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- FINAL FINDINGS -

EDP dialogue visit to Latvia

16-17 February 2009

Executive summary

Eurostat undertook an EDP dialogue visit to Latvia on 16-17 February 2009 as part of its regular visits to Member States and with the aim to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical treatment of specific government operations and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Latvian EDP tables and national accounts.

First, Eurostat enquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. EDP tables are officially reported to Eurostat by Statistics Latvia (CSB). CSB compiles all EDP tables, except the forecast data that are prepared by the Ministry of Finance (MoF). The Central Bank does not directly participate in the EDP compilation process. Eurostat took note of the current organisation and encouraged further cooperation among the CSB, the Ministry of Finance, the Ministry of Economy and the Central Bank.

Second, the EDP inventory and data sources for the main sub-sectors were discussed. Eurostat took note that a complete list of institutional units classified in S.12, S.13 and S.15 is available on the CSB web site together with the "user friendly" version of the EDP inventory. It was concluded that some further elaboration in the EDP inventory is needed on the description of delimitation of the general government sector as well as on the description of data sources for other accounts receivable/payable.

Concerning the EDP tables, Eurostat recalled the importance of consistency between EDP tables and ESA95 tables. The adjustments in EDP table 2A and 2C for "*Other accounts receivable/payable*" were discussed and Eurostat invited the CSB to provide a more detailed breakdown of *Other accounts receivable/payable*. The issue of discrepancies in EDP table 3B was pointed out by Eurostat, and the Latvian statistical authorities were invited to investigate it further.

Particular attention was given to the sectorisation of some units: public infrastructure companies, railways, road companies, airports, public utility companies, as well as public hospitals, public TV and Radio. Eurostat invited the Latvian authorities to conduct an in-depth analysis of the classification of the railway holding company *Latvijas dzelzceļš* and its subsidiaries as well as of the classification of the road maintainer (*Latvijas autoceļu uzturētājs*). Eurostat took note of the classification of the Riga airport outside general government and of Public TV and Radio inside general government. The CSB was invited to conduct an in-depth analysis of the revenue of the public hospitals currently classified outside general government, and to re-examine their sector classification.

Regarding the recording of taxes and social contributions, Eurostat found the current practice to record corporate income tax on a cash basis, without applying time adjustment, feasible, given the lack of aggregated information linking tax payments to individual years. The Latvian statistical authorities agreed to consider the possibility to complete the data series (period 1995-1998) using the time adjusted cash method and by end-September 2009 they will inform Eurostat on their findings.

Concerning the recording of accrued interest, Eurostat invited the Latvian statistical authorities to report interest accrued but not yet paid under the financial instrument to which it relates and not under other accounts receivable/payable for the years 2007-onward. It was agreed that the issue of recording of discounts and premiums on government bonds in EDP table 2A, need further clarification.

Government interventions into financial institutions, in the context of the financial turmoil, were also discussed. Eurostat took note that arrangements to provide for guarantees of bank liabilities and for recapitalisations of banks have not been activated to date and that Parex Bank was acquired by the State Mortgage Bank for a nominal sum, therefore there are no statistical consequences for the year 2008.

Eurostat took note of the explanations provided regarding the treatment of flows related to the JEREMIE (*Joint European Resources for Micro to medium Enterprises*) scheme. Eurostat concluded that further efforts are needed to analyse the sector classification of newly created government agencies and the classification of capital injections into them and for regular monitoring of dividends paid to government by public corporations (in particular railway companies, the State forest company and Lattelekom). A minor clarification on the adjustment for privatisation proceeds is to be provided. Eurostat invited the Latvian statistical authorities to conduct an in-depth analysis of the PPP project Ogre School of Art. The non existence of debt cancellations and debt assumptions for the year 2008 was noted.

Final findings

Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit to Latvia on 16-17 February 2009.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Public Finance Unit (C3). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. Latvia was represented by the Statistics Latvia (CSB), the Ministry of Finance (MoF), the Treasury, the Central Bank and the Ministry of Economy.

