1-FAP) including balance sheets.

Additional data sources:

- Monthly report on debt / Treasury/ – “Central and local government external loans and debt securities", report "Central and local government domestic loans and debt securities",
- Central and local government quarterly financial reports / Treasury/,
- Report on the Central government budget execution and local government budgets drafted in line with the requirements provided for in Article 31 of the Law “On Budget and Financial Management" and structure stipulated by Cabinet Regulations No 430 of 30 June 2020 “Procedures for Preparing a Financial Year Report”, collecting information from ministries, central public authorities and local government reports and general government budget financial accounting,
- Information on treatment of expenditure for the construction of the South Bridge in the Riga municipality balance of payment.

Additional information – surveying individual respondents:

- Monthly report on debt / Treasury/ (t+20),
- Central and local government quarterly financial report (05.03. and 15.08.),
- Report on Central government budget execution and local government budgets (01.07.),
- Quarterly statistical statement of the capital companies reclassified to government /CSB/ (2-FAP) consisting of the profit and loss accounts and balance sheets for April notification 02.03. and annual statistical statement (1-FAP) including balance sheets for October notification 14.09.

For the April EDP notification – data are collected applying the monthly financial reports of the Treasury (“Central and local government external loans and debt securities” and “Central and local government internal loans and debt securities”) and quarterly financial reports of the general government and local government sector, as well as quarterly financial statements of the capital companies reclassified to government / (2-FAP) consisting of the profit and loss account and balance sheets.

The final data are revised in the "Report on the Central and local government budget execution" (Treasury), submitted till July 1 of the current year (for year n-1) to the State Audit Office in line with provisions of the law "On Budget and Finance Management". The data source for the capital companies reclassified to government is the annual statistical statement / (1-FAP) including balance sheets, submitted after sworn auditor's examination of the annual report.

3.1.1.3 Amendments to basic data sources

No deviations in terms of valuation of debt for individual GG units.
No adjustments, because all debt instruments are valued at the nominal (face) value of the instrument.
Complementary information on counterpart sector includes information on the loans of the capital companies reclassified to government from the Treasury – see section 3.1.1.4 Consolidation of Maastricht debt.

Additional adjustments are made:

Reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according Eurostat advice to classify in the October 2011 notification the PPP's assets (and associated debts) in the government sector since the beginning of this project. Identical adjustment for the same amount will be reflected till 2021.

Reclassification (from F.71L to F.4L) – contract between Riga City and Deutsche Bank AG (called "Interest Rate Swap") where both parties make monthly payments to each other during the period of 20.06.2008 – 26.06.2028. The Riga City received a loan from Deutsche Bank AG in the first period until July 2013 then makes repayments (in 15 equal instalments) over the second period starting from July 2013 until 2019.

LOC debt paid by the central government – through subsidies the government has repaid the guaranteed loan on behalf of the LOC (Latvian Olympic Committee), which is regarded as debt assumption at the time of inception.

3.1.1.4 Consolidation of Maastricht debt

Consolidation on the general government sector level -

- *between S.1311and S.1313 - it includes consolidation*:
  local municipality loans from Treasury, as well as loans to capital companies reclassified to local government from Treasury.
- *between S.1311and S.1314 - it includes consolidation:*
  short-term and long-term loans from Treasury.

Sources of information used for the consolidation of debt:

Consolidation within the framework of S.1311 and S.1313:

- Central and local government quarterly financial reports,
- Report on the execution of the general government budget "List of general government loans",

Quarterly statistical statement of the capital companies reclassified to government / (2-FAP) consisting of the profit and loss accounts and balance sheets for April notification and annual statistical statement (1-FAP) including balance sheets for October notification.

Consolidation within the framework of S.1313:

- Central and local government quarterly financial reports,

- Report on the execution of the general government budget "List of general government loans",
- Quarterly statistical statement of the capital companies reclassified to government / (2-FAP) consisting of the profit and loss accounts and balance sheets for April notification and annual statistical statement (1-FAP) including balance sheets for October notification.

<u>Consolidation on the general government sector level –</u>

- Central and local government quarterly financial reports,
- Report on the execution of the general government budget "List of general government loans",
- Quarterly statistical statement of the capital companies reclassified to government / (2-FAP) consisting of the profit and loss accounts and balance sheets for April notification and annual statistical statement (1-FAP) including balance sheets for October notification.

Deviations are possible between public and local government authorities and capital companies reclassified to government – the total debt amount incorrectly divided in counterpart sectors.
Amount of loans granted by the Treasury to public and local government authorities, to Social security fund, capital companies reclassified to government can be determined from the Treasury report on the issued loans.
Treasury reports are considered as a more reliable data source; still the information in the event of deviations are specified individually surveying the respondent.

In FA F.4L indicates government assigned guarantee (+) and the repaid principal amount of the guarantee (-).
In NFA correction of Latvian Olympic Committee indicates – adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment (D.3 (PAY)) and including in the government expenditure (D.9 (PAY)) in the amount of the guarantees assigned to the LOC at the moment of issue and loan interest payments repaid on behalf of the LOC inclusion in the government expenditure (D.41 (PAY)).

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

Information provided in this section refers to data sources available for the Central Government (S.1311), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1311, and explains the adjustments made in order to comply with ESA 2010.

3.2.1. Data sources for <u>main Central Government unit</u>: "The State"

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

- Basic data sources

For April notification:

1) "Monthly report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1", Central government consolidated budget execution and local government budget execution are reported in the aggregated report "General Government Consolidated Budget Execution",
2) Report "Information for the calculation of the general Government Deficit and debt".

In addition to the October notification:

1) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia year n-1, Ministry of Finance” and all balance sheets (loan statement, shares and other equity statement, etc.),
2) Report “Information for the calculation of the general Government Deficit and debt” (revised).

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):

1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance),
2) Received income for the use of state capital (dividends) in year n-1 (Ministry of Finance),
3) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Central Finance and Contracting Agency),
4) Detailed information on cash flow income and expenditure in breakdown by D.3, D.7 and D.9 and EU fund (Treasury),
5) Detailed information on swap transactions (Treasury),
6) Report on the government deficit financing elements in the reference year (Treasury),
7) Detailed information on debt instruments in year n-1 (Treasury),
8) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB),
9) Forecast of the Ministry of Finance (GDP forecast for reference year n, forecast for state budget deficit or surplus for year n, government debt forecast for reference year n, gross capital formation forecast for reference year n, paid interest forecast for reference year n.

In addition to the October notification:

1) Collected information on participation in the capital of capital companies and other financial investments in year n-1 (Treasury).

The main central government unit, as reported in the working balance of EDP table 2A, refer to central budgetary organisations (27 ministries and 143 central authorities), 48 derived public persons partially financed from the budget, 7 organisations not financed from the budget and 2 public foundations.

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

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	5	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	A	T+185	T+8	(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
A	A	T+185	T+8	(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	Q	T+65	T+7	(9) Other:		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.2.1.1 Details of the basic data sources

Data sources used for compilation of national accounts

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation, it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories. Mainly it is always possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non – consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 F.5 and F.8.

Working balance (WB)

The data, as reported in the WB (in the first line of EDP table 2A) are used for compilation of B.9 and national accounts for the Central Government.

3.2.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a basic data source.

3.2.1.3 Supplementary data sources and analytical information

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

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

In order to meet ESA 2010 requirements, additional correction is made – correction of Latvian Olympic Committee – adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment. Main central government unit involved. Information is available on a regular basis starting from 2002, used in April and October notification. Related adjustment leads to changes in B.9.

3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts

The same correction as in section 3.2.1.3.1. is used for the compilation of financial accounts.

3.2.1.4 Extra-budgetary accounts (EBA)

All flows of a non-financial nature are recorded in the so-called budgetary accounts which enter the WB, as reported in the first line of EDP table 2A.

3.2.2 Data sources for other Central Government units

This section describes data sources available and used for compilation of national accounts and EDP tables for other Central Government units (those not reported in the working balance in EDP table 2A).

Other Central Government units include:

1) Capital companies controlled and financed by central government (net borrowing / net lending of units reclassified from S.11 to S.1311) – from statistical statement data 2-FAP (profit and loss account, balance sheet data, etc.). Basic data are on accrual basis,
2) Derived public persons and entities non-financed from budget. Public derived persons (not fully financed from budget) and entities non-financed from budget are entities, which are not included in working balance of central government voted by the parliament but are included in consolidated general government. The data sources are the same as for the main central government unit,

3) Deposit Guarantee Fund – quarterly balance sheets and annual financial statement from Latvijas Banka.

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

Available source data				Source Data Accounting	Source data used for compilation of	
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			B.9 (NFA)	B.9f (FA)
		First results	Final data			
1	*2*	*3*	*4*	*5*	*7*	*8*
		T + days	*T+months*			
				Budget Reporting		
				(1) Current revenue and expenditure		
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	
				(3) Current and capital revenue and expenditure and financial transactions		
				(4) Balance sheets		
				Financial Statements		
C	Q/A	T+65	T+8	(5) Profit and loss accounts	x	
A	Q/A	T+65	T+8	(6) Balance sheets	x	x
				(7) Cash flow statement		
				Other Reporting		
A	Q/A	T+60	T+8	(8) Statistical surveys	x	x
				(9) Other:		

See notes to table 2, on the used abbreviations.

3.2.2.1 Details of the basic data sources

For the compilation of non-financial and financial accounts for capital companies reclassified to S.1311 are used:

1) Quarterly statistical statements of the capital companies reclassified to government / CSB/ "Financial assets and liabilities" by quarter of year n-1 (2-FAP) consisting of the profit and loss accounts and balance sheets,
2) Annual statistical statements of the capital companies reclassified to government / CSB/ "Financial assets and liabilities" in year n-1 (1-FAP) including balance sheets.

From 1-FAP and 2-FAP following indicators are used for calculating B.9:

1) Intangible investments,
2) Fixed capital,
3) Investment properties,
4) Biological assets,
5) Stocks,
6) Long-term investments stored for sale,
7) Profit or loss of the reference year (only in 2-FAP).

From 1-FAP and 2-FAP following indicators are used for calculating B.9f:

1) Funds on hand,
2) Settlement accounts,
3) Term deposits,
4) Short-term debt securities,
5) Long-term debt securities (by the initial term);
6) Financial derivatives,
7) Short-term loans (by the initial term),
8) Long-term loans (by the initial term),
9) Quoted shares,
10) Unquoted shares,
11) Other participation in the company capital (shares);
12) Trade credits (trade receivables) and advance payments,
13) Costs of future periods,
14) Overpaid taxes,
15) Deferred tax assets,
16) Other debtors not listed above,
17) Issued short-term debt securities (by the initial term),
18) Issued long-term debt securities (by the initial term),
19) Financial derivatives,
20) Provisions for loans,
21) Short-term loans (by the initial term),
22) Long-term loans (by the initial term),
23) Share capital (fixed capital),
24) Provisions for pensions and similar liabilities,
25) Provisions for scheduled tax payments,
26) Trade credits (trade payables) and advance payments,
27) Unpaid dividends,
28) Taxes and state compulsory social insurance instalments,
29) Deferred tax liabilities,
30) Income of future periods,
31) Accumulated liabilities,
32) Other creditors not listed above.

It is an exhaustive statement. It concerns 59 capital companies controlled and financed by central government. Statement response rate – 100%.

3.2.2.2 Statistical surveys used as a basic data source

For the capital companies reclassified to central government statistical survey on the use of EU funds are used.

3.2.2.3 Supplementary data sources and analytical information

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

For compilation of non-financial and financial accounts for other units we do not use supplementary information. We only compare data from budgetary reporting with financial statements of other units.

Supplementary information is used from the:
1) Annual Reports of the capital companies reclassified to government (access is possible to the information system "Lursoft register of companies' annual reports"),
2) Mass media – as indirect information,
3) Questioning individual units by phone if it is needed.

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

See section 3.2.2.3 Supplementary data sources and analytical information.

3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts

See section 3.2.2.3 Supplementary data sources and analytical information.

3.2.3 EDP table 2A

This section provides detailed information on individual lines reported in EDP table 2A.

3.2.3.1 Working balance - use for the compilation of national accounts

The data sources used for the compilation of WB in EDP table 2A are used for NFA and also B.9.

3.2.3.2 Legal basis of the working balance

Special national legislation determines the legal status of the WB. The main laws are:
1) Law on the State Budget,
2) Law on Budget and Financial Management.

The starting line of EDP table 2A is derived from the amount voted by the Parliament and the end of previous year. During a year amendment of law could be made. It is audited by a national auditing authority. The State Audit Office Law determines that the State Audit Office shall perform audits in conformity with international audit standards recognised in the Republic of Latvia. The State Audit Office in performing financial and efficiency audits, as well as examining the conformity of transactions and activities with regulatory enactments and the planned results, shall control:
1) revenues and expenditures of the State budget and local government budget resources,
2) utilisation of the resources of the European Union and other international organisations or institutions, which resources have been included in the State budget or local government budgets,
3) actions with State and local government property or a part thereof.

The State Audit Office (*Valsts kontrole*) shall each year provide an opinion for the *Saeima* regarding the financial year report concerning the implementation of the State budget and concerning the budgets of local governments (the financial state thereof) submitted by the Minister for Finance by 1 October to the Cabinet and by the Cabinet to *Saeima* by 15 October of the following regular financial year after the reporting year.
(Law on Budget and Financial Management (LBFM), Section 32, https://likumi.lv/ta/en/en/id/58057-on-budget-and-financial-management.

According to the State Audit Office Law (available from https://likumi.lv/ta/en/en/id/62538-state-audit-office-law).
Section 1. (3) The State Audit Office shall perform audits in conformity with international audit standards recognised in the Republic of Latvia.

Section 2. (1) The State Audit Office in performing financial and efficiency audits, as well as examining the conformity of transactions and activities with regulatory enactments and the planned results, shall control:

1) revenues and expenditures of the State budget and local government budget resources,
2) utilisation of the resources of the European Union and other international organisations or institutions, which resources have been included in the State budget or local government budgets; and
3) actions with State and local government property or a part thereof.

(2) The objective of the activities of the State Audit Office is to ascertain whether actions with the resources referred to in Paragraph one of this Section are lawful, correct, economical and efficient, as well as provide recommendations for the rectification of discovered deficiencies.

Section 3. The State Audit Office shall:

1) submit the opinion on the financial year report to the *Saeima* by September 15 of the financial year that follows the accounting year,
2) each year provide opinions regarding the correctness of the preparation of annual reports by ministries and other central public institutions,
3) submit reports to the *Saeima* and the Cabinet,
4) notify State institutions regarding findings that affect the activities of such institutions, as well as law enforcement institutions regarding violations of legal norm findings in audits,
5) co-operate within the scope of its competence with the institutions of the European Union and other international organisations or institutions.

According to the Law on Budget and Financial Management (LBFM), Article 32, the Minister for Finance shall submit to the State Audit Office a report on the financial year by 1 July of the year following the financial year. The State Audit Office shall submit an opinion regarding financial year report to the Minister of Finance by 15 September of the financial year that follows the accounting year. The Minister for Finance shall submit to the Cabinet a report on the financial year together with an opinion of the State Audit Office by 1 October of the following regular financial year after the reporting year.
The Cabinet shall submit the report on the financial year concerning the implementation of the central government budget and the budgets of local governments (the financial state thereof) together with the opinion of the State Audit Office to the Saeima by 15 October of the following regular financial year after the reporting year (LBFM, Article 31).

The result from auditing is publicly available on the website of the State Audit Office http://www.lrvk.gov.lv/

3.2.3.3 Coverage of units in the working balance

Two adjustment lines due to sector delimitation appear in EDP T2. The purpose of the first adjustment is to exclude flows relating to units, which do not belong to the government sector (or to the particular subsector) according to ESA 2010 definition. The second adjustment refers to B.9 of other units, which are classified within the particular government subsector, but related inflows/outflows are not included in the working balance.

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

The financial balance of Social Security budget is included in the WB.

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

Under the line B.9 of other central government units are reported:

1) Capital companies controlled and financed by central government (net borrowing / net lending of units reclassified from S.11 to S.1311) – from statistical statement data (profit and loss account, balance sheet data, etc.),
2) Derived public persons and entities non-financed from budget. Public derived persons (not fully financed from budget) and entities non-financed from budget are entities, which are not included in working balance of central government voted by the parliament, but are included in consolidated general government, that’s why item “Balance of derived public persons and entities non-financed from budget” appears in EDP table 2A (S.1311) which has been formed from the data of the Treasury information system,
3) Deposit guarantee fund.

B.9 of capital companies controlled and financed by central government are on accrual basis, whereas B.9 of derived public persons and entities non-financed from budget – on cash basis. The accrual adjustments of derived public persons are reported under D.41 and F.8 adjustment items of EDP table 2A. The impact of methodological imputations/reclassifications relating to these units is reflected in their B.9 as reported in EDP table 2A. A full sequence of ESA 2010 accounts is available for individual units/groups of government units.

3.2.3.4 Accounting basis of the working balance

The accounting basis of the WB is cash. As cash balance is used, its pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when no goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

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

Interest expenditures and revenues are recorded on cash basis in the 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 basis of the Treasury. The interest has two components – the amount of the 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 based on the difference between the redemption price and the issue price is distributed over the years to the maturity of the bond. Interest and coupon payments on Central Government securities and Eurobonds are recorded in the State budget execution system of the Treasury and in the Treasury’s financial accounting system on a cash basis and accrual basis and are reported in Treasury’s reports. Information on redemption of debt above/below par and issuance above/below par is obtained from the Treasury. All interest expenditure of the main entity is recorded in the WB.

