EUROPEAN COMMISSION
EUROSTAT

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

Luxembourg, 24 May 2013

FINAL FINDINGS

EDP Pre-euro Accession Visit to Latvia

8-9 April 2013

EXECUTIVE SUMMARY

Eurostat carried out an EDP Pre-euro Accession Visit to Latvia on 8-9 April 2013, accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). Latvia was represented by the Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF) and the Bank of Latvia (please see the list of participants in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA95 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Latvian EDP. The visit focused on the recording of reclassification of Reverta (ex Parex Banka) and its recording in the government accounts after reclassification, the recording of recapitalisation of the Mortgage Bank, the recording of loans provided to Air Baltic, recent revisions made to government debt, and a general review of the March 2013 notification. The agenda of the meeting is in Annex 2.

Eight action points were concluded at this visit and due to the exceptional timing (in the middle of the April EDP verification period), six out of these action points required immediate action by the Latvian statistical authorities, which were then implemented in the April 2013 EDP notification. As agreed at the meeting, the authorities also provided details on the recording of South Bridge construction costs and the derivatives contracts of Riga city in the April 2013 EDP clarification.

The participants discussed data sources for debt due to observed inconsistencies between Quarterly Financial Accounts of General Government (QFAGG) and EDP data. The CSB agreed to harmonise the data source by the autumn notification in order to ensure complete consistency.

As a result of the discussion of the March 2013 EDP tables, the CSB agreed to record subscriptions to the International Development Association as capital transfers, make an appropriate reporting of claims against Reverta and its reclassification in the EDP questionnaire, and to ensure appropriate recording of time-adjustment for second pillar pensions.

The Latvian statistical authorities clarified that the large operating loss of public corporation Latvijas Valsts Radio Un Televīzijas Centrs in 2011 was related to the deposits lost in Krajbanka. The authorities also confirmed that, according to the available information, the Latvian public corporations have not incurred costs on behalf of government in 2011 or 2012.

Concerning government operations relating to the financial crisis, Eurostat agreed with the CSB's proposal to record the overall impact of reclassification as a deficit increasing capital transfer. The CSB agreed to recalculate the impact of reclassified Reverta, for the remainder of 2012, using consolidated financial statements of the Reverta group. The CSB also agreed to confirm that the replacement of the ERDF resources by state capital following the EC's audit reports in the Mortgage and Land Bank (MLB) is in the working balance of EDP table 2A and to ensure its appropriate reporting in the EDP questionnaire and in the supplementary table for the financial crisis.

Concerning guarantees provided by the government, the CSB agreed to verify the recording of provisions in public accounts and their reporting in the relevant EDP questionnaire.

As a conclusion of the discussion on recording of government transactions with the Air Baltic Corporation (ABC), Eurostat agreed with the recording of the 9 MLVL loan as a capital transfer from government to ABC in the 2012 government accounts and that the dividends reported for 2012 should be recorded as withdrawal of ABC equity (super dividends).

The participants briefly discussed the issue of systemic pension reform. Eurostat concluded that the introduction of second pillar in 2001 constitutes a systemic pension reform in the meaning of the recent amendments to the Stability and Growth Pact. The Latvian statistical authorities agreed to provide their calculation of second pillar impact on government deficit.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Latvian statistical authorities during the meeting and the documents provided before and also during the visit.

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP Pre-euro Accession Visit to Latvia on 8-9 April 2013.

The delegation of Eurostat was headed by Mr John Verrinder, Head of unit Unit D-3, accompanied by Mr Peeter Leetmaa (Unit D-3). Representatives of 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 Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF), The Treasury of Latvia and the Bank of Latvia (the Central Bank). Representatives from government's financial consultancy Prudentia, the Privatisation Agency and the Ministry of Welfare also participated during the relevant sessions (please see the list of participants in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA95 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Latvian EDP. The visit focused on the recording of reclassification of Reverta (ex Parex Banka) and its recording in the government accounts after reclassification, the recording of recapitalisation of the Mortgage Bank, the recording of loans provided to Air Baltic, recent revisions made to government debt, and a general review of the March 2013 notification. The agenda of the meeting is in Annex 2.