Eurostat carried out this EDP dialogue visit with the aim to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to clarify the issues relating to EDP tables raised in the context of previous notifications, to examine the statistical treatment of public interventions relating to the financial turmoil, to review the progress achieved in implementing ESA 1995 methodology (sectorisation of units and the implementation of Council Regulation 2516/2000) and to assure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the EDP tables and national accounts.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 8 of Regulation 3605/1993 as amended, indicating that the *Main conclusions and action points* would be sent within days to the Latvian statistical authorities, who may provide comments. Within weeks, the *Provisional findings* would be sent to the Latvian statistical authorities in draft form for their review. After adjustments, the *Final Findings* will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

1. Statistical institutional issues

1.1. Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation

Introduction

Eurostat enquired about the institutional arrangements and division of responsibilities in the framework of the reporting of data under the EDP and government finance statistics.

Discussion and methodological analysis

The Latvian authorities confirmed that the institutional arrangements are unchanged since the last EDP dialogue visit. Forecast data are prepared by the Ministry of Finance and are provided to the CSB for inclusion in EDP notification tables. The Central Bank does not directly participate in the EDP compilation process. The working group between institutions continues to meet regularly, particularly during the preparation of EDP notifications.

Findings and conclusions

1. *Eurostat took note of the current organisation involving Statistics Latvia, the Ministry of Finance, the Treasury, the Central Bank and the Ministry of Economy and encouraged their further cooperation.*

1.2. EDP inventory

Introduction

The consolidated version of the EDP inventory completed by CSB provides a description of data sources and methods used for EDP data compilation. An updated version of the Latvian EDP inventory is published on Eurostat's website.

Discussion and methodological analysis

Eurostat thanked the Latvian authorities for the updated EDP inventory sent before the meeting.

The Latvian authorities explained that they have prepared a "user friendly" version of the EDP inventory, in both Latvian and English, and have made this available on the CSB's website. The Latvian authorities confirmed that the accounting changes which had been foreseen in the previous version of the inventory have now been implemented - with the standards themselves forming part of the relevant Government regulations - and no further changes are foreseen.

The Latvian authorities explained that they publish a complete list of institutional units classified into sectors S12, S13 and S15 on the CSB website, with changes in their classification clearly marked according to the main reason for undertaking them. Eurostat welcomed this transparent approach, and took note that the Latvian authorities would soon make a comprehensive assessment of the statistical classification of units in 2010.

Eurostat requested that a term other than "*re-allocated enterprises*" be used for both central and local government subsectors, since this was potentially confusing. Moreover, the description of delimitation of general government should be further elaborated, naming the main groups of budgetary units and main categories of "*other government bodies*". Eurostat also noted that under the description of other accounts receivable/payable, a further explanation of the use of quarterly financial reports should be added, which explained clearly that transactions in other accounts receivable and payable were no longer measured as the difference between starting and ending balance sheets, but also took into account reported revaluations and other changes.

Findings and conclusions

2. *The appropriate changes to the EDP consolidated inventory of sources and methods are to be implemented by end-September 2009.*

2. Follow-up of the October 2008 EDP reporting – analysis of EDP tables

Introduction

Eurostat analysed the EDP tables and the questionnaire related to the EDP notification tables, as reported in the October 2008 EDP notification.

Discussion and methodological analysis

Eurostat thanked the Latvian statistical authorities for providing information in the Annex to the request for clarification, requested on a voluntary basis. Eurostat appreciated CSB answers received in the context of the first and second pilot exercises of the revision of the *Questionnaire related to the notification tables*.

Regarding the reporting and explaining revisions - tables 1.2. and 2.2. of the *Annex to the request for clarification*, - Eurostat invited the Latvian authorities to specify the sub-sector (where possible) under both revisions in deficit and debt.

Eurostat recalled the importance of ensuring that the EDP notification tables and the ESA transmission tables are fully consistent when transmitted at the same time; some small discrepancies had initially been observed for quarterly financial accounts and quarterly debt data, although these were quickly corrected by the Latvian authorities.

With regard to **EDP table 1**, Eurostat enquired why stocks of general government liabilities in currency and deposits (AF.2) had been reported for the first time in October 2007 (previously reported as zeros). The Latvian authorities explained that they had discovered that non-government units hold deposits with the Treasury - these units, for example sports associations, receive grants from government.

With regard to **EDP table 2A**, the Latvian authorities explained that the working balance is the state budget outcome, audited by the State Control Office. Whilst provisional data are provided to the CSB around June of each year, the final data after audit are provided by August each year. Thus, any technical changes made during the audit process, for example due to errors, are included in the source data in the end-September EDP notification. The working balance does not include financial transactions.