Discounts/premiums are recorded in the working balance of the EDP table 2A. The impact of the amortization of discounts/premiums in the working balance of the EDP table 2A is neutralized by adjustment with opposite sign in the correction line “difference between interest paid and accrued”. The impact on B.9 is only from the spread discount/premium that is also included in the correction line “difference between interest paid and accrued”. In EDP T EDP table 2A under line „Difference between interest paid and accrued” are reported adjustments for interest expenditure (including discount and premium), interest revenue, FISIM. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP table 2A.

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

Under accounts receivable F.8 are reported following adjustments:

1) Difference between tax revenues in cash and time adjusted tax revenues (VAT, excise tax, electricity tax, subsidised electricity tax, solidarity tax) – accrued taxes (according to approved time adjustment method for each tax) minus cash tax receipts;
2) Correction of accrual adjustment of Central Finance and Contracting Agency EU funds MIS – total amount of future period expenditures has been corrected by amounts, which has not been spent yet,
3) EU correction – revenues received from EU has been recognized according realized expenditures, taking into account advance payments,
4) Advance payments and future period expenditures.

   Advance payments include advance payments paid (pre-payments) for:
   a) purchase of intangible assets,
   b) development activities and programmes,
   c) licences, concessions, patents, trademarks and similar rights,
   d) research of minerals and similar intangible assets,
   e) other intangible assets n.e.c.,
   f) purchase of fixed assets,
   g) purchase of land, buildings and structures,
   h) purchase of machinery and equipment,
   i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c;
   j) purchase of biological and underground assets,
   k) purchase of non-financial stocks,
   l) purchase of non-financial investments.

   Future period expenditures – accounts actual costs, which concern future periods, and advance payments for services, which budgetary institutions will receive in future periods. This indicator includes prepayments and advances for services (advances for services, prepayments for settlement of accounts of work remuneration, expenditure for social payments in future periods).
5) Correction of EU financial instruments,
6) Accrued contributions to EU budget,
7) Other debtors – accounts claim (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:
   a) debts of purchasers and commissioning parties on production, goods and services,
   b) accumulated revenue from non-financial transactions excluding interest,
   c) claims against personnel (advances issued to employees, settlement of accounts for shortages,
   d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

1) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors,
2) Advance payments and future period revenues.

Advance payments – liabilities for the received advance payments,

Future period revenues – revenue, which is recognised (received, earned) before the balance sheet date, but applies to the following periods. This indicator includes:
- deferred revenue for services,
- calculate, but non-disbursed pensions and allowances,
- deferred revenue for the received donations and gifts,
- other deferred revenue.

3) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes),
4) Revenue from state-owned European Trading System permits auction - excluded from budget according to Eurostat`s methodology,
5) Correction of mobile phone licences,
6) Other creditors – settlements for scholarships, liabilities not listed above.

Accrual adjustments in EDP table 2A are fully consistent with F.8 reported in EDP table 3B and financial accounts.

3.2.3.4.3 Other accrual adjustments in EDP T2

There are no other accrual adjustments reported in EDP table 2A.

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

Under the adjustment "Non-financial transactions not included in the working balance":
1) Capital transfers – capital injections in loss making companies,
2) Correction on National Library – difference between cash expenses in working balance and cash expenses in MoC accumulation account,
3) Contributions to capital of international organisations– includes instalments to the EU international institutions and international institutions,
4) Technical correction of budget transfers positions made by the Treasury.

It refers to non – financial flows which have not been taken into account calculating WB.

3.2.3.6 Financial transactions included in the working balance

The WB is based on budgetary classification, which defines content of revenue and expenditure. In line with Cabinet Regulations No 1032 of 27 December 2005 “On Budget Revenue Classification” the following financial transactions are included in the WB:
1) Income from financial investments,
2) Income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
3) Loss of income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
4) Donation and gift income from exchange rate fluctuations.

In line with Cabinet Regulations No 1031 of 27 December 2005 “On Budget Expenditure Classification” the following financial transactions are included in the WB:
1) Loss from exchange rate fluctuations with regard to foreign financial aid resources,
2) Loss from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
3) Loss from exchange rate fluctuations with regard to donation and gift funds.

All types of these financial transactions, included in the WB of the EDP table 2A, are excluded in the section “Financial transactions included in the working balance”. There have been no cases when financial transactions were recorded above the line in public accounts.
In EDP table in the adjustment line “Financial transactions included in the WB” are included:

1) Superdividends – dividends paid to government that exceeds operating profit of the company,
2) Revenue from financial operations – includes income accounted as income from sale and revaluation of capital shares, sale and revaluation of securities, investments to subsidiaries and revaluation of associated capital companies, recognition of financial investments at fair value, performing tangible investment,
3) Corrections inside budget (financial lease) – not included in working balance,
4) Gains / losses from exchange rate fluctuations – includes revenues and expenditure from exchange rate fluctuations of all budget types (basic budget, special budget, grants and donations, derived public persons` budgets) included in working balance,
5) Correction on Latvian Olympic Committee - adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment (D.3 (PAY)) and including in the government expenditure (D.9 (PAY)) in the amount of the guarantees assigned to the LOC at the moment of issue and loan interest payments repaid on behalf of the LOC inclusion in the government expenditure (D.41 (PAY)),
6) Correction for ANFA/SMP transfers.

3.2.3.7 Other adjustments reported in EDP T2

1) Dividends paid by capital companies controlled and financed by central government – these amounts paid to government and excluded from the budget,
2) Balance of grants and donations – difference between gains and losses of grants and donations, not included in working balance,
3) Premium received,
4) Interest received,
5) Claims of non-life insurance and earned premiums,
6) Latvijas Dzelzceļš rerouting,
7) Liepājas metalurgs repayment to government.

3.2.3.8 Net lending/net borrowing of central government

B.9, as reported in the last line in EDP table 2A, is derived from the same source data used when calculating the WB.

3.2.4 EDP table 3B

3.2.4.1 Transactions in financial assets and liabilities

Financial accounts are used for the compilation of EDP table 3B.

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

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

For compilation of EDP table 3B and financial accounts for S.1311 units, as the main data sources are used:

1) Report "Information for the calculation of the general government budget deficit and debt",
2) "Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance" and all balance sheets (loan statement, shares and other equity statement, etc.),
3) annual statement "1-FAP" "Financial Assets and Liabilities" and the quarterly statement "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

As supplementary data sources mainly are used:

1) budget reporting system „*ePārskati*" of the Treasury,
2) direct questioning of units, which is often necessary for proper classification of the financial instruments and also for appropriate recording of the flow in the national accounts, e.g. as a financial transaction, or possibly as a revaluation or other change in the volume.

Other direct data obtained from units on regular basis:

1) Calculation of the difference between interest EDP D.41 accrued and paid, issuances and redemptions above/bellow nominal value etc. (data obtained from the Treasury),
2) Information from the Ministry of Economics (Privatisation Agency and other institutions under supervision) is required twice a year for compiling the EDP tables and concerns a total reference year. That information describes the particular financial activities of enterprises where government owns shares or other equity,
3) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance),
4) Detailed information on cash flow income and expenditure in breakdown by EU fund (Treasury),
5) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Central Finance and Contracting Agency),
6) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB).

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.

Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

Consolidation is made based on the lowest residual of counterpart information.
Transactions in F.5 liabilities are reported for capital companies controlled and financed by central government. Data source is the annual statistical statement "1-FAP" "Financial Assets and Liabilities" and the quarterly statistical statement "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

3.2.4.2 Other stock-flow adjustments

Other stock flow adjustments:

1) "Issuance above/below nominal value" – this position includes premiums and discounts related to issuances of government bonds and Treasury bills. Data are obtained from the Treasury.
2) The item "Difference between interest accrued and paid" includes interest accrued to the state debt, which is in the EDP table 3B reported in nominal value.
3) “Redemptions of debt above/below nominal value” – this position includes redemptions of a debt above/ below the nominal value, which is related to the government debt. Data are obtained from the Treasury.
4) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB statistical statements 2FAP, 1FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.
5) "Changes in sector classifications" – includes changes to loans of the capital companies controlled and financed by central and local government due to changes in sector classification (on the basis of the quantitative criterion and qualitative criterion). Data are obtained from the Integrated Statistical Data Processing and Management system data base.
6) "Other volume changes in financial liabilities" – includes the rest of the changes to debt instruments other than sector classification changes. The other volume changes are insignificant in recent years.

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

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

Allocation of discrepancy B.9 vs B.9f

For the purposes of EDP notification compilation, the allocation of the observed differences between B.9f and B.9 into any item of non-financial or financial accounts have not been done. The observed difference in the EDP notification tables is reported under the item “Statistical discrepancies – Difference between capital and financial accounts (B.9-B.9f)”.

Changes to intermediate data

The basic data source used for compilation of NFA and FA is administrative data. Therefore, it is treated as the most relevant and reliable data source used for compilation of the national accounts. If there is observed any difference with the counterpart data, the issue is examined by individual questioning of units.

Complementary elements on stocks

The discrepancy is not allocated to financial instruments and the balance sheet information is not changed.

Accruals

The observed discrepancy mainly is result from time of recording and sectorization problems.

Ex-post monitoring

When the discrepancy reaches 0.2% of GDP, it is considered too high.

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

Not applicable.

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

Information provided in this section refers to data sources available for the Local Government (S.1313), indicates what sources are used for compilation of non-financial and financial accounts and EDP tables for S.1313, and explains the adjustments made in order to comply with ESA 2010.

3.4.1 Data sources for Local Government main unit:

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

- Basic data sources

For April notification:
1) “Monthly report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1”, Central government consolidated budget execution and local government budget execution are reported in the aggregated report “General Government Consolidated Budget Execution”,
2) Report “Information for the calculation of the general Government Deficit and debt”.

In addition to the October notification:
1) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance” and all balance sheets (loan statement, shares and other equity statement, etc.),
2) Report “Information for the calculation of the general Government Deficit and debt” (revised).

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):
1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance),
2) Information on public-private partnership projects (projects with reports on assumptions on financial and economic calculations provided in year n-1 as well as on risk allocation between public and private partners in the partnership agreement, as well as financial data on the public and private partnership projects to be implemented (Ministry of Finance),
3) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and the Central Finance and Contracting Agency),
4) Detailed information on debt instruments in year n-1 (Treasury),
5) Survey on EU funds` spending for capital companies controlled and financed by local government (CSB),
6) Information on treatment of expenditure for the construction of the South Bridge in the Riga municipality balance of payment.

In addition to the October notification:
1) Collected information on participation in the capital of capital companies and other financial investments in year n-1 (Treasury).

The main local government units, as reported in the working balance of EDP table 2C, refer to local budgetary organisations: municipalities of 9 cities under state jurisdiction and municipalities of 110 counties as well as 518 indirect local government organisations.

Table 5 – Availability and use of basic source data for main local government units

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	5	6	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	A	T+185	T+8	(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
A	A	T+185	T+8	(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	Q	T+65	T+7	(9) Other:		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.4.1.1 *Details of the basic data sources*

Data sources used for compilation of national accounts

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories). Mainly it is always possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non-consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 and F.5.

Working balance (WB)

The data, as reported in the WB (in the first line of EDP table 2C) are used for compilation of B.9 and national accounts for the Local Government.

3.4.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a basic data source for the Local Government.

3.4.1.3 Supplementary data sources and analytical information

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

In order to meet ESA 2010 requirements, additional correction is made – correction of Ogre Art School PPP project – reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according to Eurostat`s advice classifying PPP's assets (and associated debts) in the government sector since the beginning of this project. Identical adjustment for the same amount will be reflected till 2021. Related adjustment leads to changes in B.9.

3.4.1.3.2 Supplementary data sources used for the compilation of financial accounts

The same correction as in section 3.4.1.3.1 is used for the compilation of financial accounts.

3.4.2 Data sources for other Local Government units

Table 6 – Availability and use of basic source data for other local government unit

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	5	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
				(2) Current and capital revenue and expenditure			
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
C	Q/A	T+65	T+8	(5) Profit and loss accounts			
A	Q/A	T+65	T+8	(6) Balance sheets		x	x

				(7) Cash flow statement			
				Other Reporting			
A	Q/A	T+60	T+8	(8) Statistical surveys		x	x
				(9) Other:			

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.4.2.1 Details of the basic data sources

For the compilation of nonfinancial and financial accounts are used:

1) Quarterly statistical statement of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” by quarter of year n-1 (2-FAP) consisting of the profit and loss accounts and balance sheets,
2) Annual statistical statement of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” in year n-1 (1-FAP) including balance sheets.

From 1-FAP and 2-FAP following indicators are used for calculating B.9:

1) Intangible investments,
2) Fixed capital,
3) Investment properties,
4) Biological assets,
5) Stocks,
6) Long-term investments stored for sale,
7) Profit or loss of the reference year (only in 2-FAP).

From 1-FAP and 2-FAP following indicators are used for calculating B.9f:

1) Funds on hand,
2) Settlement accounts,
3) Term deposits,
4) Short-term debt securities,
5) Long-term debt securities (by the initial term),
6) Financial derivatives,
7) Short-term loans (by the initial term),
8) Long-term loans (by the initial term),
9) Quoted shares,
10) Unquoted shares,
11) Other participation in the company capital (shares),
12) Trade credits (trade receivables) and advance payments,
13) Costs of future periods,
14) Overpaid taxes,
15) Deferred tax assets,
16) Other debtors not listed above,
17) Issued short-term debt securities (by the initial term),
18) Issued long-term debt securities (by the initial term),
19) Financial derivatives,
20) Provisions for loans,
21) Short-term loans (by the initial term),

22) Long-term loans (by the initial term),
23) Share capital (fixed capital),
24) Provisions for pensions and similar liabilities,
25) Provisions for scheduled tax payments,
26) Trade credits (trade payables) and advance payments,
27) Unpaid dividends,
28) Taxes and state compulsory social insurance instalments,
29) Deferred tax liabilities,
30) Income of future periods,
31) Accumulated liabilities.
32) Other creditors not listed above.

It is an exhaustive statement. It concerns 90 capital companies controlled and financed by local government. Statement response rate – 100%.

3.4.2.2 Statistical surveys used as a basic data source

For the capital companies reclassified to local government statistical survey on the use of EU funds are used.

3.4.2.3 Supplementary data sources and analytical information

Supplementary information is used from the:
1) Annual Reports of the capital companies reclassified to government (access is possible to the information system “Lursoft register of companies' annual reports”),
2) Mass media – as indirect information,
3) Questioning with individual units if it is needed.

3.4.3 EDP table 2C

3.4.3.1 Working balance - use for the compilation of national accounts

The data sources used for the compilation of WB in EDP table 2C are used for NFA and also B.9.

3.4.3.2 Legal basis of the working balance

Law „On local government” determines formation of revenue and expenditure which forms working balance of EDP table 2C.

3.4.3.3 Coverage of units in the working balance

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

There are no units reported in the working balance which do not belong to the government sector as defined by ESA 2010 as well as there are no government units reported in the working balance which do not belong to the particular government subsector.

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

Under the line B.9 of other local government bodies are reported capital companies controlled and financed by local government (net borrowing / net lending of units reclassified from S.11 to S.1313) – from statistical statement data (profit and loss account, balance sheet data, etc.).

3.4.3.4 Accounting basis of the working balance

The accounting basis of the WB is cash. As cash balance is used, it is pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when none goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

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

Interest expenditures and revenues are recorded on cash basis in the WB. For the calculation of Local Government securities interest on an accrual basis the sources are the Treasury's financial accounting system and other data basis of the Treasury. In EDP table 2 under line „Difference between interest paid and accrued" are reported adjustments for interest expenditure and interest revenue. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP table 2C.

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

Under accounts receivable F.8 are reported following adjustments:

1) Difference between tax revenues in cash and time adjusted tax revenues (personal income tax) – accrued tax (according to approved time adjustment method) minus cash tax receipts,
2) Advance payments and future period expenditures.
   Advance payments – include advance payments paid (pre-payments) for:
   a) purchase of intangible assets,
   b) development activities and programmes,
   c) licences, concessions, patents, trademarks and similar rights,
   d) research of minerals and similar intangible assets,
   e) other intangible assets n.e.c.,
   f) purchase of fixed assets,
   g) purchase of land, buildings and structures,
   h) purchase of machinery and equipment,
   i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c,
   j) purchase of biological and underground assets,
   k) purchase of non-financial stocks,
   l) purchase of non-financial investments.

   Future period expenditures – accounts actual costs, which concern future periods, and advance payments for services, which budgetary institutions will receive in future periods. This indicator includes prepayments and advances for services (advances for services, prepayments for settlement of accounts of work remuneration, expenditure for social payments in future periods).
3) Other debtors – accounts claim (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:
   a) debts of purchasers and commissioning parties on production, goods and services,
   b) accumulated revenue from non-financial transactions excluding interest,
   c) claims against personnel (advances issued to employees, settlement of accounts for shortages,
   d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

1) Correction of accrual adjustment of MoF EU funds MIS – total amount of future period expenditures has been corrected by amounts, which has not been spent yet,
2) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors,
3) Advance payments and future period revenues.
   Advance payments – liabilities for the received advance payments.
   Future period revenues – revenue, which is recognised (received, earned) before the balance sheet date, but applies to the following periods. This indicator includes:
   a) deferred revenue for services,
   b) calculate, but non-disbursed pensions and allowances,
   c) deferred revenue for the received donations and gifts,
   d) other deferred revenue.
4) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes),
5) Other creditors – settlements for scholarships, liabilities not listed above.

Accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP table 3D and financial accounts.

3.4.3.4.3 Other accrual adjustments in EDP T2C

There are no other accrual adjustments reported in EDP table 2C.

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

Under the adjustment "Non-financial transactions not included in the working balance":

1) Capital transfers – capital injections in loss making companies,

It refers to non – financial flows which have not been taken into account calculating WB.

3.4.3.6 Financial transactions included in the working balance

The WB is based on budgetary classification, which defines content of revenue and expenditure. In line with Cabinet Regulations No 1032 of 27 December 2005 “On Budget Revenue Classification” the following financial transactions are included in the WB:

1) Income from financial investments,
2) Income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
3) Loss of income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
4) Donation and gift income from exchange rate fluctuations.

In line with Cabinet Regulations No 1031 of 27 December 2005 “On Budget Expenditure Classification” the following financial transactions are included in the WB:

1) Loss from exchange rate fluctuations with regard to foreign financial aid resources,
2) Loss from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income,
3) Loss from exchange rate fluctuations with regard to donation and gift funds,
4) Expenditure from sales/revaluation of shares/securities and acquisition of shares.

All types of these financial transactions, included in the WB of the EDP table 2C, are excluded in the section “Financial transactions included in the working balance”. There have been no cases when financial transactions were recorded above the line in public accounts.

In EDP table in the adjustment line “Financial transactions included in the WB” are included:

1) Revenue and expenditure from financial operations consists of two parts: revenue from financial operations and expenditures for sales / acquisition and revaluation of shares and securities; according to budget expenditure classification both financial instruments (shares and securities) are involved and we are not in a position two make a split;
2) Riga City debt transaction – reflection of financial transactions based on the contract between Riga City and Deutsche Bank AG,
3) Correction of South Bridge costs – expenditure which are not included in the report of the Riga Council (the amounts of gross fixed capital formation (P.51) and unfinished construction).

3.4.3.7 Other adjustments reported in EDP T2C

1) Correction of Ogre Art School PPP project – reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according to Eurostat`s advice classifying PPP's assets (and associated debts) in the government sector since the beginning of this project. Identical adjustment for the same amount will be reflected till 2021. Related adjustment leads to changes in B.9,
2) Interest receivable,
3) Claims of non-life insurance and earned premiums.

3.4.3.8 Net lending/net borrowing of local government

B.9, as reported in the last line in EDP table 2C, is derived from the same source data used when calculating the WB.

3.4.4 EDP table 3D

3.4.4.1 Transactions in financial assets and liabilities

Financial accounts are used for the compilation of EDP table 3D.

Table 7. Data used for compilation of transactions and of stocks of financial assets and liabilities

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

For compilation of EDP table 3D and financial accounts for S.1313 units, as the main data sources are used:

1) Report “Information for the calculation of the general government budget deficit and debt”,
2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance” and all balance sheets (loan statement, shares and other equity statement, etc.),
3) annual statistical statement "1-FAP" "Financial Assets and Liabilities" including balance sheets and the quarterly statistical statement "2-FAP" "Financial Assets and Liabilities" consisting of the profit and loss accounts and balance sheets from Central Statistical Bureau of Latvia.

As supplementary data sources mainly are used:

1) budget reporting system „ePārskati” of the Treasury,
2) direct questioning of units, which is often necessary for proper classification of the financial instruments and also for appropriate recording of the flow in the national accounts, e.g. as a financial transaction, or possibly as a revaluation or other change in the volume.

Other direct data obtained from units on regular basis:

1) Calculation of the difference between interest EDP D.41 accrued and paid, issuances and redemptions above/bellow nominal value etc. (data obtained from the Treasury);
2) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance),
3) Detailed information on cash flow income and expenditure in breakdown by EU fund (Treasury),
4) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB),
5) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and the Central Finance and Contracting Agency).

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.
Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

Consolidation is made based on the lowest residual of counterpart information.
Transactions in F.5 liabilities are reported for capital companies controlled and financed by central government. Data source is the annual statistical statement "1-FAP" "Financial Assets and Liabilities" including balance sheets and the quarterly statistical statement "2-FAP" "Financial Assets and Liabilities" consisting of the profit and loss accounts and balance sheets from Central Statistical Bureau of Latvia.

3.4.4.2 Other stock-flow adjustments

1) Items "Issuance above/below nominal value" and “Redemptions of debt above/below nominal value” – are not relevant in the case of the EDP table 3D for the Latvia – only zeros are reported in the whole time series.
2) The item "Difference between interests accrued and paid" includes interest accrued to the debt, which is in the EDP table 3D reported in nominal value.
3) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB statistical statements 2-FAP, 1-FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.
4) "Changes in sector classifications" – includes changes to loans of the capital companies controlled and financed by central and local government due to changes in sector classification (on the basis of the 50% criterion and qualitative criterion). Data are obtained from the Integrated Statistical Data Processing and Management system data base.
5) "Other volume changes in financial liabilities" – includes the rest of the changes to debt instruments other than sector classification changes.

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

3.5.1 Data sources for Social Security Funds main unit

- Basic data sources

For April notification:

1) "Monthly report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1", Central government consolidated budget execution and local government budget execution are reported in the aggregated report "General Government Consolidated Budget Execution",
2) Report "Information for the calculation of the general Government Deficit and debt".

In addition to the October notification:

1) "Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance" and all balance sheets (loan statement, shares and other equity statement, etc.),
2) Report "Information for the calculation of the general Government Deficit and debt" (revised)'.

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):

1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance).

Social security fund subsector includes State Social Insurance Agency.

Table 8 – Availability and use of basic source data for social security funds

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
		T + days	*T+months*		*cross appropriate cells*		
				Budget Reporting			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				Financial Statements			
A	A	T+185	T+8	(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
A	A	T+185	T+8	(7) Cash flow statement			
				Other Reporting			
				(8) Statistical surveys			
A	Q	T+60	T+7	(9) Other:		x	x

Accounting basis (column 1): C- cash, A- accrual, M-mixed
Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.
Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.
Column 6,7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.
Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

3.5.1.1 Details of the basic data sources

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories. Mainly it is always possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non-consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 and F.5.

3.5.1.2 Statistical surveys used as a basic data source

Statistical surveys are not used as a basic data source for social security funds.

3.5.1.3 Supplementary data sources and analytical information

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

No supplementary data sources are used to compile non-financial accounts for social security funds.

3.5.1.3.2 Supplementary data sources used for the compilation of financial accounts

No supplementary data sources are used to compile non-financial accounts for social security funds.

3.5.2 Data sources for other Social Security units

There are no other social security units.

3.5.3 EDP table 2D

3.5.3.1 Working balance - use for national accounts compilation

The data sources used for the compilation of WB in EDP table 2D are used for NFA and also B.9.

3.5.3.2 Legal basis of the working balance

The working balance of Social security funds are included in working balance of central government which is voted by Parliament.

3.5.3.3 Coverage of units in the working balance

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

There are no units reported in the working balance which do not belong to the government sector as defined by ESA 2010 as well as there are no government units reported in the working balance which do not belong to the particular government subsector.

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

There are no units to be classified inside the subsector, but not reported in the WB.

3.5.3.4 Accounting basis of the working balance

The accounting basis of the WB is cash. As cash balance is used, is it pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when no goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

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

Interest expenditures and revenues are recorded on cash basis in the WB. For the calculation of Social security funds securities interest on an accrual basis the sources are the Treasury's financial accounting system and other data basis of the Treasury. In EDP table 2D under line „Difference between interest paid and accrued" are reported adjustments for interest expenditure and interest revenue. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP table 2D.

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

Under accounts receivable F.8 are reported following adjustments:

1) Difference between tax revenues in cash and time adjusted tax revenues (social contributions) – accrued tax (according to approved time adjustment method) minus cash tax receipts,
2) Advance payments and future period expenditures.

Advance payments – include advance payments paid (pre-payments) for:

a) purchase of intangible assets,
b) development activities and programmes,
c) licences, concessions, patents, trademarks and similar rights,
d) research of minerals and similar intangible assets,
e) other intangible assets n.e.c.,
f) purchase of fixed assets,
g) purchase of land, buildings and structures,
h) purchase of machinery and equipment,
i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c,
j) purchase of biological and underground assets,
k) purchase of non-financial stocks,
l) purchase of non-financial investments,

3) Other debtors – accounts claim (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:
   a) debts of purchasers and commissioning parties on production, goods and services,
   b) accumulated revenue from non-financial transactions excluding interest,
   c) claims against personnel (advances issued to employees, settlement of accounts for shortages,
   d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

1) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors,
2) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes),
3) Lump sum payments for pension schemes (detailed explanation is provided in section 7.14. Lump sum pension payments),
4) Other creditors – liabilities to personnel, settlements for scholarships.

The time difference (average delay is 1.5 months) between revenues of social contributions transferred to second pillar schemes is reported under “other creditors”.

Accrual adjustments in EDP table 2D are fully consistent with F.8 reported in EDP table 3E and financial accounts.

3.5.3.4.3 Other accrual adjustments in EDP T2D

There are no other accrual adjustments reported in EDP table 2D.

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

There are no non-financial transactions included in the working balance.

3.5.3.6 Financial transactions included in the working balance

There are no financial transactions included in the working balance.

3.5.3.7 Other adjustments reported in EDP T2D

Other adjustments include adjustment for accrual interests of social contributions.

3.5.3.8 Net lending/net borrowing of social security funds

B.9, as reported in the last line in EDP table 2D, is derived from the same source data used when calculating the WB.

3.5.4 EDP table 3E

Financial accounts are used for the compilation of EDP table 3E.

3.5.4.1 Transactions in financial assets and liabilities

Table 9. Data used for compilation of transactions and of stocks of financial assets and liabilities

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

For compilation of EDP table 3E and financial accounts for S.1314 units, as the main data sources are used:

1) Report “Information for the calculation of the general government budget deficit and debt”,
2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all balance sheets (loan statement, shares and other equity statement, etc.).

Other direct data obtained from units on regular basis:

1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance).

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.

Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

3.5.4.2 Other stock-flow adjustments

1) Items "Issuance above/below nominal value", “Redemptions of debt above/below nominal value” and "Changes in sector classifications", "Other volume changes in financial liabilities" – are not relevant in the case of the EDP table 3E for the Latvia – only zeros are reported in the whole time series.
2) The item "Difference between interest accrued and paid" include adjustment due to the interest accrued to the debt, which is in the EDP table 3E reported in nominal value. The data used for quantification of the “Difference between interest accrued and paid” is obtained from the Treasury on regular bases.

3) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB statements 2FAP, 1FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.

In practice there are no such adjustments as „Issuance above/below nominal value” and „Appreciation / depreciation of foreign currency debt” for SSF.

3.6. Link between EDP T2 and related EDP T3

The monitoring of the link between the individual adjustments in EDP table 2 and the related transactions reported in EDP table 3 is important for the assessment of GFS data quality.
It is not expected that the adjustments from EDP table 2 would be clearly identified in EDP table 3.

- First, this is due to different coverage of units because the adjustments in EDP table 2 should refer only to the main entity reported in the WB, while transactions in EDP table 3 reflect the whole subsector.
- Second, due to the accounting basis and coverage of transactions reported in the WB. For the former, if the WB is on accrual basis, theoretically there is no need for adjustments in other accounts receivable/payable F.8 in EDP table 2, but it should be ensured that the accrual recordings in non-financial accounts are linked to transactions in F.8 reported in EDP table 3 and in FA. For the latter (coverage of transactions), the WB balance as reported in EDP table 2 typically does not cover all financial flows, since some are booked in the so called extra-budgetary accounts of the main entity.
- Third, adjustments/transactions reported in EDP table 2 are non-consolidated, since they refer to the main entity only, as recorded in the working balance (e.g. loans, other accounts receivable/payable, etc.), while financial transactions recorded in EDP table 3 refer to the whole subsector and they are consolidated.

As far as specific imputations are concerned, such as debt cancellation, debt assumption etc., which are reported in EDP table 2, these should be reflected also in financial accounts and EDP table 3 under the related financial instrument.

Therefore, in order to ensure consistency between non-financial and financial accounts and quality of GFS data, statisticians are to be able to explain and to quantify a link between flows reported in EDP table 2 and 3.

3.6.1 Coverage of units

The same register of units is used for non-financial and financial accounts compilation, and for EDP table 2 and 3 (S1311, S1313, and S1314). There are no possible deviations in sector delimitation in data used for EDP table 2 and 3 compilation. The coverage of units reported in EDP table 2 and 3 is identical.

3.6.2 Financial transactions

For subsector S1311 financial transactions: superdividends and revenue from financial investments which are excluded from the WB as reported in EDP table 2 are reported in financial accounts and EDP table 3 in F.5, but gains/losses from exchange rate fluctuations are reported in indicator “Appreciation(+)/depreciation(-) of foreign-currency debt”(EDP table 3), but on the whole due to different coverage of financial flows (different data sources) different figures on FT reported in the working balance and in financial accounts (S1311, S1313, S1314) as well as EDP table 3 are used. Basic data source for EDP table 2 transactions are revenues and expenditures of budgetary classification, while data source for financial transactions of EDP table 3 are accounting statements and additional reports.
For subsector S1311 the adjustments which should be done in order to reconcile financial transactions reported in EDP table 2 and 3 are superdividends, revenue from financial investments and gains / losses from exchange rate fluctuations.

3.6.3 Adjustments for accrued interest D.41

The adjustment in EDP table 2 for accrued interest refers for interest expenditure and also for interest revenue. For additional information see 3.2.3.4.1.
The main reason for difference in the adjustment for accrued interest in EDP table 2 and 3 is due to the fact that in asset side interest is recorded together with the instrument in EDP table 3, but in EDP table 2 shown in line "Difference between interest paid (+) and accrued (EDP D.41) (-)". Other reason is the fact that data in EDP table 2 is non-consolidated, but data recorded in EDP table 3 refer to the whole subsector and are consolidated. Interest flows of F.2, F.3, and F.4 are included in the working balance. No adjustments should be done in order to reconcile figures reported in EDP table 2 and 3 in the adjustment line for accrual D.41.

3.6.4 Other accounts receivable/payable F.8

The reasons for differences in the figures reported in EDP table 2 and 3 in accrual adjustments under other accounts receivable and other accounts payable F.8 are due to capital companies controlled and financed by central and local government and future period expenditures of EU which are included in EDP table 3, line "Other accounts receivable/payable F.8". In EDP table 2 these indicators have separate adjustment lines. Accrual adjustments reflected in non-financial accounts are identical to those reported in financial accounts in F.8. Due to privatization proceeds there are no accrual adjustments relating to financial transactions reflected in financial accounts and in EDP table 3. No adjustments should be done in order to reconcile transactions in F.8 as reported in EDP table 2 and 3.

3.6.5 Other adjustments/imputations

For S.1311 subsector:
- Dividends paid by reclassified enterprises under F.5,
- Balance of grants and donations under F.2,
- Interest receivable under D.41,
- Claims of non-life insurance and earned premiums under F.6.

For S.1313 subsector:
- Revenue from privatization (except shares and other equity) under F.5,
- Correction of Ogre Art School PPP project under F.4,
- Interest receivable under D.41,
- Claims of non-life insurance and earned premiums under F.6.

There are no additional imputations done in financial accounts by statisticians because they are already reflected in data sources used for compilation of FA.

3.7. General comments on data sources

Comments on data sources are included in other sections of Inventory.

3.8. EDP table 4

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

3.8.1 Trade credits and advances

The value of the stock of liabilities in trade credits and advances (AF.81L) as reported in the EDP table 4 is based on the consolidated financial accounts compiled for the general government sector – the closing balance sheet. The basic source data for calculation of this item is the same as for compilation of financial accounts and it is already described in section 3.2.4, section 3.4.4 and section 3.5.4 in relation to compilation of EDP table 3.
The Eurostat's decision of 2012 on the recording of some operations related to trade credits has been implemented for all the subsectors.
The consistency between the value of the stock of liabilities in trade credits and advances (AF.81L as reported in the EDP table 4) and "net incurrence of other liabilities" reported in EDP table 3 is ensured by the method of compilation of the financial accounts. The source data (in general accounting balance sheets) and the method of calculation is the same for EDP table 3 and, also for the EDP table 4. The item “net incurrence of other liabilities” includes financial transactions on the liability side recorded under F.8, i.e. the net incurrence of liabilities in trade credits and advances is a part of the item reported in EDP table 3. In EDP table 4 there are reported stocks of liabilities in trade credits and advances (AF.81L), in EDP table 3 there is reported net acquisition (financial transaction in F.81 – liability side) together with another items (F.5 and F.89).
There are neither long-term (at inception) trade credits liabilities, nor the trade credits subject to factoring or restructuring without recourse.