The entries for other accounts receivable and payable were explained by the Latvian authorities. Eurostat has pointed out that changes in stocks of other accounts receivable/payable derived from balance sheets could be influenced by other changes in assets (such as reclassification, changes in accounting rules, revaluation, etc.), notably reflecting changes in accounting rules, and thus do not necessarily reflect pure transactions. The Latvian statistical authorities explained that special quarterly questionnaires from 2007 onwards provide the reconciliation of balance sheet data, allowing for the identification of transactions.

Eurostat asked for further clarification of the rationale for the accrual adjustment for "EU funding (national co-financing)", as reported in table 4.2. *Breakdown of other accounts payable reported in EDP table 3A of the Annex to the request for clarification in the context of October 2008 notification*. The Latvian statistical authorities agreed to analyse this by end-September 2009. The CSB confirmed that the accrual adjustment "revenue of the next period" does not refer to taxes and does not raise consolidation issues. Eurostat also requested that the

Latvian authorities provide a more detailed breakdown of other accounts receivable and payable in EDP table 2A, and agreed to discuss bilaterally the resolution of technical issues in completing additional rows.

Findings and conclusions

3. *Eurostat welcomed that the quarterly financial statements now provide information on non-transaction changes in balance sheets and asked the CSB to update the description on p.7 of the EDP Consolidated inventory of sources and methods before end-September 2009.*
4. *The Latvian statistical authorities will clarify the nature of the adjustment "EU funding (national co-financing)" by end-September 2009 and will provide a further breakdown of other accounts receivable/payable in EDP table 2A for the October 2009 notification.*

With respect to adjustments for sector delimitation, the Latvian statistical authorities confirmed that there are no State entities not part of Central Government, therefore the relevant line in EDP table 2A shows zero values. The CSB confirmed that there are no extra-budgetary accounts or extra-budgetary funds in Latvia and the line "Net borrowing/Net lending of other central government bodies" reports only the B.9 of other central government institutional units. An exhaustive list of those units could be found in the annex to the EDP inventory. For those other Central Government bodies the net lending/net borrowing is calculated on an individual basis using a national accounts approach.

Some other adjustments lines were discussed in later agenda items - privatisation receipts and EU funds.

With regard to **EDP Table 2C**, similarly to EDP table 2A, Eurostat invited the Latvian statistical authorities to provide further split of other accounts receivable/payable for the October 2009 notification.

The Latvian authorities explained that, as from 2007, capital injections are no longer included in the working balance for Local Government. An adjustment had been introduced for capital injections considered as capital transfers in 2007 (the Latvian authorities agreed to improve the explanation of this adjustment row in the table).

Eurostat asked for an explanation of the LVL -0.7 million reported under other financial transactions adjustment for the year 2007. The Latvian authorities agreed to investigate this issue further.

Findings and conclusions

5. *Eurostat requested that the Latvian authorities provide a more detailed breakdown of other accounts receivable and payable for the October 2009 notification, and agreed to discuss bilaterally the resolution of technical issues in completing additional rows.*
6. *Eurostat advised that from 2007 the row for equity transactions in the working balance should be equal to zero, and the Latvian authorities agreed to ensure that this*

will be the case for the October 2009 EDP notification.¹

7. *The CSB will investigate and report back to Eurostat on the nature of the adjustment in EDP table 2C of -0.7 million LVL appearing under "other financial transaction" for 2007.²*

With regard to **EDP table 3B**, the issue of discrepancies was discussed as a follow up from the 2006 Eurostat dialogue visit to Latvia. Eurostat drew the attention of the Latvian authorities to cumulated 2004-2007 statistical discrepancy in the EDP table 3A of 81.6 million LVL. The statistical discrepancy in EDP table 3B for almost all the years exceeds 0.2% of GDP and it is still non-negligible for social security funds in 2004 and 2005. The Latvian statistical authorities informed Eurostat that, since the last dialogue visit, statistical discrepancies for local government were reduced considerably and they are investigating the reasons for discrepancies in the central government sub-sector. The CSB felt that one of the possible reasons for discrepancies is an incomplete application of the accrual principle within the central government sector.

Eurostat took note of the progress so far and stressed the importance of the further actions to be undertaken to structurally decrease discrepancies between the non-financial and the financial accounts.

Findings and conclusions

8. *The Latvian statistical authorities are invited to investigate the reasons for discrepancies in EDP tables 3B and 3E and report on the results by end September 2009.³*

3. Methodological issues and recording of specific government transactions

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

Introduction

Eurostat enquired about the process for assessing the classification of existing units in national accounts. The sector classification of some institutional units (groups of units), such as public infrastructure units, railways, road companies, airports, public utility companies, as well as public hospitals and public radio and TV, were analysed during the mission.

Discussion and methodological analysis

The Latvian statistical authorities confirmed that the procedure to determine the sector classification of institutional units had not changed since the last EDP dialogue visit in 2006. The CSB is responsible for sector delimitation. The 50% criterion is applied on individual entities each year, using annual reports. The decision on sector classification is taken on the basis of an analysis of the results over a period of 5 years. In principle, the list of units is

¹ Implemented for the April 2009 notification.

² The item was explained in the April 2009 notification.

³ In April 2009 notification discrepancies were decreased in EDP table 3B. This was caused mainly by revisions in other central government bodies' data due to the new data sources.

considered to be unchanged for five years, unless units are merged, newly created or disappear.

Findings and conclusions

Eurostat took note of the way in which sectorisation of units in the government sector is undertaken in Latvia.

3.1.1. Public infrastructure companies

Railways

Discussion and methodological analysis

The Latvian statistical authorities confirmed that Latvian Railways comprises a holding company— State Joint Stock Company *Latvijas dzelzceļš* and the following subsidiary companies: *LDz Cargo Ltd*, *LDz infrastruktūra Ltd*, *LDz ritošā sastāva serviss Ltd*, and *LDz Apsardze Ltd*.

One of the subsidiaries has been reclassified into the general government sector starting from 2009.

Eurostat pointed out that the issue of classification of holding companies and their subsidiaries was discussed in the FAWG meetings in 2008 (a reference was made to the draft guidance note). Eurostat recommended classifying holding companies according to their nature. The questions to be asked here are whether a holding company is just a shell without genuine autonomy of decision, whether it has its own production/profit seeking activities, in addition to its holding company activities or if it is a real holding corporation which main activity is exercising the management of the group. Subsidiaries, when being institutional units, shall be tested individually for the market/non-market criteria for classification purposes.

Findings and conclusions

- 9. The Latvian authorities will conduct an in-depth analysis of the classification of State Joint Stock Company Latvijas dzelzceļš and its subsidiaries and will inform Eurostat before the end of September 2009 EDP notification.*

Road companies

Discussion and methodological analysis

The State Joint Stock Company "*Latvijas Valsts ceļi*" ("Latvian State Roads") is 100% owned by the state and performs the management of the state road network, the administration of the State Road Fund and the organization of public procurement. *Latvijas Valsts ceļi* is classified inside the General government sector (S.13).

For the building, operation and maintenance of State roads, the main responsible body is "*Latvijas autoceļu uzturētājs*" (Latvia's road maintainer). It is classified outside the General government sector.

In Latvia, there are no vignettes or toll roads. The main source of revenue for "Latvijas autoceļu uzturētājs" comes from the State. Eurostat felt that further analysis and justification is needed to clarify the reasons for "Latvijas autoceļu uzturētājs" being classified outside the General government sector.

Findings and conclusions

10. The Latvian authorities are invited to conduct an in-depth analysis of the sector classification of the Road maintainer (Latvijas autoceļu uzturētājs) and to provide Eurostat, by the end of September 2009, with the relevant documentation used to perform the necessary accounting analysis and apply the 50% criterion.

Airports

Discussion and methodological analysis

The issue of the sector classification of the airports was briefly discussed. The CSB assured that financial statements are analysed and the compliance with 50% criterion was tested for Riga International Airport (RĪGA' starptautiskā lidosta) as well as for the smaller local airports of Liepāja, Ventspils and Daugavpils. Airports are currently classified in the non-financial corporations sector.

Findings and conclusions

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

3.1.2. Public utility companies

Discussion and methodological analysis

The issue on the sector classification of the public utility companies was briefly discussed. Public utility companies (water, heating companies) are owned by municipalities and are currently classified in the non-financial corporations sector. The CSB considers that sales cover more than 50% of production costs, with the exception of two companies that were recently reclassified into the general government sector.