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

Amounts outstanding in the government debt from the financing of public undertakings is government borrowing on behalf of public enterprises, which are controlled by central or local government by having more than 50 percent of its capital (information from the Treasury).

4. Revision policy used for annual GFS

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

4.1. Existence of a revision policy in your country

Revision policy related to EDP data and the underlying ESA 2010 government accounts in Latvia is following:

1) Current revisions:
   a) relating to mainly data for t-1 year and, also at sometimes relating to previous years (t-2, t-3). The revision is connected with more precisely data for the October EDP notification in comparison with the April EDP notification – especially as to gross fixed capital formation,
   b) Revisions following on Eurostat recommendations and decisions, for example correction on Latvian Olympic Committee. The revisions are recorded immediately (e.g. during EDP dialog),
   c) Revisions, which connected with the schedule compilation and publication of national accounts including the Transmission Program. The annual sector national accounts are compiled as preliminary, half-finalized and final.
2) “Main” revision, which harmonised some methodological adjustments in all sectors in longer time series (Calculation of EU flows),
3) Exceptional revisions: for example: Correction on National Library.

4.1.1 Relating to deficit and non-financial accounts

Revision that have impact on the deficit (B.9), for example:

- capital injections,
- gross fixed capital formation,
- other account receivable and payable,
- difference in cash and time adjusted cash (VAT, excise tax, electricity tax),
- social contribution,
- difference between interest accrued and paid.

Revision that does not have impact on the deficit (B.9), for example:

- correction of transport subsidies.

4.1.2 Relating to debt and financial accounts

Revision that have impact on the debt or B.9f, for example:

- difference between interest accrued and paid,
- loans,
- shares and other equity.

4.2. Reasons for other than ordinary revisions

Revisions carried out for other than ordinary reasons relate specially to changes in methodology, e.g. changes in, for example – correction of trade emission permits.

4.3. Timetable for finalising and revising the accounts

Timetable for finalising and revising the accounts is the same because non-financial accounts and financial accounts are compiled at the same time.

Generally, the source data updates are made in October t + 1 (as a rule, source data are not updated in April t + 2 and October t + 2 etc.).

Deficit: the source data of all three sub sectors of government (central and local government, social security funds) are updated for deficit calculation. The main items revised are other accounts payable / receivable and data of capital companies controlled and financed by government in sectors S.1311 and S.1313.

Debt: source data updates concern only central and local government. In terms of instruments, the updates usually concern loans F.4.

B. Methodological issues

5. Sector delimitation – practical aspects

5.1. Sector classification of units

General government is defined by ESA 2010 §2.111 as "… institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth". Moreover, §20.05 specifies that the general government sector "consists of all government units and all non-market non-profits institutions (NPIs) that are controlled by government units. It also comprises other non-market as identified in paragraphs 20.18 to 20.39".

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

Compiling the General government sector list, criteria, recommended by ESA 2010 and Manual on Government Deficit and Debt issued by the Eurostat are met.

1. Budgetary organisations are automatically classified into general government sector, because they are (their revenue and expenditure) fully linked with the central or local government budgets. They are recognized as non- market units.
2. Decision on business units is made after verification of all economically active units of Statistical Business Register either they belong to non-financial sector S.11, which is market, or general government sector S.13, which is non-market.
3. The list of enterprises related to general government sector is prepared by the CSB by verifying enterprise compliance with the following criteria:
   1) whether it has institutional unit features (1st criterion),
   2) whether it belongs to the government sector (participation of central and local governments in the enterprise's equity capital exceeds 50%) (2nd criterion),
   3) whether it is a government-controlled unit (3rd criterion),
   4) whether it is considered an institutional unit of the non-market public sector (4th criterion).
4. It is assumed that theoretically any economically active enterprise recorded in the Statistical Business Register corresponds with the 1st criterion, as any legal unit, which has independent accounting and autonomy in decision making, is considered as an institutional unit.
5. While identifying correspondence with the 2nd criterion, entries of the Statistical Business Register having "10", "20", "82" and "83" as the first two digits of the Typological Classifier of Statistical Units are selected, which means that the state or local governments own 50 % or more of the share capital of the enterprise.
6. While determining correspondence with the 3rd criterion, it is analysed whether the general government secures control over the institutional unit being reviewed in accordance with the indicators set in Paragraphs 2.38 and 20.309 – 20.310 of ESA 2010.
The application of qualitative criteria means to investigate the institutional and regulatory framework in which entities are established, controlled, financed and in which they perform their

activities. Laws, articles of association, regulations, financial reports and other institutional documents represent the main sources of information for this case by case approach of the analysis. For government-controlled units, the qualitative criteria are to be checked first as they have priority over the quantitative criterion. In case that at least one of ESA2010's qualitative criteria would not be fulfilled, this would be a sufficient condition for this public unit to be classified in the general government sector (the market/non-market test would then not be applied). If the qualitative criteria would be met, the market/non-market test would be used for assessing the sector classification of the unit. For specific public entities, however, the market/non-market test is not relevant.

7. When determining to what extent the units selected as a result of the procedure indicated in Paragraph 5 correspond with the 4th criterion, the following analysis is carried out:

7.1. if the main function of a unit is participation in national income and treasure division and it has been assigned a code of the Classification of Economic Activities NACE Rev. 2 starting with “84”, the unit is related to the general government sector;

7.2. if the main function of the unit is financial intermediation and it has been assigned a code of the Statistical classification of economic activities NACE Rev. 2 starting with “64”, “65” or “66”, the unit is classified outside of the general government sector unless special methodological conditions foreseen in the Guidelines for the government deficit and debt are not related to it;

7.3. the belonging of other selected units to the general government sector is determined by analysing the data on financial activity provided in the annual report. Data from reports of the previous five years (n-6 to n-1) are used for the analysis. 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;

7.4. an enterprise is related to the general government sector immediately, starting with the year n, if it is established in the calculation carried out according to the procedure prescribed in Paragraph 7.3 during the reference year n-1 that 50 % of the conditions have come into effect, and the total liabilities at the end of year n-1 indicated in the balance, excluding the equity capital and savings, exceed 0.01 % of the gross domestic product value of the year n-1 in current prices;

7.5. in cases when more than a half of the net turnover of the unit is comprised by remuneration of units of other general government sectors for the services provided, the results obtained according to the procedures indicated in Paragraph 7.3 are not taken into account and the respective unit is related to the general government sector.

8. The CSB prepares a list of units corresponding with all criteria, providing information on each unit's: - register identifier (NMK); - full name; - ISC code.

9. The CSB groups the units by the sub-sectors of the general government sector (S.1311, S.1313, S.1314) and shares the information on the CSB website.

10. The CSB carries out a regular analysis of the list until the 20 December of every year.

11. Extraordinary changes may be introduced in the list of enterprises related to the general government sector in the following cases:

11.1. if the enterprise included in the list has been liquidated in the Enterprise Register of the Republic of Latvia,

11.2. new state or local government institutions formed according to the laws and regulations of the Cabinet of Ministers or decisions of local governments are added to the list by implementing regular changes in the list.

50 % test calculation:

Information from profit and loss account

Net turnover	1
Production costs of goods sold	2
Selling costs	3
Administrative costs	4
Changes in stocks of finished goods and work in progress	5
Cost of materials	6
Labour costs	7
Decrease in value adjustments	8
Other revenue from economic activities	9
Other costs of economic activity	10
Revenue from other securities and loans which formed long-term financial investments	11
Other revenue from interest and similar revenue	12
Interest payments and similar costs	13

Information from statistical statement 1-gada

from line 1210 - grants and subsidies, including those which received from the EU	14
from line 1220 – grants and subsidies, including those which received from the EU	15
Products manufactured in enterprise which have been further processed by another sector of this enterprise or used for the purposes of enterprise	16

Information from Road transport direction (Autotransporta direkcija) of subsidies assigned for carrying certain groups of passengers free of charge or with fare reliefs (D.63)	17

Sale (for sales costs method)	18=1+9-14-15-16+17
Sale (for period costs method)	19=1+5+9-14-15-16+17
Production costs (for SCM)	20=2+3+4+10
Production costs (for PCM)	21=6+7+8+10
Net interest charge	22=13-11-12≥0
50% test calculation:	23=18/20+22 or 19/21+22

5.1.1 Criteria used for sector classification of new units

New central or local government institutions formed with Cabinet Regulation or local government decision are added to the General government list.

For every new unit that is added to the general government sector, an analysis is performed taking into account the criteria described in section 5.1 Sector classification of units. Statistical Business Register creates a list for each unit indicating:

- register identifier (Taxpayer Identification Number),
- full name,
- legal and actual address,
- registration date,
- liquidation date,
- legal successor identifier (TIN),
- Institutional Sector Classification code,
- Classification of the Administrative territories and Territorial Units code,
- Statistical Classification of Economic Activities in the European Community NACE Rev.2 code.

5.1.2 Updating of the register

The Central Statistical Bureau prepares, disseminates and updates the general government sector list. The list of units controlled and financed by general and local governments is determined by the Central Statistical Bureau on the basis of the Statistical business register and statistical statement data in line with the procedure described in section 5.1 Sector classification of units.
Statistical Business Register information on established or liquidated budget institutions receive from the State Revenue Service once a month, but Register of Enterprises submits every month information about the established or liquidated enterprises as well as gives details of enterprise ownership changes on a quarterly basis.
Re-examination of the sector classification is made once a year *for all units with* central or local government participation in the unit's stock capital equals or exceeds 50%.
50% test (see section 5.1) consists of analysis based on data provided by units in their annual balance sheets, profit or loss accounts and statistical statements.
The aim of this analysis is to identify status of unit for applying 50% test, what means that if government-controlled unit producing goods or non-financial services is also mainly financed by government, such unit has to be reclassified to general government sector S.13.

A formula applied is as follows:

$$\frac{\text{Annual operating income from economic activity} - \text{Government budget allocations}}{\text{Total expenditure to cover activity costs}} \times 100 = \ldots\ \%$$

Annual operating income from economic activity is defined as income from the selling of goods or services (either primary or secondary activity) and other income from economic activity invoiced by the enterprise.
Government budget allocations or grants are budgetary funds that are allocated to enterprises, associations and foundations and other institutions according to the procedures specified in regulatory enactments in order to ensure the performance of state or local government functions.
Activity costs include all expenditure to ensure economic activity of the unit (production, sales, administration, personnel, goods and materials, expenses on other economic activity).
If the percentage obtained is 50% and more, the given unit is considered belonging to S.11 and market sector. If that rate is stably (for the last three years) less than 50%, the particular unit is considered belonging to general government sector S.13 and subsequently – non-market sector.
Classification of units into government subsectors or reclassification of public units between corporation and government sectors is made in time when a new test is elaborated on 50% and qualitative criteria; no backward revisions are made.
Taking into account the qualitative criterion, in some cases reclassification of large entities is carried out immediately without waiting for benchmark revisions, but in other cases reclassification of units is carried out in benchmark revisions.

5.1.3 Consistency between different data sources concerning classification of units

Government accounts are based on administrative data – financial and accounting statements for all government units. The same classification of the unit is used for non-financial and financial accounts.
Other data sources are used as additional sources.
The Central Statistical Bureau on its homepage prepares, updates and maintains the General government sector list by subsector used by other authorities (Ministry of Finance, Treasury, Bank of Latvia), which prepare information on the general government sector.

5.2. Existence and classification of specific units

Non-profit institutions controlled and mainly financed by government are classified in general government sector.
There are no quasi-corporations in the general government sector.
The main infrastructure enterprises outside the government sector:

- State JSC “Latvijas dzelzceļš” (Latvian railway, S.11),
- State JSC “Latvenergo” (Latvian electricity, S.11),
- State JSC “Latvijas gāze” (Latvian gas, S.11),
- Ltd “Tet” (Latvian telecommunications, S.11),
- State JSC “Latvijas pasts” (Latvian post, S.11).

S.1311 includes:

- JSC “Pasažieru vilciens” (Passenger railway, S.1311), providing public transport services,
- State JSC “Latvijas valsts ceļi” (Latvian state roads, S.11),
- JSC “Latvijas autoceļu uzturētājs” (Latvian motorway maintainer S.1311) is responsible for maintaining, constructing and repairing motorways.

S.1313 includes:

- State Ltd “Rīgas satiksme” (Passenger transport, S.1313), providing public transport services.

Specific units belonging to the government sector:

- JSC “Reverta” (S.1311). The activities of Reverta are focused in three main directions: loan restructuring, legal recovery, and real estate management,
- State JSC “Possessor” (S.1311) ensure the professional management of State capital shares and problematic assets, as well as the disposal and privatisation of assets held by Possessor which are not necessary for the performance of public functions.
- Ltd “FeLM” (S.1311) whose sole purpose is the claim management against JSC “CFU *Liepājas metalurgs*”.

Captive financial institution “Development financial institution Altum” State JSC.
Public universities (S.1311), schools (mainly budget institutions S.1311 and S.1313), public TV (S.1311) and public radio (S.1311) are classified in S.13 sector.

Real estate companies, which manage real estate and provide facilities for the government sector, are included in the central government sub-sector S.1311 by functions:

- „*Valsts nekustamie īpašumi*” State JSC,
- „*Zemkopības ministrijas nekustamie īpašumi*” State Ltd,
- „*Hiponia*” Ltd,
- „*Latvijas universitātes nekustamā īpašuma aģentūra*” Ltd,
- „*Šampētera nams*” State Ltd.

Large ports (*Liepāja, Rīga and Ventspils*) and smaller (*Engure, Lielupe, Mērsrags, Pāvilosta, Salacgrīva and Skulte*) are included in sector S.11, Riga International Airport and Ventspils Airport are classified in sector S.11.

Deposit guarantee fund DGF and National Resolution fund NRF are classified in the central government subsector (S.1311). The National resolution unit is organised within the Financial and Capital Markets Commission, an entity classified in S.126. For the time being NRF is an empty shell, there was no resolution operation. The issue is therefore purely academic and the impact for B.9 and debt will be negligible.

6. Time of recording

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

The time of recording is defined in ESA 2010 §1.101. It is the accrual basis, meaning when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled.

6.1. Taxes and social contributions

ESA 2010 states that taxes and social contributions are derived from two sources: amounts evidenced by assessment s and declarations or cash receipts.

6.1.1 Taxes

This section describes the methods of recording of taxes on an accrual basis. The time of recording of taxes is defined in ESA 2010 §4.26 and §4.82 as the time "…when the activities, transactions or other events occur which create the liabilities to pay taxes".

The data source used for taxes (value added tax, excise tax, electricity tax, solidarity tax and personal income tax) is the cash data. The method used is time adjusted cash amounts which are attributed to the period when the activity took place. The State Revenue Service collects the information, which is then published in the Treasury reports. MoF using the data from Treasury reports, calculates the difference of cash and time adjusted cash date and the CSB compiles the data for EDP tables and related questionnaires. No coefficients are used. Reimbursements and refunds are recorded together with the tax, but the final settlement, interest on late payments, fines and penalties for unpaid taxes are recorded in D.75. Each type of payment has a separate account, in which also the interest of the late payment is transferred (interest paid on delayed payment term of taxes or duties). The penalties which are calculated in the result of tax auditing are paid into the separate account together with all taxes, except personal income tax, corporate income tax, social security contributions, property tax, value added tax and penalties of natural resource tax, which are paid into the same account, in which the tax is paid. The calculated penalty is a compulsory payment on the reduction of tax sum payable to the budget or on the increase of the tax sum payable from the budget. Those sums appear in the tax declarations already submitted to the tax administration or in the tax declarations to be submitted to the tax administration in the future. The payments are charged in the result of tax auditing. The final data for the year t becomes available in July of the next year.

Due to the spread of Covid-19 in 2020, the support measure has been adopted, which provides for the extension of the tax payment term for up to three years, where the delay in the term has been caused due to the spread of Covid-19. As this support measure has a large fiscal impact, the amounts of tax extensions are taken into account, when calculating the time adjusted cash data

6.1.2 Social contributions

The time of recording of social contributions is defined in ESA 2010 §4.94 as "… the time when the work that gives rise to the liability to pay the contribution is carried out…" for employers and employees social contributions, and as "… when the liabilities to pay are created" for self-employed and non-employed persons.

The data source used for social contributions is the cash data. The method used is time adjusted cash amounts which are attributed to the period when the activity took place. The State Revenue Service collects the information, which is then published in the Treasury reports. MoF using the data from Treasury reports calculates the difference of cash and time adjusted cash date and the CSB compiles the data for EDP tables and related questionnaires. No coefficients are used. Reimbursements and refunds are recorded together with the tax, but the final settlement, interest on late payments, fines and penalties for unpaid taxes are recorded as D.75. The final data for the year t becomes available in July of the next year.

There had been made improvements in the calculation of the social security contributions in the government finance statistics. Until then, in order to reflect the revenue from the state social security mandatory contributions correctly using the accrual principle and to follow main provisions of ESA, the time-adjustment method – one month – was applied in the calculation of government revenue statistics. However, as a result of an in-depth analysis of tax revenues and, consultations carried out between the Ministry of Finance and DG ECFIN, it was found that the previously used time-adjustment method does not provide correct and to the actual situation suitable reflection of government revenues. Therefore, an improved time-adjustment method for the reflection of state social security mandatory contributions was developed, applying:

- Time lag (1 month) for gross revenue of the social security contributions,
- Time lag (4 months) for the contributions in the state funded pension scheme[5].