Findings and conclusions

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

3.1.3. Public hospitals

Discussion and methodological analysis

Public hospitals are classified in the general government sector - some within the central government subsector, some within local government. Eurostat enquired about the reasons why a few public hospitals are still classified outside general government. The CSB explained that those entities comply with the so called 50% rule. Eurostat stressed that for hospitals a thorough analysis of revenue should be undertaken, as foreseen in the MGDD Part I.1, p.16

and only payments made according a system of pricing applied to both public and private hospitals could be considered as sales.

Findings and conclusions

11. *The Latvian authorities are invited to conduct an in-depth analysis of the revenue of the public hospitals currently classified outside general government, and based on this re-examine their sector classification, providing Eurostat with the results by end-September 2009.*

3.1.4. Public TV and Radio

Discussion and methodological analysis

The Latvian statistical authorities confirmed that public TV and radio "Latvijas Radio valsts SIA" and "Latvijas Televīzija bezpeļņas valsts SIA" are classified inside general government. The existing fees paid by television/radio owners in national accounts are classified as sale of services. The CSB informed that the public corporation Radio and television centre (Latvijas Valsts Radio un Televīzijas Centrs), the TV and radio infrastructure manager providing services to private TV companies, is considered as a market producer and is classified outside the general government sector.

Findings and conclusions

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

3.2. Implementation of accrual principle

3.2.1. Accrual taxes and social contributions

Introduction

Some aspects related to the recording of taxes described in the Latvian *EDP Consolidated inventory of sources and methods* were clarified. An issue of historical data (for the period 1995-1998) on taxes and social contributions in *Other accounts receivable* (F79), was discussed.

Discussion and methodological analysis

The Latvian statistical authorities apply a simple time adjustment method (one month lag) for recording VAT, excises and personal income tax. All the other taxes are recorded on a cash basis.

Eurostat enquired why no time adjustment is applied for Corporate income tax (CIT). The Latvian statistical authorities described the operation of the corporate tax system. The tax declarations are submitted by the 1st of May (August for big companies). Advance payments are based on the results of the preceding year, and when the next May (August) the financial results of the companies are available, the next advance payment is adjusted accordingly. Currently in the system there is no possibility to separate the advance payments and additional

payments. Books are kept open for three years, and after that the tax declarations are considered to be final.

It was decided that the existing cash-based recording should be continued, given the lack of aggregate information linking tax payments to individual years.

Before 1999 the Latvian statistical authorities applied a tax arrears method. In table I of the *Questionnaire related to the notification tables* the information on stocks and transactions in Other accounts receivable (F79) is missing for the period 1995-1998. The Latvian authorities explained that at present they only have information based on tax arrears recorded in the State Revenue accounts. This could be included in questionnaire table I, and would remove the negative stocks recorded at present. Eurostat preferred that a single approach be used for all years, and requested that the Latvian authorities explore the feasibility of using the same time-adjusted cash approach for these years.

Findings and conclusions

12. *The Latvian statistical authorities will consider the possibility to complete the data series (period 1995-1998) using the time adjusted cash method and by end-September 2009 will inform Eurostat on their findings.*⁴

3.2.2. Calculation of accrual interest

Introduction

Eurostat enquired about the recording of accrued interest.

Discussion and methodological analysis

In Latvia accrued interest is included under the items "Other financial assets" and "Net incurrence (-) of other liabilities" (F.7) of the table 3B. Eurostat confirmed its view that the accrued interest should not be reported under F.79 and recalled that MGDD Part III. 3.3 (p.133) states: "the reinvestment of accrued interest should be recorded under the same item as for the underlying instrument.(...) This treatment applies to all kinds of debt instruments". The Latvian authorities explained that this could be undertaken for the years 2007-onward, and not for the back years.

Eurostat asked if discounts/premiums are included in the working balance EDP table 2A. It was recalled that an adjustment should neutralise those at time of issuance, thus the impact on B.9 should be only from the spread discount/premium. The Latvian statistical authorities agreed to clarify this issue by the October 2009 EDP notification.

Findings and conclusions

13. *For data reported in the October 2009 EDP notification the Latvian authorities will report interest accrued but not yet paid under the financial instrument to which it relates, and not under other accounts payable, for the years 2007-onward.*

⁴ The document was sent to Eurostat on 29 May 2009.

14. *The Latvian authorities will clarify where, in EDP table 2A, discounts/premiums are recorded, if any, and inform Eurostat by end-September 2009.*

3.3 Recording of specific government transactions

3.3.1. The financial turmoil: actual cases and accounting consequences for government

Introduction

Eurostat enquired about the government interventions into financial institutions in the context of the financial turmoil.

Discussion and methodological analysis

The Latvian authorities explained that government took control of Parex Banka through the State Mortgage bank ("*Latvijas Hipotēku Un Zemes Banka*"). In November 2008 the State Mortgage bank purchased a 51% stake in Parex Bank for a nominal LVL 2. The two banks would continue to operate separately for now, with Parex Bank continuing to act as a financial intermediary in its own right. The former shareholders in Parex Bank were not further compensated, and have made an oral agreement with government to maintain collateral with respect to their remaining holdings in Parex Bank. The Latvian government has guaranteed all deposits in Parex Bank. The Latvian government has made significant deposits in Parex Bank, on a rolling 2-weeks basis with collateral pledged by Parex Bank and interest payable.

The Latvian authorities described the arrangements being established to provide for guarantees of bank liabilities and for recapitalisations of banks. To date these arrangements have not been activated and there are therefore no statistical consequences for the year 2008.

The Latvian authorities explained that the loan from the IMF would be recorded in government debt, and that so far only the first instalment of the loan had been released (in late December 2008).

The Latvian authorities explained that the Deposit Guarantee Agency is classified in sector S.12 in national accounts.

Findings and conclusions

15. *Eurostat asked the Latvian authorities to reflect on the statistical classification of the government deposits placed in the Parex bank, and to determine if they might have more the nature of short term loans, and to inform Eurostat by end September 2009.*

3.3.2. EU flows

Introduction

Eurostat enquired about the occurrences of unduly spent EU funds and the treatment in national accounts. The JEREMIE scheme (*Joint European Resources for Micro to medium Enterprises*) was discussed in detail.

Discussion and methodological analysis

Eurostat asked if the CSB is aware of any cases when unduly spent EU funds were claimed back by the Commission and if this would be the case, how the amounts in question would be recorded in national accounts. The Latvian statistical authorities informed that they are not aware of such cases in Latvia. Eurostat expressed its view that it would be most appropriate to record expenditure (D.9) to the Commission in the year when the decision was taken (a reference was made to the MGDD chapter *Cases of court decision with retroactive effect*).

On the JEREMIE scheme, the Latvian authorities informed that an agreement with the EIF (European Investment Fund) was signed in July 2008. A Holding Fund had been established, with the aim to provide resources for SME financial instruments delivered through financial intermediaries. The foreseen financial instruments are risk capital, pre-seed capital and technology transfer. Following the agreement with the Latvian government, the Holding fund is held by the EIF for three years. At the end of this period the Latvian authorities have an option of transferring the Holding Fund to the State Guarantee Agency (which is classified in sector S.12 in national accounts). Currently, the EIF is selecting financial intermediaries that will be providing resources to SMEs through financial instruments. The Latvian government transferred EUR 91 million to the Holding Fund in 2008, of which 91% came from the EU structural funds.

The Latvian authorities explained that they intended to record the receipt of EU structural funds as revenue of the Latvian government, and the transfer of funds to the Holding Fund as expenditure (a capital transfer) of the Latvian government. The transactions will be recorded at the same time, thereby ensuring compliance with the relevant Eurostat decision.

Findings and conclusions

16. Eurostat took note of this recording and explained its intention to look at the implementation of Jeremie across several countries. By end-May 2009 the Latvian authorities will confirm if a copy of the contract with the EIF could be made available to Eurostat.⁵

3.3.3. Capital injections in public corporations, dividends, privatization

Capital injections

Introduction

Eurostat enquired about capital injections in Latvia.

Discussion and methodological analysis

Eurostat took note of the procedures in place for the statistical classification of capital injections. In principle, capital injections are recorded as capital transfers when they are made to units which record a loss during the year of the injection. At the time of the April EDP notification, the statistical authorities must rely on informal information on the profit/loss

⁵ The document was sent to Eurostat on 29 May 2009.

situation of units receiving capital injections, however this information is available from published accounts for the end-September EDP notification. Eurostat took note that there is a complete list of capital injections by Local Government.

Eurostat enquired about the amounts reported under *increase in shares and other equity (F.5)*. The Latvian statistical authorities explained that a few new agencies were created. In case of a newly created entity, it is general practice to consider that it is outside the general government sector and the capital injections (if any) are treated as equity injections. Eurostat felt that neither in-depth analysis of the sector classification of those new entities nor the classification of the capital injection is apparently conducted.