From 2019 during the taxation period, the solidarity tax payment object is taxed by the same rate as the object of the social security contributions. The State Revenue Service by September 1 of the post-taxation year, under the summing-up procedure, refunds the solidarity tax payment (difference between the solidarity tax paid in the taxation period, calculated by applying higher rate of the social security contributions, and the solidarity tax payment calculated under the summing-up procedure, calculated by applying the solidarity tax rate). According to Solidarity Tax Law the share of the tax for the financing of health care services shall be transferred in accordance with the provisions of the law On State Social Insurance. The State Social Insurance Agency shall transfer the share of the tax for the reporting month as follows until the fifteenth date of the third month following the reporting month to the account of the personal income tax in the Treasury.

Therefore, an updated time adjustment method for state social security mandatory contributions was developed applying:

- Time lag (1 month) for gross revenue of the social security contributions (including payment from solidarity tax),
- Time lag (4 months) for the contributions in the state funded pension scheme[6],
- Time lag (3 month) for personal income tax from solidarity tax payment,
- Time lag to the health payment (including health payment from solidarity tax payment) is not made.

[5] Contributions in state funded pension scheme are a part of actual contributions made to state pension security, which are determined in the law „On State Social Security”. Information is registered in state funded pension scheme's participant's account, based on information received from the State Revenue Service and information on state mandatory social contributions to the state pension security that is at the disposal of SSIA.

[6] Contributions in state funded pension scheme are a part of actual contributions made to state pension security, which are determined in the law „On State Social Security”. Information is registered in state funded pension scheme's participant's account, based on information received from the State Revenue Service and information on state mandatory social contributions to the state pension security that is at the disposal of SSIA.

Due to the spread of Covid-19 in 2020, the support measure has been adopted, which provides for the extension of the tax payment term for up to three years, where the delay in the term has been caused due to the spread of Covid-19. As this support measure has a large fiscal impact, the amount of tax extensions are taken into account, when calculating the time adjusted cash data.

The contributions in the state funded pension scheme in the working balance are reflected as a decrease of the gross revenue.
Calculating the state social security mandatory contributions according to ESA principles, 4 months' time-adjusted contributions in the state funded pension scheme are deducted from the 1-month time-adjusted gross revenue of the security contributions. Adjustments of ESA according to the methodology that is applied to the cash flow revenues had been recalculated for data staring from 2001 when the state funded pension scheme was introduced in Latvia.

In addition, transactions on changes in accounts payable (liabilities) against the state funded pension scheme in the SSIA[2] budget were added to the general government expenditure in the previously used method, analogous as it is done with other transactions in the general government budget accounts payable (thus ensuring compliance with the accrual principle for unpaid liabilities in the cash flow). These transactions of accounts payable partially (approximately 1.5 – 2 months) reflected a time lag for contributions in the state funded pension scheme. After implementing the time-adjustment method, the transactions of accounts payable will no more be included in ESA adjustments to working balance, thus also updating historical data starting from 2001.

Taking into account that the Cabinet of Ministers Regulations No. 272/2003 on the activities of the state funded pension scheme foresee that the contributions into the state funded pension scheme's participant's account are registered not earlier than in the first working day of the fourth month that follows after the report month, contributions which are registered in the state funded pension scheme's participant's accounts in January and February of the next year until preparation of annual report of the SSIA[7] (March 1) actually relates to budget revenues received, which are transferred into special budget of state pensions in October and November of the previous year and in annual financial report of the SSIA they are reflected as accrued financial liabilities.

The registration of state social security mandatory contributions in the state funded pension scheme's participant's account (at the moment of registration gross income is reduced in the calculation of state budget's cash flow) for January is carried out in the following terms:

JANUARY- The month when the employer, the self-employed person or the employee of a micro enterprise gained income (the report month)
FEBRUARY- The employer submits the report on the employee's income and contributions of January to the SRS and carries out the payments into the state budget
MARCH- The employer submits the employees earned income in January to SRS and corrects the contributions of January's earnings
APRIL-

[7] State Social Insurance Agency

The SSIA receives information from the SRS, if: – the employer has adjusted or, according to mistakes found, corrected January's revenues and contributions, – the self-employed person has submitted the report, – the micro enterprise has submitted a declaration
MAY- The contributions from income earned in January are registered in the state funded pension scheme's participant's account and are transferred for management to the manager of resources chosen by the participant.

6.2. EU flows

The issue of recording EU flows is important for national accounts, especially government accounts, because – due to the institutional arrangements – in general all amounts transit via government accounts. In order to avoid potential effects on the level of government deficits, countries have to eliminate these flows from public accounts.
ESA 2010 paragraphs 20.294 - 20.300 foresee that when non-government units are beneficiaries from EU grants, all the flows to and from government should be recorded as financial transactions, without any impact on government net lending/borrowing (B.9).
When final beneficiary is a government unit, the neutrality of EU flows is ensured by matching the time of recording of government revenue from the EU and the time of recording of the government expenditure covered by the EU grant.
The ESA 2010 Manual on government deficit and debt Chapter 2.6 "*Grants from and contributions to the EU budget*" provide further details concerning the recording of these flows.

6.2.1 General questions

The institution responsible for the general management of EU funds in Latvia is the Ministry of Finance of the Republic of Latvia – leading body of the EU funds. 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; whereas, Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) is administrated by the Ministry of Agriculture. Functions of the payment institution are fulfilled by the Treasury that is responsible for making the payments within the framework of the EU fund projects and accounting of these payments. All institutions above are classified into the central government sector (S.1311).
The source of data for EU flows is the Treasury (S.1311). There are able to collect data on EU flows on central and local government level. Data on date of expenditure are reliable and on time of expenditure basis.
There is information on the final beneficiary (government, non-governmental unit). Information on the recipients of EU structural fund funding is stored in the EU Structural Fund and Cohesion Fund management information system administrated by the Ministry of Finance (2007 - 2013 planning period) and information management system of Cohesion policy funds administrated by the Central Finance and Contracting Agency (CFCA) (2014 – 2020 and 2021-2027 planning period). Lists of EU funding recipients of the EU Structural Fund and Cohesion Fund management information system are supplemented with the corresponding classification. It allows selecting EU funding recipients for the needs of national accounts.
EU Structural Fund and Cohesion Fund management system has data on the funding paid both with and without advance payment sums.
Every year, revenues are recognized in accordance with the expenditures incurred, the rest of the amount being recorded accordingly in the government's financial accounts - claims or liabilities towards the EU.
The same principle of recognition of expenditure of EU funds is applied when adjusting the flows of EU funds between central government and local government budgets. CFLA's EU Structural Fund and Cohesion Fund management system provides the calculation of EU fund expenditures separately by central government and local government projects ('work done and accepted basis').
In addition to these corrections, a correction of gross fixed capital formation (P.51) is made for EU fund expenditures for government sector reclassified companies, according to the EKS 2010 accounting methodology, i.e. gross fixed capital expenditures are recognized at the time the

fixed assets are created. The data for correction is provided by the survey conducted by the CSB on the transfer of EU funds to the enterprises reclassified in the government sector.
Amounts 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 removed from ESA table 2.
The accrual adjustment is done in EDP table 2A (Other accounts receivable) and table 2C (Other accounts payable). We carry out the neutralization on a cash flow basis (net receivables). Revenue from EU would be recorded on accrual basis at the time when funds are actually spent on behalf of EU by local and other government bodies and not at the time when advances are transferred from the state to these bodies. These advances will not be considered as prepayments by government on behalf of EU, but will be 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), taking into account the considerable time difference between the transfer of funds and actual expenditure. The related receivable and revenue from EU will be recorded when a claim reflecting the actual expenditure is submitted to the state. The deficit impact of EU projects is equal to the co-financing element and co-financing is recorded at the appropriate moment.
The third resource is recorded in the NA in accordance with ESA 2010 on the line D.76.
To improve reflection of EU funding on the general government deficit, we have additionally carried out in-depth analysis of various data sources. To specify expenditure carried out in the respective year additional analysis was carried out on EU funding` repayments and other foreign financial aid into the government budget. Various data sources were compared: data of the Treasury, data of the MoF EU funds management information system and additionally information from Rural Support Service was asked.
Until now the adjustment of EU funds' repayments to the budget was based on information from the MoF EU funds management information system. This system is mainly foreseen for monitoring of the EU project realization, but not for statistical purposes. Therefore, as detailed information from budget reports on EU funds returned to budget became more available, it was determined to use the direct information from budget accounting.
Information on co-financing rates for each EU funds and separately for each programming period are required by MoF, Ministry of Agriculture and Ministry of Environmental Protection and Regional Development.
By closing the planning period 2007 – 2013, we have made deeper analysis of European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), European Fisheries Fund (EFF) and European Maritime and Fisheries Fund (EMFF). As a result, we have found out that the actual EU co-funding rate has been different from planned and used for calculation of the fund's correction. The use of the planned co-funding rate has led to an impact on the notified deficit in the historical time series which now differs from the results calculated based on the co-funding rate of actual fund's 2007 - 2013 execution. The corresponding historical time series were corrected.

6.2.2 Cash and Schengen facility:

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

In compliance with the Section 30 of the 'Act of Accession' Latvia received the Cash-flow Facility means in 2004, 2005 and 2006. Cash-flow Facility amounts are recorded as revenue of the years when they were received. Schengen Facility means in the EDP tables are reflected in accordance with the Eurostat decision on EU flows.

6.2.3 EU financial instruments / Jeremie /Jessica

The EU has been providing measures of financial support from EU structural and investment funds ‘financial instruments’ (FI). These instruments may be ‘equity or quasi equity investments, loans or guarantees’ and they are intended to support activities that will generate income, or result in saving on future expenditure. Unlike grants, they do not constitute a gift to the final recipient, which will typically be a small or medium-sized enterprise (SME) since, under normal circumstances, the funds are expected to be repaid to the creditor and produce a return on the investment (such as interest on the loan, or profit on subsequent sale of equity). EU legislation allows for a choice on how the financial instruments are implemented nationally: the Implementing Authorities can choose whether to assign the implementing task to a newly created entity or contract out the management to the EIF/EIB or to existing financial institutions.

Jeremie initiative in Latvia was launched in 2008, when the government of the Republic of Latvia on June 16 concluded an Agreement with the European Investment Fund (EIF) on introduction of the investment fund of the European Union structural funds. In compliance with the Agreement the government of Latvia in 2008 transferred EUR 91 million to the investment fund. The proportions of government and structural fund funding in the Holding Fund are following – 91.02% ERAF funding and 8.98% State budget funding. The introduction of investment fund of the EU structural funds has been assigned to the Ltd ‘Latvian Guarantee Agency’ (Latvijas Garantiju aģentūra) that has been classified to the sector S12. Nature of government transfer to the Holding Fund is grant. Final beneficiary from national accounts point of view is Holding Fund.

On April 15, 2015, "Latvian Guarantee Agency" (LGA), „Latvian Development Financial Institution Altum" and "Rural Development Fund" (LAF) united in a single body – JSC „Development Finance Institution Altum”, which takes over all rights and obligations of ALTUM, LGA un LAF and continues to realize all previous state support programmes of ALTUM, LGA and LAF.

From 2016 onwards the EU financial instruments (FI) are implemented by Altum which is a unit classified in general government.
FIs are implemented via fund of funds structure.
The main data source for EU financial instruments is the supplementary information table requested from Altum.
Recording in the government accounts takes place in accordance with Eurostat’s instructions on the recording of EU financial instruments: an F.8 liability towards the EU and the corresponding asset instrument in the financial accounts. Any write-off is done as D.9 in non-financial accounts and as reduction of F.8 liabilities in financial accounts.
The impact on B.9 is neutral.
The units benefiting from these schemes are the units of sector S.11, S.14, S.15.

6.2.4 Market Regulatory Agencies

Market regulatory agencies are bodies whose intervention activities are mostly characterised by buying and selling products, often on behalf of the EU, with an aim to stabilize prices and to maintain purchasing prices to farmers at a sufficiently high level: they offer buying agricultural products from domestic producers at a predetermined price (often higher than "market" prices) and reselling them usually at a lower price later on and occasionally arranging for giving them away free of charge. These agencies can be involved in storing agricultural inventories, or in arranging for storage, as well as in distributing subsidies.

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

In Latvia intervention measures are implemented and supervised by the Rural Support Service: it purchases products from merchants at certain intervention price and supervises storage of products in private warehouses. Rural Support Service is responsible for common implementation of the state support and EU support policy in the country, as well as it monitors compliance with the regulatory enactments in agricultural field and fulfils other functions related to agriculture and rural support policy.

Rural Support Service is a direct-administration institution governed by the Ministry of Agriculture and therefore it is classified into the sector S.1311.
Stock of product is stored in enterprises belonging to the sector S.11 and therefore it is allocated to the balance of these companies.

6.3. Military expenditure

The ESA 2010 principle on accrual recording, when applied to military expenditure, is generally the time when the economic ownership of the good occurs, which is usually when delivered.

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

6.3.1 Types of contracts

Military equipment expenditure is compiled using data from Ministry of Defence which are included in the summary reports of the Treasury in the central government level.

No manufacturing unit, which products military equipment, is classified in the General Government sector. Sales agreed in advance with industrial suppliers with government pre-financing. Long-term lease agreements for military expenditures are not used.

Trade credits are commonly used for military procurement. Payment after delivery usually is 50-80%. Payment after delivery usually is completed within 120 days, however, in some cases we agree on longer payment schedule.

NSPA (NATO Support Agency, former NAMSA) for ammunition purchasing, as well as services of Random Brokerage for purchasing construction and equipment for "*Lielvārde*" airfield reconstruction and Sea Surveillance System implementation are used.

Fixed price contracts and fixed price with economical price adjustment contracts are usually used. For second hand equipment purchases government-to-government contracts are used.

Assets/liabilities reported in Questionnaire Table 7 are of a long-term nature.

6.3.2 Borderline cases

Procurements of goods for military or civilian use are classified according to the list of military goods provided in the article 296 of the Treaty establishing the European Community, which provides specific exceptions to the application of the principles of the Treaty to certain procurements. Use of the exception in procurement is approved by the Government on case by case basis.

6.3.3 Recording in national accounts

The available information on the payments has been recorded in the national accounts in compliance with the ESA 2010 methodology and the Manual on government deficit and debt, i.e.
Deliveries of military equipment have been recorded as intermediate consumption in the production of defence services, at the time when the economic ownership of the military good occurs, when the military equipment is delivered.

6.4. Interest

This part aims at describing accrual adjustment for interest.
ESA 2010 paragraph 20.178 reads: "*In the system, interest is recorded on an accrual basis, i.e. interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding”*
ESA 2010 MGDD part 2, chapter 2.4 is dealing with some practical aspects of the recording of interest.

6.4.1 Interest expenditure

Table 10 Availability and basis of data on interest

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

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

Data sources on interest expenditure are used:
- Report “Information for the calculation of the general Government Deficit and debt” from the Treasury,
- “Monthly report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1”, Central government consolidated budget execution and local

government budget execution are reported in the aggregated report “General Government Consolidated Budget Execution”,
- Annual statement "1-FAP" "Financial Assets and Liabilities" and the quarterly statement "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia

The data is based on cash and on accrual principle.
The data on instrument by instrument basis is available to the NSI.
We have information on interest in State/Local government and Social security funds subsector.
The principle of recording accrued interest under instrument is being followed for all instruments.
The amounts for accrual adjustment on interest are the same in EDP table 2A and 3B.

6.4.2 Interest Revenue

Sources data on interest revenue are the same as for interest expenditure.

6.4.3 Consolidation

Consolidation of interest revenue and expenditure (D.41) is applied for all government subsectors (S.1311, S.1313 and S.1314). The consolidation is carried out on each subsector level and also on the general government sector level. Report “Information for the calculation of the general Government Deficit and debt” from Treasury is used for consolidation.
Consolidation does not have impact on B.9.

6.4.4 Recording of discounts and premiums on government securities

Amortization of the premiums and discounts related to the issue of securities enter the Working balance of EDP table 2. They are recorded in WB on cash basis and neutralised in the line Difference between interests paid (+) and accrued (EDP D.41) (-) in EDP Table 2.

JSC “REVERTA” (included in the central government sector in 2010) had issued securities, but they have negligible impact.

Premiums and discounts are spread over the life of the instrument on accrual basis.
Premiums are treated as negative expenditure in national accounts.
Information on new discounts and premiums is obtained from Treasury.

Discount / premium are both calculated and accounted separately in the securities transaction data. All the amortized debt is repaid (the security is redeemed) the full amount (nominal value).

6.4.5 Recording of interest accrued on intergovernmental loans in dispute and interest accrued on intergovernmental loans unlikely to be repaid

There are no such cases of intergovernmental loans that are in dispute.

6.5. Time of recording of other transactions

All transactions of budgetary organisations except taxes are based on cash. Accrual adjustments have been made for other receivables / payables, so accrual non-financial flows are consistent with F.8 recorded in financial accounts. Due to privatization proceeds there are no accrual adjustments relating to financial transactions reflected in financial accounts and in EDP table 3. Accrual data coming from financial statements are used for capital companies controlled and financed by government and these data are in line with ESA 2010 rules. It is followed if all receivables, as booked in public accounts, are finally cashed.