Eurostat enquired if Hipoteku un zemes Banka had received capital injections in 2008 and if this entity undertakes individual transactions on behalf of government. The Latvian statistical authorities felt that this would need further investigation.

Findings and conclusions

- 17. The Latvian authorities agreed to check if Hipoteku un zemes Banka had received a capital injection in 2008 and inform Eurostat by end-September 2009.*
- 18. Eurostat asked the Latvian authorities to investigate if Hipoteku un zemes Banka undertakes individual transactions on behalf of government and inform Eurostat on the findings by the end of September 2009.*
- 19. The Latvian statistical authorities are invited to analyse the sector classification of newly created government agencies and the classification of the capital injections into them and to inform Eurostat by end-September 2009.*

Superdividends

Introduction

Eurostat enquired about the application of the so-called superdividend test in Latvia. The information provided by the Latvian authorities prior to the meeting on dividends paid by Lattelecom was analysed.

Discussion and methodological analysis

With regard to superdividends, the Latvian authorities explained that to date they have not recorded any superdividends in national accounts. Eurostat explained the principles behind superdividend recording.

Eurostat pointed to evident superdividends for Lattelecom in the years 2004 and 2005, and advised the Latvian authorities to record the difference between profit before tax (in year n-1) and dividends paid (in year n) as a withdrawal of equity in year n, scaled for the fact that there is also a private investor.

A list of payments on the use of state capital was provided by the Latvian statistical authorities. Those payments are paid out of profit and are decided on after the profit is

determined. Eurostat agreed that those payments indeed have a nature of dividends and suggested to apply the super dividend test.

Findings and conclusions

20. *Before the October EDP notification (by end-September 2009) the Latvian statistical authorities will record Lattelekom superdividends for the difference between profit before tax (in year n-1) and dividends paid (in year n), the excess (in proportion of government share) being recorded as an equity withdrawal by government (within transaction in shares and other equity F.5) and not as government revenue.*⁶

21. *The Latvian statistical authorities were invited to examine other amounts paid as dividends, including three dividends in 2008 from the Railways (LATVIJAS DZELZCEĻŠ), the State forest company (LATVIJAS VALSTS MEŽI) and Lattelekom. The findings are to be reported to Eurostat by end-September 2009.*

Privatisation

Introduction

The privatisation procedures on central and local government levels, as well as the recording of privatisation related flows in EDP tables 2A and 2C was discussed.

Discussion and methodological analysis

The Latvian authorities explained that privatisation at a central government level is undertaken through the State Privatisation Agency, classified in national accounts in general government. The Privatisation Agency is recorded with a zero balance under *other Central Government bodies* in EDP table 2A since its activities are captured in the adjustment line "*Revenue from sale of real estate, less privatisation expenditure*". The Latvian statistical authorities provided the split of this adjustment line. The proceeds from sale of shares are excluded. The revenue from real estate sales is corrected for direct organizational and administrative expenses of the privatization process, for transfers of the due share of state privatization revenue to local governments as well as for expenditure for repayment and refinancing of the government debt. Eurostat requested that the adjustment for expenditure for repayment and refinancing of government debt should be investigated to determine if in fact it is a financial transaction which should not impact on the other adjustment item.

Local government units can sell real estate directly, i.e. without the help of the State Privatisation Agency. The system in place is such that each time a Local government property is sold, 10 percent is to be paid to the State privatisation fund, and vice versa. The 10% of real estate privatisation proceeds that local government is receiving from the central government are not included in the working balance of EDP table 2C, and the relative adjustment is included within the line "*Revenue from privatization (except shares and other equity)*". Eurostat enquired where the amounts that Central government is receiving from local government (10% of privatisation proceeds) are recorded in EDP table 2A and EDP table 2C. Eurostat took note that good information is available at both Central and Local level to separate sale of property from sale of shares and other equity.

⁶ Implemented for the April 2009 notification.

Findings and conclusions

22. *The Latvian statistical authorities will check the recording of the 10% of privatisation proceeds that must be paid from Local to Central Government in EDP tables 2A and 2C to ensure that they are correctly recorded. The results of this investigation should be provided to Eurostat by end of September 2009.*
23. *By the end of September 2009, the Latvian statistical authorities will investigate the adjustment for expenditure for repayment and refinancing of government debt in order to determine if in fact it is a financial transaction which should not impact the adjustment item "Revenue from sale of real estate, less privatisation expenditure".⁷*

3.3.4. Public Private Partnerships and other projects financed from loans/leases from the private sector

Introduction

Eurostat enquired about the existence of contracts of a private-public-partnership character.

Discussion and methodological analysis

The Latvian authorities explained that to date only one PPP project has been signed (the Ogre School of Art). There was some uncertainty over the recording of the related assets - with some doubts on the allocation of availability risk. The Latvian authorities agreed to analyse the project, taking into account the relevant Eurostat Decision, and then to inform Eurostat. A PPP law is under development, and when it comes into force will provide the framework for new PPP projects.

The Latvian authorities explained that there are a number of service concession arrangements in place with private enterprises, notably in the area of transport. The government does not receive revenue, but instead makes payments (recorded as government expenditure) to compensate the private operators for loss-making activities.

Findings and conclusions

24. *The Latvian authorities are invited to conduct an in-depth analysis of PPP Ogre School of Art and to provide a note to Eurostat on the results by the end of September 2009.*

3.3.5. Others: Military equipment expenditures, guarantees, debt assumptions, debt cancellations and debt write-offs, swaps

Introduction

Eurostat enquired about the latest developments in the above mentioned specific government transactions.

⁷ Issue clarified for the April 2009 notification.

Discussion and methodological analysis

With regard to military equipment, the Latvian authorities confirmed that all pre-payments are now measured and included in other accounts receivable.

With regard to state guarantees, the Latvian authorities noted that there was only a single very small call on guarantees in 2008. Guarantees on student loans are not called in practice because there were other guarantors to be called on first, although, in theory, even if there was such a call it would automatically be recorded as a government expenditure due to the budgeting arrangements. An export credit guarantee scheme is under development, which might also include export financing, but has not yet been activated. Eurostat explained the main statistical recording issues associated with export credit guarantees.

The Latvian authorities noted that they were not aware of any debt cancellation or debt assumption operations in 2008.

With regard to swaps, the Latvian authorities confirmed that they record the net interest flow under financial derivatives in EDP table 3, and record nothing in the line "*difference between interest paid and interest accrued*". In EDP Table 2A the interest flows are included in the working balance.

Findings and conclusions

Eurostat took note of this information.

Annex 1: List of participants

Name	Institution	
Luca Ascoli	Eurostat	Head of Unit C.3 - Public Finance
John Verrinder	Eurostat	Unit C.3 - Public Finance
Lena Frej-Ohlsson	Eurostat	Unit C.3 - Public Finance
Rasa Sodeikaitė	Eurostat	Unit C.3 - Public Finance
Julien Rousselon	DG ECFIN	
Hans Olsson	ECB	
Aija Žīgure	CSB	President
Dace Tomase	CSB	Macroeconomics Statistics Department, Director
Vija Veidemane	CSB	Macroeconomics Statistics Department, Government Finance Section, Head of Section
Liene Gintere	CSB	Government Finance Section, Deputy Head
Zane Bondare	CSB	Government Finance Section, Senior Officer
Sandra Kadiķe	CSB	Government Finance Section, Senior Officer
Inese Ozola	CSB	Government Finance Section, Senior Officer
Ilonda Stepanova	MoF	Budget Department, Director
Raivis Čablis	MoF	Budget Department, Budget Methodology Division, Deputy Head
Ilze Brezaucka	MoF	Economic Analysis and Fiscal Policy Department, Fiscal Analyses and Forecasting Division, Senior Desk Officer
Zane Sauketēna	MoF	Economic Analysis and Fiscal Policy Department, Fiscal Analyses and Forecasting Division, Senior Desk Officer
Gunta Medne	Treasury	Deputy Treasurer
Ligita Agleniece	Treasury	Reports Department, Director
Ilze Meldere	Treasury	Reports Department, Senior Expert
Silvija Lansmane	Treasury	Reports Department, Senior Expert
Andris Ciršs	Treasury	Reports Department, Senior Expert
Uldis Kalniņš	Privatization Agency	Finance Department, Head
Inta Lipovska	MoE	PPP Division, Head of Division
Aivars Gulbis	MoE	Foreign Economic Relations and Trade Policy Department, Deputy Director
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Kaspars Lore	MoE	Privatization Division, Head of Division
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