Payables (and so expenditure) always have been booked in public accounts, so all payables are taken into account. Public accounts are audited in this respect. We are not aware of accumulated arrears / payables of government.

Subsidies are recorded when the transaction or the event (production, sale, import, etc.) which gives rise to the subsidy occurs. Data source for subsidies is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data. The subsidies are paid according to possibilities of the Budget.

Current transfers within general government are recorded at the time the regulations in force stipulate they are to be made, but capital transfers in cash are recorded when the payment is due to be made whereas capital transfers in kind are recorded when the ownership of the asset is transferred or the liability cancelled by the creditor. Data source for current and capital transfers is cash information from Treasury reports. Records of current and capital transfers depend on kind of these transfers. In most cases cash is equal to accrual.

Gross fixed capital formation is recorded when the legal ownership of the fixed assets is transferred to the institutional unit that intends to use them in production. Data source for budgetary institutions for calculation gross fixed capital formation for April notification is cash information from monthly (January-December) Treasury reports, but for reclassified enterprises to government sector quarterly balance sheet data are used.

Data source for October 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” includes annual balance sheet data for budgetary institutions. Data source for reclassified enterprises to government sector annual balance sheet data are used. The difference (+/-) between budget cash flow data and balance sheet data is included in intermediate consumption P.2.

Dividends are recorded at the time they are due to be paid as determined by the corporation. Data source for dividends is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data. For more detailed information see section 7.4 Dividends.

Social benefits other than social transfers in cash are recorded when the claims on the benefits are established, but social benefits in kind are recorded at the time the services are provided. Data source for social benefits is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data.

Data source used for taxes (value added tax, excise tax, electricity tax and personal income tax) and for social contributions is cash data. Method used is time adjusted cash amounts which are attributed to the period when the activity takes place. For more detailed information see section 6.1.1 Taxes and 6.1.2 Social contributions.

7. Specific government transactions

Methodological rules applicable for recording of specific government transactions are set up in the Manual on Government Deficit and Debt (implementation of ESA 2010), 2019 edition[8].

7.1. Guarantees, debt assumptions

Generally, government guarantees are recorded off-balance sheet in government accounts (contingent liability), and neither government debt nor deficit is impacted. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is normally recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to a one-off increase of government debt, as well as of deficit. The accounting rules are explained in the Chapter 7.4 on Government guarantees of the ESA 2010 Manual on government deficit and debt. This chapter describes also specific cases and related treatment in national accounts.

7.1.1 Guarantees on borrowing

7.1.1.1 New guarantees provided

Recording in public accounts

Central and local government provide standardized and one-off guarantees. There are guarantees on borrowings (public corporations, other) and on assets (deposit, student loans, other). Central government provides standardised guarantees for project investment, study and students lending, as well as guarantees for agriculture and rural development loan guarantee program for years 2007–2013, but one-off guarantees – for public corporations. Local governments provide standardized guarantees for loans of legal and natural persons, but one-off guarantees – for public corporations. Central government guarantees are planned in annual budget law, and according to normative acts in effect, only Minister of Finance has right to provide guarantees on behalf of the State, which imposes liabilities to the State's means.

Order of issuance and supervision of the guarantees by central government is determined by Regulations of the Cabinet of ministers Nr. 391 of July 8, 2014 "Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State shall be Included in the Draft Annual State Budget Law, and the Procedure for the Issuance and Supervision of the Guarantees".

These Regulations prescribe:

1) the procedure by which ministries and other central State authorities include requests for the guarantees to be issued on behalf of the State in a draft annual State budget law,
2) the procedure by which the Minister for Finance shall issue guarantees on behalf of State in accordance with the guarantee amount prescribed by the annual State budget law,
3) the procedure by which implementation of a project and fulfilment of the guarantee liabilities shall be supervised.

Guarantees issued on behalf of the State for study loans and student loans shall be included in the draft annual State budget law, issued and supervised in accordance with Chapter VII of these Regulations.

[8] https://ec.europa.eu/eurostat/web/government-finance-statistics/methodology/manuals

In the time limit prescribed in the regulatory enactment regarding the development and submission of a draft annual State budget law (a package of draft budget laws) and the medium-term macroeconomic development and fiscal policy framework, the Ministry of Finance shall determine the maximum permissible limit for the guarantees to be issued on behalf of the State and inform the line ministries thereof. The line ministries shall publish information regarding the possibilities to apply for the receipt of guarantees and the time limits for applying on their Internet home pages.

A loan recipient shall pay the risk interest rate of the guarantee up to five percent per year of the loan balance for the issued guaranty (finances received from the credit institution but not repaid). The amount of the risk interest rate of the guarantee shall be determined by the Minister for Finance following evaluation of the documents necessary for issuing the guarantee, taking the following criteria into account:

1. security for the guarantee,
2. legal status,
3. the liabilities,
4. earning ability,
5. the liquidity,
6. the risk of the project,
7. the credit history.

The loan recipient shall pay a service charge for servicing the guaranteed loan in accordance with the pricelist of chargeable services of the Treasury determined in regulatory enactments. Treasury is involved in the process of issuance of State guarantees ensuring risk assessment of projects submitted, determination of risk mark-ups, providing suggestions on loan agreement projects, as well as organizing issuance process of State guarantees. After the issuance of State guarantees, the Treasury lists liabilities that arouse in the result of State guarantees, as well as publishes information on the total guaranteed debt on a regular basis.

The minimum guaranteed loan amount for implementation of the projects of aid for commercial activity shall be EURO 2 845 743. The minimum guaranteed loan amount for implementation of State investment projects shall not be determined.
A guarantee included in an annual State budget law may be issued for the loan principal, payments of interest and demurrage for delayed payments, not exceeding the amount prescribed in the annual State budget law, but in the case of a project of aid for commercial activity a guarantee may only be issued for the loan principal or in accordance with a European Commission decision.
The maximum time limit for repayment of the guaranteed loans shall be 30 years, starting from the day a loan agreement was entered into.

Order of issuance and supervision of the guarantees by local government is determined by Regulations of the Cabinet of ministers Nr. 590 of December 10, 2019 “Regulations regarding Local Government Borrowings and Guarantees”. These Regulations prescribe the procedures, by which local governments may make borrowings and issue guarantees. Each local government has separate Regulations of the Cabinet of ministers, which regulate issuance of guarantees in local governments’ public corporations and study and student lending.

Guarantees provided by a government are recorded in its accounting system. According to the accounting system, contingent assets and liabilities (including guarantees) are recorded out of the balance sheets.

Information on central and local government guarantees is made public. Monthly information on guarantees issued by the central government in English is available in the home page of the Treasury: https://www.kase.gov.lv/en/reports/reports-on-guarantees

Details on loan and lender, amount granted (original currency and EURO), debt at the beginning of the period, transactions during period (disbursed amount, principal paid, currency exposure, other changes and interest paid), debt at the end of the period (original currency and EURO) and undisbursed amount at the end of the period are published.
Annual information on local government guarantees on 31st of December, year n-2 in Latvian is available on the home page of the Treasury as supplementary information of the “Annual Report of the Republic of Latvia on the Implementation of the State Budget and Local Government Budgets”.
List of local government guarantees by ESA sectors and currencies is available.

There are not any cases of debt assumption at inception.

Recording in national accounts

Concerning central and local government guarantees for statisticians details on loan and lender, amount granted (original currency and EURO), debt at the beginning of the period, transactions during period (disbursed amount, principal paid, currency exposure, other changes and interest paid), debt at the end of the period (original currency and EURO) and undisbursed amount at the end of the period are available. Guarantees provided are treated as contingent liabilities, i.e. they are not recorded in the national accounts. There are no cases of debt assumption at inception in national accounts except the case of the Latvian Olympic Committee (see section 7.1.1.2 Treatment of guarantees called).

7.1.1.2 Treatment of guarantees called

Recording in public accounts

Guarantee calls are recorded in public accounts as claims. Recoverability of claims are regularly assessed in public accounts and reflected via provisions. If a claim was recorded, there is no related debt cancellations recorded in public accounts.

Till now an assumption of the outstanding amount of debt in public accounts concerning guarantees have been recorded in the case of Latvian Olympic Committee (LOC) and JSC “*Liepājas Metalurgs*”.
Analysing the Annual Reports on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, it was found that the central government budget expenditure positions Subsidies for physical culture and sports (2004 – 2006), Subsidies for physical culture and sports (2007 – 2008) and Central and local government budget subsidies to associations and foundations (2009 – 2010) include subsidies to the LOC for repayment of government guaranteed loans. The above-mentioned subsidies were included in the government expenditure (D.3) in accordance with the annual subsidy payments. At the same time there were issued government guarantees for the LOC loans. Investigating the above-mentioned issue, it was found that through subsidies the government has repaid the guaranteed loan on behalf of the LOC, which in the national accounts has already been treated as annual government expenditure D.3. In the result, analysing the situation in accordance with MGDD section regarding guarantees (paragraph VII.4.2.2.) all government guarantees to the LOC should be treated as capital transfer expenditure of government (D.9) at the moment of issue, as the government already at the moment of guarantee issuance simultaneously plans budget subsidies for repayment of the LOC guaranteed loans.

Repeated guarantee calls: assumption of the outstanding debt by government are recorded as capital transfer expenditure (D.99) (-) and F.4 Liabilities (+). The repayments by government are recorded as financial transactions when government has assumed the whole debt (after repeated calls) – financial transaction (repayment of debt) F.2 (-) and F.4 liabilities (-).

Recording in national accounts

In general, guarantee calls are always recorded as capital transfer expenditure (D.99) and its repayments as a financial transaction (F.42) in compliance with a timetable for repayments.

7.1.1.3 Treatment of repayments related to guarantees called

Recording in public accounts

Both guarantee calls and repayments by the original debtor related to guarantees called are very rare and are recorded in public accounts as financial transactions.

Recording in national accounts

In general, repayments by the original debtor are very rare and are recorded in national accounts as revenue (D.99).

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

There are no write-offs by government in public accounts of government assets that have arisen from guarantee calls.

7.1.1.5 Data sources

Individual data on stocks of guarantees and related flows are available both for central and local government so it is possible to identify guarantee calls if such arise. The flows related to guarantee calls and repayments from origin debtors are recorded as financial transactions in public accounts and are not included in WB.

7.1.2 Guarantees on assets

For treatment of guarantees on assets (deposit, student loans, other) in public and national accounts see section 7.1.1 Guarantees on borrowing.

7.1.2.1 New guarantees provided

The procedure is described in 7.1.1.1 New guarantees provided.

7.1.2.2 Treatment of guarantees called

The procedure is described in 7.1.1.2 Treatment of guarantees called.

7.1.2.3 Treatment of repayments related to guarantees called

The procedure is described in 7.1.1.3 Treatment of repayments related to guarantees called.

7.1.2.4 Treatment of write-offs

The procedure is described in 7.1.1. Guarantees on borrowing.

7.1.2.5 Data sources

The procedure is described in 7.1.1. Guarantees on borrowing.

7.1.3. Standardized Guarantees

Guarantees provided to state supported students' loans and corporations issued by ALTUM (state-owned development finance institution) are considered to be standardised guarantees.

7.2. Claims, debt cancellations and debt write-offs

Providing loan capital is generally a financial transaction not impacting the net borrowing/net lending (B.9). Government, as a lender, is expecting that the debtor will be in a position to repay the loans, according to a schedule agreed at inception. However, if the loan is non-recoverable, the recording of government expenditure might be considered. The related accounting rules are set up in ESA 2010 and further clarified in the Chapter 3.2 on Capital injections and Chapter 7.2 on Debt assumption and cancellation of the ESA 2010 Manual on government deficit and debt.

7.2.1 New lending

The Treasury, according to the authorization of minister of finance, carries out issuance and servicing of the state budget loans. Amount of the state loans is determined each year in the annual state budget law. The Treasury issues state loans to local governments, executors of the state special budget, capital societies where share of central or local government in equity capital separately or in total exceeds 50 percent, and to capital societies consisting of several local governments where share of local governments in equity capital in total exceeds 65 percent, as well as to those scientific institutes and institutions of higher education which have status of derived public person, and to other recipients of state loans if that is determined in annual state budget law.

Loans issued by the central government mostly are long-term, and the largest amount is comprised by loans issued to local governments mostly for the implementation of EU projects. Aim of loans issued to non-financial merchants usually is implementation of EU projects for improving systems of water management and heat supply.

The Treasury and the CSB have direct data on all transactions on lending and on the related repayments; the data on new lending could be reported if necessary.

Integrated data on stocks and transactions in F.4 is available for all GG units including central and local government level.

Data by unit and by category of transaction/instrument are available for statisticians. Data are available from balance sheets and more detailed data are available from supplementary data source – budget reporting system „ePārskati” of the Treasury (separately data on loans repayments and loans granted).

Recoverability of the loans from the Treasury is considered regularly.

It is a rare occurrence when granted loans are recorded as a transfer (expenditure) in national accounts instead of financial transaction.

7.2.2 Debt cancellations

There are no debt cancellation cases recorded in public accounts.

7.2.3 Repayments of claims

Repayment of claims is recorded as financial transaction under F.2 and F.4. There were no cases yet when receipts from repayments of claims have previously been cancelled, as well as repayments in kind are recorded. But if such cases occur, receipts from repayments of claims which have previously been cancelled would be recorded as revenue under the D.99, but repayments in kind – as reduction of F4 and expenditure in P51.

7.2.4 Debt write-offs

Debt write-offs which are booked in public accounts are recorded as other changes in volume assets in national accounts. Write offs are recorded in public accounts when the creditor unilaterally has recognized that the claim will not be possible to collect due to the bankruptcy of the debtor. Write-off of the debt due to insolvency of the debtor is not complete cancellation of the debt. To ensure possibility of collection in case property status of the debtors change, this debt must be indicated in below-line account within 5 years since the moment it was written-off. Debts that count in balances of ministries and departments, as well as in balances of execution institutions of local governments and their structural units, and those that are recognized as hopeless are written-off with allowance of head of these institutions. In public accounts a claim could be cancelled (and not written-off) when there is a bilateral agreement between a creditor and a debtor to cancel outstanding liability, incurred by the debtor to the creditor. In public accounts a claim could be cancelled (and not written-off) when there is a bilateral agreement between a creditor and a debtor to cancel outstanding liability, incurred by the debtor to the creditor.

Information on debt write-offs is obtained from the Treasury according to Cabinet Regulation No 756 of 22 December 2015 „Procedures for preparing Notification of General Government Deficit and Debt" for all government's units at the level of central and local government. Till now there were no cases when debt write–offs are recorded in national accounts (via other changes in volume account), which have not followed public accounts recordings.

7.2.5 Sale of claims

At the disposal of CSB there is no information on regular cases of sale of claims except Reverta`s sold claim on supermarket «Универмаг Москва» and associated enterprises on 09.02.2012. regaining 39.8 MEUR.

7.3. Capital injections in public corporations

Government capital injections are transactions which occur when governments provide assets (in cash or in kind) to public corporations (or assume liabilities), in their capacity of owner / shareholder, with an aim to capitalize or recapitalize them. The accounting rules are set out in ESA 2010 paragraphs 20.197 - 20.203 and clarified in the Chapter 3.2 on Capital injections of the ESA 2010 Manual on government deficit and debt. These chapters devotes considerable space to set the operational rules for the recording of capital injections in national accounts either as transactions in equity (financial transaction = financing = “below-the-line”), or as capital transfers (non-financial transaction = expenditure = “above-the-line”).

It is recalled that the MGDD also indicates that payments by government to public units, structured in the legal form of a loan or a bond, might be considered in specific circumstances as capital injections, and to be classified in certain cases as a non-financial transaction (predominantly capital transfer D.9); cf. MGDD 3.2.3.2.2.

Information on capital injections (in cash and in kind) is obtained from “Report on changes of investment in shares and other equity” (quarterly information, retrieved from the Treasury information system of state and local government budget, used for April notification) and “Reports on changes of government participation in associated and related capital companies” (yearly information, submitted by the Treasury according to Cabinet Regulation No 756 of 22 December 2015 „Procedures for preparing the Notification of General Government Deficit and Debt”, used for October notification).

Individual data on capital injections in public corporations at central and local government level is available. 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 capital injection test to all capital injection cases gathered from quarterly and yearly information, profit / losses of previous year as well as accumulated losses (if such are recognized) of the public corporations are taken into account in applying capital injection test.

Statistical statement 1-finanses Profit and loss account

Profit or loss for the reporting year	1

Statistical statement 1-finanses Liabilities

Retained profit or non-covered losses brought forward from previous years	2*

2* - % of state capital

Information from the Treasury IS "e-parskati"

For April EDP notification:

C-4 (quarterly) - Report on changes of investment in shares and other equity	
Increase in investment (transaction)	3

For October EDP notification:

7-1 (annual) - Reports on changes of government participation in associated and related capital companies	
Increase in investment (transaction)	4

Specific government transactions -

Capital injections in public corporations

For April EDP notification:

Capital injection calculation:	5 = 3
F.5_capital injection	if 1 > = 0 and 2 >= 0
D.99_capital transfer	if 1 < 0 and 2 < 0

For October EDP notification:

Capital injection calculation:	5=4
F.5_capital injection	if 1 > = 0 and 2 >= 0
D.99_capital transfer	if 1 < 0 and 2 < 0

No cases of capital injections into quasi-corporations have been observed.

7.4. Dividends

The accounting rules are set out in ESA 2010 paragraphs 20.205 - 20.207. It is recalled, that the ESA 2010 Manual on Government Deficit and Debt chapter 3.5 indicates that large and exceptional payments out of reserves which significantly reduce the own funds of the corporation should be treated as superdividends, i.e. transaction in shares and other equity (a capital withdrawal). It also sets out that the resource available for distribution by a unit (a corporation) is the *distributable income* of the unit, as defined in the ESA 2010, paragraph 4.55.

Total distributions could therefore comprise one part recorded as distributed income of corporations, D.42, and another recorded as transactions in equity, F.5. The former data is reported to Eurostat in ESA 2010 table 2 and table 8 within “other property income” category, and the latter is included within transactions in equity in financial accounts. Within the latter, for the benefit of analysis, one should also distinguish between amounts received from the National Central Bank, and amounts received from other public corporations.

Information on dividends received by the government (central and local) is obtained on cash basis from Treasury reports.

Payment of dividends is regulated by “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”.

The regulations stipulate:

1) the procedure by which state companies and public private companies having state as shareholder (hereinafter together referred to as the companies) shall estimate and determine the profit share payable as dividends,
2) the actions of the shareholders of the state capital when using the right of the participant (shareholder) to decide on the profit share payable as dividends,
3) the procedure by which payments for the use of the State capital are made and transferred to the State budget, as well as the amount thereof.

The regulations are aimed at ensuring that the share of the company profit payable as dividends is estimated and determined in line with the principles of good corporate governance, thus contributing to the higher return from the state capital invested by the state or managed by the company and achievement of the overall strategic objectives of the company.

The minimum estimated profit share to be paid as dividends and the profit share to be paid as dividends is 50 % of the net profit of the company, unless otherwise stated in the medium-term strategy of the company.

When developing the strategy provided for under the Law on governance of capital shares of a public person and capital companies, the company supplements it with a suggestion regarding the profit share to be paid as dividends (in money terms and as a percentage of the estimated net profit for the whole term of the strategy, but not more than for seven years). Based on a reasoned proposal from the state shareholder, the Cabinet with a Cabinet Order may allow company in its strategy to determine a profit share to be paid as dividends (as a percentage of the estimated net profit) differing from that stipulated by the regulations.

A holder of state capital shares in a capital company shall be: 1) a ministry or other state administration institution appointed as the holder of state capital shares by the Cabinet; 2) the institution, which alienates or privatizes state capital shares in accordance with this Law or the Law on privatisation of state and local government property objects.

A holder of capital shares of a derived public person in a capital company shall be: 1) a derived public person to which such capital shares belong; 2) a state administration institution, appointed as the holder of capital shares of a derived public person by the Cabinet according to request of the highest decision-making body of the derived public person.

Detailed information on dividends in breakdown by payer (public corporations, where the state is the holder of the capital shares) is obtained from MoF.

About public corporations, where local government is the holder of capital shares, such information is not available.

The information on individual payers makes possible to determine superdividends.
Superdividend test is carried out by the CSB before April notification and is applied to all cases and all public corporations, where state is the holder of the capital shares. The main data sources for superdividend test are detailed information on dividends in breakdown by payer received from MoF and the additional information on economic results - operating profit from the previous year (profit before tax) of the public corporations obtained from financial statements of profit and loss of the public corporations. For testing dividends paid to government by holding companies the consolidated group financial statements are used.

Information for super-dividend calculation:

Profit and loss account, T-1 Profit or loss before enterprise income tax	1
Information from Ministry of Finance, T Revenue from dividends paid to government (payments for state capital use)	2
% of state capital	3

Super-dividend calculation:	4=1*3-2
D.42 - property income	if 4 > or = 0
F.5 - capital withdrawal	if 4 < 0

Test on superdividends on local government level has been carried out in a similar way for the largest dividend payers.
Government does not receive interim dividends.

7.5. Privatization

The accounting rules are set out in ESA 2010 paragraphs 20.210-20.213. The proceeds collected by government when disposing of shares in public corporations are often called privatization proceeds. The counterpart entity (i.e. the acquirer of shares) is the private sector. Privatization can be indirect when the proceeds are forwarded to government after the sale of a subsidiary. The MGDD chapter 5.2 indicates that such indirect privatization proceeds are not government revenue. MGDD chapters 5.3 and chapters 5.4, respectively, provide the guidance on the treatment of privatisation proceeds from public corporations and restitution and use of vouchers for privatisation.

Specifically, chapter 5.3.1 of the ESA 2010 Manual on government deficit and debt mentions that in some EU Member States, holding companies have been set- up by the government to restructure the public sector with the aim of making the enterprises more competitive and profitable and, in the long run, disengaging the government. Often their main activity is to organise the privatisation efficiently and transfer the proceeds of the sale of shares to other public corporations (owned by the holding company or not), through grants, loans or capital injections.

The main issue is: what is the relevant sector classification of this sort of unit managing privatisation and possibly making grants to other enterprises? Should this activity have been considered as taking place on behalf of the government?
Joint Stock Company “Public Asset Manager Possessor” (former JSC “Privatizācijas aģentūra”) is classified in General Government sector S.13.

Revenue from sale of real estate goes through the working balance. We can separate privatization and sale of shares at state/local government level. We record transactions in F.5 due to privatisation on an accrual basis.

7.6. Public Private Partnerships

The term “Public-Private Partnerships” (PPPs) is widely used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific “dedicated assets”, such that the non-government unit builds a specifically designed asset to supply the service. The accounting rules are set out in ESA 2010 paragraphs 20.276 - 20.282 and clarified in the Chapter 6.4 of the ESA 2010 Manual on government deficit and debt.

The key statistical issue is the classification of the assets involved in the PPP contract – either as government assets (thereby immediately influencing government deficit and debt) or as the partner’s assets (spreading the impact on government deficit over the duration of the contract). This is an issue similar to the one of distinguishing between operating leases and finance leases, which is explained in Chapter 15 of ESA 2010.

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

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

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

Latvia has some PPPs and some PPPs projects are in evaluation process, and some municipalities are ready to do PPP finance and economical calculations.

<u>PPPs projects</u>:

- 28.07.2006. PPP Project „Renovation of Ogre Art School”. The agreement was terminated on 29.06.2010 after „*JS&J Ūdensmeistars*” Ltd declared insolvency on 08.03.2010,
- 25.06.2009. concluded project agreement between Mārupe Parish Council, Ķekava Parish Council, Ogre County Council, Tukums City Council and general partnership “ACANA” for construction and management of four kindergartens (in 16.12.2010. Ogre County Council decided not to build new kindergartens). The government has not granted any guarantees for these projects.

Both projects are local government projects.

PPP projects in evaluation process:

- Riga municipality PPP project “Waste management in Riga city”,
- International airport Riga PPP “Commercial space management in airport Riga”,
- Common project between Ogre, Lielvāre, Ķegums and Baldones municipalities in PPP project “Waste management”,
- State enterprise “Latvijas valsts ceļi” PPP project “Ķekavas bypass”

PPP projects in finance and economical calculations research process:

- Cēsu municipality PPP project “Development of a nursing home and introduction of a new senior care model in Cēsis region”,
- Madonas municipality PPP project “Sports infrastructure development in Madona”,
- Vecumnieku municipality PPP project “Reconstruction of Vecumnieki secondary school building”,
- Talsu municipality PPP project “Construction of a multifunctional sports and relaxation complex in Talsi”.

Public-private partnership types and forms

According to the Law on Public-Private Partnership, with PPP understand co-operation between the public and private sector, which simultaneously meets the following criteria:

- the co-operation is between one or more public partners and one or more private partners set forth in the public-private partnerships procedures,
- the co-operation is carried out in order to ensure public needs in performing construction works or rendering services,
- it is a long-term co-operation that lasts up to 30 years and in the cases set forth in Law on Public-Private Partnership even longer,
- a public and a private partner pool and use the resources available thereto (property, financial resources, knowledge, experience, etc.),
- a public partner and a private partner share the responsibility and risks.

In Latvia, it is possible to implement both the contractual and the institutional PPP, in both cases concluding either a partnership procurement contract or a concession contract.

In partnership procurement, contract public partner makes payments based on the quantity of service or availability of a construction. For example:

- in public construction works case: execution of public construction works with the following private partner duty to carry out the management of a constructed building,
- in public services case: the provision of public services and execution of related construction works not being a core element of the purpose of the contract.

However concluding a concession contract, a private partner acquires the rights to use the construction or services as a remuneration or its essential part, i.e. the right to receive fees from a construction or end-users of a service or the right to receive remuneration from a public partner the amount of which depends on the end-users’ demand for a construction or a service, or also to receive both the fees from a construction or service end-users and the mentioned remuneration from a public partner who also receives the exploitation risks or their essential part related to a construction or a service provision – economic risks, when the income of a private partner depends on a construction or the demand for this construction or service (demand risk) on the part of an end-user or on whether this construction or service is offered to the end-user in accordance with the demands laid down in the concluded concession contract (availability risk), or on both the demand risk and the availability risk.

Responsible institutions

The Ministry of Finance

Since 01.06.2009. the Ministry of Finance has been appointed as the leading public administration institution responsible for the PPP policy-making and coordination of its implementation. In addition to the PPP policy-making and coordination of its implementation the Ministry of Finance before implementation of each PPP project provides an opinion on the estimated impact of the conditions provided for in financial and economic calculations of the project on the state budget long-term liabilities and national debt.

The Monitoring Institution

As the regulation on the operations of the monitoring institution and provision of a report on the execution of public partner's or its representative's contract has been adopted by the Cabinet of Ministers the subordinated public administration institution of the Ministry of Finance "Central Finance and Contracting Agency" (CFCA) has been appointed as the monitoring institution mentioned in the Law on Public-Private Partnership.

The CFCA fulfils the following functions of the monitoring institution:

- publishes on its website the decision on performance of PPP project financial and economic calculations,
- before implementation of each PPP project provides an opinion on the conditions included in its financial and economic calculations, risk allocation between the public partner and private partner and estimated contract value,
- provide an opinion on draft concession procedure regulation and concession agreement, amendments thereto, and amendments to the concession contract,
- monitor PPP projects evaluating report on PPP contract execution and providing opinions on it,
- submit to the Cabinet of Ministers a report on the execution of concluded PPP contract,
- fulfils functions of the PPP competence center.

The Ministry of Economics

If necessary, it can be involved in drafting the opinion of the Ministry of Finance on financial and economic calculations of the PPP project providing evaluation of financial and economic calculations of the PPP Project according to conditions developed by the Eurostat regarding PPP statistical accounting.

The Procurement Monitoring Bureau

The Procurement Monitoring Bureau subordinated to the Ministry of Finance supervises PPP procurement procedures, as well as considers claims regarding violations of PPP procurement procedures.

The Register of Enterprises

The Register of Enterprises subordinated to the Minister of Justice accounts for and registers concluded PPP contracts in the Register of Public-Private Partnership Contracts maintained by the Bureau. The Register comprises information about amendments to PPP contracts and their termination.

As well as the Cabinet, line ministries, regional governments and other subjects mentioned in the Law on Public-Private Partnership Article 1, Paragraph 15 are involved in PPP realization.

As mentioned before in Latvia are several institutions, which deal with PPP projects. Ministry of Finance and Central Finance and Contracting Agency knows all PPP projects and all planed PPP projects.

Before PPP project public partner must prepare finance and economical calculation to prove economically that PPP is the best solution in that case. In finance and economical calculation, public partner must provide information about risks and who is responsible for each identified risk. After finance and economical calculation is done Central Finance and Contracting Agency shall examine the risk analysis performed for the financial and economic calculations for project implementation alternatives is correct and the initial risk allocation between the public and private partner is beneficial from the viewpoint of a rational and effective utilisation of public sector resources, as well as examine its compliance with the Law on Public-Private Partnership.

According to the Law on Public-Private Partnership the decision on realization the project shall be taken after appraising the project`s financial and economic calculations and the potential influence on the amount of State budget long-term liabilities and the government debt.

- There are two types of PPP in Latvia – contractual and institutionalised. In either case PPP Procurement agreement, which is assigned according to the Public Procurement Law, or Concession agreement, which is assigned according to the Law on PPP, may be closed.
- Closed PPP agreements are registered in the PPP agreements Register which is maintained by the Register of Enterprises. The mentioned Register is a set of electronic information which batches together entries on PPP agreements (including information on amendments or termination of PPP agreement).

PPP and concession concepts are stipulated in the Law on Public-Private Partnerships. In line with Regulation No 756 of 22 December 2015 “Procedures for preparing the Notification of General Government Deficit and Debt”, the MoF provides the CSB with the assumptions included in the financial and economic calculations and the risk allocation between the public and the private partner in the PPP agreements from projects existing in year n-1 and with the financial data of the PPP projects still to be implemented.

7.7. Financial derivatives

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

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

ESA 2010 paragraph 20.133 specifies the treatment of so called of market swaps: "*Lump sums exchanged at inception on off-market swaps are classified as loans (AF.4) when the lump sum is received by government. Off-market swaps are partitioned in the balance sheet into a loan component and a regular, 'at-the-money' swap component.*"

7.7.1 Types of derivatives used

Central government uses following types of derivatives: interest rate swaps, currency swaps and FOREX swaps.
Local government units (only Riga Council) use interest rate swaps.
Other central government bodies (JSC REVERTA, State JSC "*Valsts nekustamie īpašumi*", Captive financial institution "Development financial institution Altum" State JSC) use currency swaps.
Social security funds do not use financial derivatives.

7.7.2 Data sources

The basic data sources for swaps and FRA for S.1311 are:

1) Report "Information for the calculation of the general government budget deficit and debt" (Treasury),
2) "Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance" and all balance sheets (loan statement, shares and other equity statement, etc.),
3) Annual statement "1-FAP" "Financial Assets and Liabilities" and the quarterly statement "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.):

1) Detailed information on swap transactions (Treasury),
2) The data sources for derivatives used in local government are information included in the annual reports.

NSI receives accrual data. Swap related flows (interest flows) are recorded on an accrual basis Derivatives related flows in national accounts are reported on both sides.

7.7.3 Recording

There have been no occurrences of off-market interest rate swaps (IRS) over the period 2000-till now.
Information on accrual basis on streams of interest payments from swaps and FRAs is available.
The swap and FRA interest related flows are recorded on a net basis.
Threshold for swap operations is not applied.

7.8. Payments for the use of roads

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

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

The charge in Latvia enters into force on 1st July 2014. According to the Law on Road User Charges the purpose of the road user charge is the facilitation of the maintenance and development of the main state roads, as well as of the use of more environmentally friendly vehicles in Latvia.

The charge is paid for the use of the sections of the main state roads in Latvia (except for crossing them, including on roundabouts) by trucks (goods vehicles) and their combinations having the gross vehicle weight exceeding 3500 kilograms and which are intended or are used for the carriage of goods by road.

7.9. Emission permits

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

- The Kyoto Protocol is a 1997 international treaty, which came into force in 2005. In the treaty, most developed nations agreed to legally binding targets for their emissions of the six major greenhouse gases.[33] Emission quotas (known as "Assigned amounts", AAUs) were agreed by each participating 'Annex 1' country,
- The European Union Emission Trading Scheme (or EU ETS) is the largest multi-national, greenhouse gas emissions trading scheme in the world. It is one of the EU's central policy instruments to meet their cap set in the Kyoto Protocol. The so-called EU emission Allowance (EUA) is traded.

The ESA 2010 MGDD part 6, chapter 6.5 is dealing with the statistical recording of the emission trading allowances.

Climate Change Financial Instrument (CCFI) started operating in Latvia in 2009 after signing the first international emissions trading agreements for the sale of Assigned Amount Units (AAU). Altogether by the end of 2011 more than five agreements for the sale of AAU were concluded. Within the framework of these transactions more than 21 million AAU were sold, thus acquiring EUR200 million.

EU ETS is specific economic instrument helping to encourage and at the same time to support largest Europe’s and Latvia’s GHG emitters in taking measures to reduce emissions. System participants – operators – receive part of EUAs free of charge, whereas other EUAs necessary for the fulfilment of the obligations may be purchased by operators as follows:

1) by participating in a secondary market and buying EUAs from other market participants, e.g., other operators, brokers, bourses etc.,
2) by participating in a primary market and buying EUAs in auctions organised by countries.

The EUAs auctioned by Latvia may be purchased by any natural/ legal person that in the register of Latvia or other country has an appropriate account. Latvia cannot trace the transactions of auctioned EUAs. Income from the auctioning of EUA is transferred to the account of the Treasury directly after the end of the auction.

Operator may use the purchased EUAs to fulfil its obligations in any year or may not use them at all. The EUAs surrendered by Latvia's operators may not be the EUAs sold by Latvia – they may be both EUAs allocated free of charge or EUAs sold by other countries. Income from sale of greenhouse gas emission units is recorded in the central government account (S.1311) as acquisitions less disposals of non-financial non-produced assets (NP) and is included in EDP table 2A.

The proceeds from the sale of ETS are recorded in Latvia's national accounts using a time-adjusted cash approach of 8 months. Proceeds of permits generated from January to April (4 months) of a particular year are recognised in the same year, whereas revenues generated in May – December are recognised in the following year. This approach is based on the fact that, the permits purchased until the end of April can be used immediately, whereas, if purchased after the end of April, they may at the earliest be used in the following year.
The allocation of the ETS auctioning proceeds is recorded in the central government account (S.1311), splitting between D.29 (for residents) and D.74 (for non-residents, i.e. from the auctions abroad), on the basis of information from the Environment and energy statistics section of CSB.

7.10. Sale and leaseback operations

Government sells an asset and immediately leases it back from the purchaser. The issue is whether the sale is to be considered as a "true sale" (transaction in GFCF improving B.9) or the transaction is to be treated differently and an asset should remain on government's balance sheet.
MGDD part 6, chapter 6.2 is dealing with sale and lease back operations.
There are no sale and lease back operations.

7.11. Securitisation

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

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

ESA 2010 paragraphs 20.260-20.271 establish securitisation operations accounting rules. The MGDD part 5, chapter 5.5 is dealing with securitisation operations.

There are no securitisation operations.

7.12. Mobile phone licenses / UMTS licenses

The receipts of government following the allocation of mobile phone licenses to operators are to be recorded as rent (D.45) over the whole time of the licence.
In cases when licenses are sold in advance of their actual availability, any prepayment collected by government should be recorded as other accounts payable (F.8).

The ESA 2010 MGDD part 6, chapter 6.1 is dealing with the sale of mobile phone licenses.

Auction of UMTS licenses was launched in 2002.

Income from UMTS licenses (mln euro)

	2002	2003	2004	2005
Income from UMTS licenses (mln euro)	11.350	1.608	1.611	11.160

Income from UMTS licenses is recorded in the central government account (S.1311) as acquisitions less disposals of non-financial non-produced assets (NP2) and is included in EDP table 2A.

Auctions of mobile phone licences was launched in 2010, 2011, 2012, 2013 and 2018.
Proceeds from auction in 2012 were 3.374 MEUR, in 2013 – 4.974 MEUR and in 2018 – 6.525 MEUR.

According to MGDD methodology revenue from recent sales is excluded from central government accounts for years 2010 - 2019 and the proceeds from sales of licences are recorded as AF.8. The proceeds from sales are to be recorded as government revenue at the time when the purchasers of a licences can start using the spectrums.

7.13. Transactions with the Central Bank

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

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

According to the article 18^1 of the Law "On the Bank of Latvia" within 15 days following the approval of the annual report by the Council of the Bank of Latvia, the Bank of Latvia shall transfer to a state general budget account indicated by the Treasury:

1) the payment for the usage of state capital (D4R) in the amount of 50 percent of the total profit earned during the reporting year,
2) a part of its profit earned during the reporting year, which shall be calculated by applying the tax rate established for residents by the Law "On Corporate Income Tax" (15 percent of total profit).

7.14. Lump sum pension payments

ESA 2010 paragraphs 20.273 - 20.275 define the accounting rules for recording of the lump sum pension payments. The related accounting rules are further described in the ESA 2010 MGDD and debt Part 3.6 Impact on government accounts of transfer of pension obligations.

The state funded defined contribution pension scheme (2nd pillar) is operating since July 2001. It covers socially insured persons. This scheme is organised by State but managed by investment management companies**.** The State Funded Pension Law provides that participants of the 2nd pillar pension scheme upon reaching the statutory retirement age or later, has two options for spending pension capital:

1) adding accrued funded pension capital (through the lump sum payment) to the notional pension capital, registered at the 1st pillar NDC PAYG pension scheme in the State social insurance pension budget,
2) acquiring life insurance policy.

According to the State Funded Pension Law the state funded pension is part of the state old age pension.

Participation in the state funded pension scheme is compulsory for those persons, who had not reached the age of 30 on the 1 July of 2001, when the scheme started operation. Persons, who were of age 30 to 49 years (including) in that time, can participate in this scheme voluntarily. As a result, first lump sum payments to the State social insurance budget occurred lately, and gradually these amounts will increase significantly.

Up to 2013 person`s accumulated 2nd pillar pension capital has been transferred solely to the state social insurance pension budget (to the 1st pillar pension scheme). About 2% of the 2nd pillar participants, who retired in 2014, chose the life insurance option.

The 2nd pillar funded pension capital is forming from the investment of the part of the mandatory social insurance contributions: In general, 20 per cent of person`s wage (income) is earmarked for social insurance old age pensions. Part of this money (till 2013 – 2%, in 2013 and 2014 – 4%, in 2015 – 5% and from 2016 – 6% of wage) is transferred to the 2nd pillar pension scheme for investment, while the rest amount of contributions remains at the 1st pillar NDC PAYG pension scheme. *If person choses an option to add the accrued funded 2nd pillar pension capital to the 1st pillar non-funded pension capital upon retirement, then the accrued 2nd pillar capital as a lump sum is transferred to the State social insurance budge*t, where it is spent for pension payments in accordance to the PAYG principles. The respective amount of each person`s accrued 2nd pillar pension capital is registered in his/her notional pension account, increasing amount of the 1st pillar notional pension capital and at the same time *increasing future pension liabilities of the 1st pillar pension scheme*.

Part of the 2nd pillar lump sum payments covers an increase in the 1st pillar pension expenditures of current year, caused by transferring accrued 2nd pillar pension rights to the 1st pillar, while the rest of the money is maintained for respective pension payments in future years. This residual is accrued and recorded under F.8. The data source: State social insurance budget.

7.15. Pension schemes

Definition of pensions

There is no concrete definition of pension as such under Latvian legislation. Pension can be defined as a fixed amount, other than wages, paid at regular intervals to a person or to the person's surviving dependents in consideration of past services, age, merit, disability or injury.

Classification of pension schemes

Pension provision in Latvia can be classified as follows:

1) The **public pension system**, which is compulsory and covers all individuals who participate in the State social insurance system. The public pension system can be subdivided into:
   - **Old age (retirement) pension system**, which, under the public pension system, consists of two pillars:
     -The notional defined contribution pension scheme (NDC PAYG) as a 1st pillar of retirement pension system. *It is a social security pension scheme. Due to certain guarantees incorporated into the NDC pension scheme,* ***this scheme is classified as a defined benefit (DB) pension scheme in national accounts***. Upon the choice of retiree scheme allows to retire earlier (up to two years), or to postpone retirement. It is possible to receive full amount of wage and pension, if person has retired reaching statutory retirement age, or later. Person, who choses early retirement, receives only part of the granted pension amount till reaching the statutory retirement age. In such a case pension shall not be paid out during employment (till reaching the statutory retirement age). There are several groups of persons who have right to retire even earlier than two years before the statutory retirement age, if necessary, conditions are satisfied. For example, politically repressed persons, workers in hazardous and unhealthy circumstances, persons with some specific health conditions, participants in the liquidation of the consequences of the Chernobyl nuclear power station accident, persons who have cared for five or more children, or a disabled child etc. 1st pillar pension scheme covers also persons who had retired according to the old law DB PAYG pension scheme (persons retired before 1996), providing as well service pensions for certain professions (as seafaring, railway transport, aviation, etc.). Special (merit) pensions are also included in the old age pension scheme. Taking all these aspects into account, *the 1st pillar pension scheme in a certain extent covers also features of anticipated old age pensions, partial pensions, early retirement pensions due to reduced capacity to work and early retirement pensions for labour market reasons.* Pensions are financed by the State social insurance budget, or, for some categories, from the State general budget. These pensions are included in D.621,

     -The State mandatory funded defined contribution (DC) pension scheme, as a 2nd pillar of the retirement pension system, where part of the state mandatory social insurance contributions is invested by private asset managers. This scheme is classified in S.129. It is possible upon retirement to add accrued funded pension capital to the 1st pillar notional pension capital and therefore to receive higher pension from the 1st pillar, or to acquire life assurance policy (so called life pension),

   - **Survivors` DB PAYG social security pension scheme**. Survivors` pensions are financed by the State social insurance budget. Children and other family members of deceased person have right to survivor’s pension, if they do not have capacity to work, and if they were his/her dependents. Survivor`s pension shall be granted without reference to the cause of death of provider, except work injury or occupational disease (in that case survivor’s pension shall be granted under the scheme of the state social insurance against work injury and occupational disease). These pensions are included in D.621,
   - **Disability DB PAYG social security pension scheme**. Disability pensions are financed by the State social insurance budget. Pension can be granted till statutory retirement age, if person`s disability has been approved, except cases where disability is the result of

work injury or occupational disease (in that case, since January 1997, regular social insurance compensation shall be granted under the scheme of social insurance against work injury and occupational disease). By reaching the statutory retirement age disability pension is replaced by old age pension (1st pillar pension scheme). Disability pension shall be granted depending on the level of the loss of ability to work. The same financial resources cover also pensions, granted to participants in the liquidation of the consequences of the Chernobyl nuclear power station accident and their family members, if incapacity is related with Chernobyl accident, as well as compensation for damage, caused by work injury or occupational disease, which took place before the new scheme of social insurance against work injury and occupational disease came into force (before January 1997). These pensions are included in D.621.

In January 1997, the ***insurance against work injury and occupational disease has been introduced as a part of the State social insurance system.*** *Insurance compensations (indemnities) and survivor`s benefits, provided by this scheme, are similar by content to disability and survivor`s pensions. Every employer must pay mandatory contributions to protect employed persons against work injury and occupational disease. A socially insured person is* ***entitled to receive regular insurance compensation*** *if he/she, due to an accident at work or an occupational disease, has lost the ability to work.* ***If a person has died due to an accident at work or an occupational disease, his or her family members are entitled to receive*** *a survivor's benefit. Though, according to the national legislation such insurance compensations and respective survivor`s benefits are not registered as the part of the pensions` framework. Such benefits are included in D.621.*

2) **Unfunded DB service pension schemes for employees of certain institutions of the Government sector** (so as for procurators, policemen, employees in the sphere of culture, etc.). These pensions are financed by the state general budget,
3) **Private funded DC pension schemes as a 3rd pillar of the retirement pension system**, which can be subdivided into:
   - **Private funded pension schemes** administered by autonomous open or closed pension funds. Open pension funds provide persons` pension insurance directly and through the intermediation of their employers, where employers make contributions in favour of participants. Closed private pension funds are organized by employers as employer retirement schemes. Participants are employees of the employer – organizer of the closed private pension fund.
   - **Private pension insurance, administered by life insurance companies**, providing individual insurance policies.

Classification of social insurance pension schemes

Pension schemes covered by the public pension system, service pension schemes of the Government sector and private funded pension schemes (in case if employers make contributions in favour of participants) are classified as social insurance pension schemes according to the ESA rules. Social insurance pension schemes are based on contributions. Public pension system covers also periods, regarded as equal to the periods of employment (periods when person is on parental or sick leave, receives unemployment benefit, or is disabled and unemployed etc.). Those periods for respective persons are covered by contributions (transfers) from the State general budget, or by transfers from special sub-budgets within State social insurance special budget (for instance, contribution amounts are transferred from the Employment special budget to the Special budget for old age pension during period, when person is unemployed).

Definition of social security pension schemes

According to the Law on Social Security the basic principles of the operation of the social security system in Latvia, which can be attributed directly to social security pension schemes, are the prohibition of differential treatment, solidarity and social insurance.

Social security pension schemes are all schemes under the state social insurance, which cover large sections of the community and where general government takes over the responsibility for pension provision. *The 1st pillar retirement pension scheme, pension scheme for survivors and disability pension scheme is attributed to the social security pension schemes.* All these schemes are unfunded, defined benefit and financed on pay-as-you-go (PAYG) basis. Social security pension schemes are considered as compulsory. However voluntary participation is also allowed for persons who for some reasons are not subjects to the state compulsory social insurance. As described above, scheme of insurance against work injury and occupational disease is also included in social security.

The state mandatory funded DC pension scheme (2nd pillar), which is imposed by government and which operation is based on investment of part of the state social insurance contributions for retirement, *is not considered as the social security pension scheme* because the investment result (or risk) is fully on participant. Although, according to the national legislation, the state funded pension is part of the state old age pension. The management of the 2nd pillar assets is provided by investment management companies and each participant of the scheme has the right to select and to change both the manager of his or her funded pension capital, and the investment plan.

It is easy to distinguish between social security pension schemes and other social security benefits, as well as between social security pension schemes and other social insurance pension schemes in statistics in Latvia.

Classification of institutional units supporting pension schemes; borderline cases

- The State social insurance agency (social security fund S.1314) supports social security pension schemes and service pension schemes for employees of certain institutions of the Government sector. It also provides administration of the 2nd pillar pension scheme,
- Pension funds (S.129) support 2nd pillar pension scheme (during pension capital accumulation stage) and private pension funds` provisions of the 3rd pillar pension scheme,
- Insurance corporations (S.128) support life insurance provisions of the 3rd pillar pension scheme and 2nd pillar pension scheme (during stage of payment of life annuities, if retiree chooses such option).

Borderline case:

The 2nd pillar pension scheme can be hold as the borderline case due to its following features:

- scheme is imposed and controlled by the Government,
- scheme is mandatory for persons, covered by the state social insurance (all employed population, including persons, whose absence from employment is regarded as equal to the periods of insurance),
- according to the legislation, state funded pension is part of the state old age pension,
- pension capital of the 2nd pillar funds is based on part of contributions for State pension insurance,

- scheme is organized by the Government through the State Social Insurance Agency and managed by private asset managers, which have an agreement with State Social Insurance Agency and are licensed by Financial and Capital Market Commission,
- the investment result (risk) is fully on participant,
- 2nd pillar pension as such does not exist under the 2nd pillar pension scheme, as 2nd pillar only accrues pension capital and does not manage pension payments. Person`s accrued 2nd pillar pension capital at retirement, by his/her choice is transferred to the 1st pillar, or to life insurance company. It can be paid out only in the form of part of the 1st pillar pension, or in the form of life annuity.

7.16. Rearranged transactions

According to the Cabinet of Ministers Order No 48 of 27.09.2017 the state joint-stock company "Latvijas dzelzceļš" (manager of railway infrastructure) received a task from the government to build a railway infrastructure that would ensure effective military trainings with allied forces from US as well as offer successful deployment of these forces in Latvia. It was recorded as GFCF expenditure.

7.17. Decommissioning costs

Information on remediation projects activities is provided by Ministry of Environmental Protection and Regional Development:

Completed	2009–2013	Recovery of liquid hazardous waste dump "Kosmoss" in Jelgava
Completed	2015	Recovery of liquid hazardous waste dump in Olaine
Completed (I phase)	2011-2016	Recovery of goudron ponds in Inčukalns
Ongoing (II phase)	2015-2023	Recovery of goudron ponds in Inčukalns
Completed	2012-2017	Remediation of historically polluted areas in Sarkandaugava
Planned	Till 2023	Preparing works for Salaspils research reactor dismantling, decommissioning, waste management
Ongoing	2021-2024	Remediation of historically polluted site "Višķi professional secondary school heavy fuel oil repository"
Ongoing	2021-2024	Purification of the Karosta canal of the historically polluted place of Liepāja port
Ongoing	2021-2024	Remediation of historically oil-contaminated sites in Ventspils
Completed	2021-2023	Additional detailed pollution investigation of the historically polluted areas at Aizkraukle

Annual payments recorded as GFCF (P.51).

7.18. Income contingent loans

There are no specific transactions observed.

7.19. Concessions

The Register of Enterprises maintains information on concession agreements. No new concession contracts have been concluded for the period 2015 - 2018. There are still existing agreements between transport companies and municipalities or the Road Transport Directorate.

Since the Law on Public-Private partnership came into force (01.10.2009.), no PPP contracts have been concluded. Till the Law on Public-Private partnership came into force the concession contracts were not accounted for. At this moment we have identified only couple concession contracts (https://www.fm.gov.lv/lv/sadalas/ppp/ppp_ligumi).

According Law on Public-Private partnership the Central Finance and Contracting Agency shall give its opinions on the amendments concession contract. Public partner is allowed to make some amendments in concession contract only after Central Finance and Contracting Agency opinion.

As well according public-private partnership regulation, the public partner or its representative shall submit a report on the implementation of the public-private partnership agreement to the Central Finance and Contracting Agency within 20 working days after the end of the relevant reporting period. The first reference period is 12 calendar months from the date of conclusion of the public-private partnership agreement. Each subsequent reporting period is the 12 calendar months following the previous reporting period. The report shall include information on:

- a representative of the public partner, as well as information regarding the name of the public-private partnership project, the type of project, the contract amount, the contract period,
- project implementation (performed construction works, asset accounting conditions, provided services),
- payments made by the public partner to the private partner,
- problems during project implementation,
- the status of the project objectives and achieved results (in the last report on the implementation of the public-private partnership agreement).

7.20. Energy Performance Contracts

On 19 September 2017, Eurostat published the Guidance note on the recording of energy performance contracts in government accounts and on 8 May 2018, Eurostat published, in cooperation with the EIB, the Guide on statistical treatment on EPC.

The draft of the model Energy Performance Contract (EPC) has been provided to Eurostat and Eurostat opinion regarding the statistical treatment of the model EPC has been received.

So far in the public sector energy performance contracts have not been concluded. The Energy performance contracts have been concluded in the private sector mostly for thermal insulation of apartment buildings.

Latvian Environmental Protection Fund in collaboration with the association Passive House Latvia developed methodological guidelines for municipalities and public administration authorities on energy efficiency service procurement for improving energy efficiency of buildings.