Eight action points were concluded at this visit and due to the exceptional timing (in the middle of the April EDP verification period), six out of these action points required immediate action by the Latvian statistical authorities, which were then implemented in the April 2013 EDP notification. As agreed at the meeting, the authorities also provided details on the recording of South Bridge construction costs and the derivatives contracts of Riga city in the April 2013 EDP clarification.

With regard to procedural arrangements, the Main Conclusions and Action Points would be sent to Latvia for review. Then, within weeks, the Provisional Findings would be sent to Latvia for review. After this, Final Findings will be sent to Latvia and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Latvian statistical authorities during the meeting and the documents provided before and also during the visit.

1. CHANGES IN DATA SOURCES

Discussion

The Latvian statistical authorities confirmed that there have been no changes to the data sources since the last EDP dialogue visit of February 2012.

Eurostat raised the issue of observed inconsistencies between Quarterly Financial Accounts of General Government (QFAGG) and the EDP data. The CSB explained that the inconsistencies are due to use of different data sources for these two data sets. In early 2013 the Treasury's data source "Information on financial derivatives and underlying debt instruments" was provided with more detailed information, related to the recording of the swapped debt (XDR loans and USD securities) using the rates as specified in the swap contracts (see also item 3.3.7.) The information is used for compilation of EDP debt for period 2008-2012, but not for QFAGG. The CSB pointed out that the data sources should be harmonised in order to remove the inconsistencies.

Conclusions

<u>Action point 1</u>. By the October 2013 notification, the CSB will harmonise the data source for the Quarterly Financial Accounts of General Government (QFAGG) and the EDP in order to ensure complete consistency.

2. ANALYSIS OF THE MARCH 2013 EDP TABLES

Background

Eurostat received the official delivery of the EDP tables by the end-March deadline and sent its first request for clarification on 4 April 2013, which served as a basis for the discussion at this visit.

Discussion

The CSB confirmed that the definitions of the working balances in the EDP tables 2 have remained unchanged.

Eurostat enquired about the new item "Repayments to budgets of in previous years' unspent amounts" reported in the EDP table 2A for 2012 (-43.8 MLVL). The Latvian statistical authorities explained that this amount, which is linked to the flows recorded in the EU flows Management Information System, refers to the cash amounts unspent (repayments of advances of the beneficiary companies) in previous years and is shown as revenue in the working balance. Eurostat agreed with the adjustment as such cash inflows should not be recorded as government revenue in national accounts[1].

The participants reviewed the EDP table 2A item "…contributions to capital of international organisations". The CSB submitted at the meeting a list of units and amounts reported under this item. Eurostat generally agreed with the recording, but clarified that according to the chapter IV.6 of Manual on Government Deficit and Debt (MGDD, 2013 edition) the injections in International Development Association should be recorded as capital transfers.

The CSB recalled that the item "Balance of derived public persons and entities non-financed from budget" is reported on cash basis in EDP table 2A because these units are included in the cash balance of central government, but not in the national balance voted by the Parliament. The accrual adjustments of these entities are presented under other accounts receivable/payable of EDP table 2A.

The participants reviewed the financing and construction of South Bridge. The CSB informed Eurostat that the 2nd part of the South Bridge construction was finalised in 2012. Construction of the third part started in July 2012 and is to be completed by October 2013. The third part has been financed by loans from the Treasury, which as a consequence would not lead to a special correction in EDP table 2C as was the case for the first and second phases of the project. The CSB informed Eurostat that the interest adjustment is negative in EDP table 2C mainly due to accrued interest related to South Bridge.

[1] It was clarified after the meeting that the total amount of -43.8 MLVL should be allocated to the years 2009-2012 as it has been recorded as revenue in working balances of all these years.

The participants also discussed the time-adjustment for second pillar pension funds as reported in EDP table 2D. The Latvian authorities informed Eurostat that it takes four months before the contributions are passed to the private fund managers and the respective time adjustment is made under the item "Other creditors" of EDP table 2D. The authorities also informed Eurostat that currently the retired persons do not yet buy annuities, as the size of assets accumulated to date is generally small; instead, they transfer the accumulated amounts back from 2nd to 1st pillar. Please see also item 4.1 of this meeting.

For EDP table 3B, the CSB informed Eurostat that the large decrease of loans is caused by repayment (115 MLVL in 2012) of a loan by the Deposit Guarantee Fund, which was disbursed by the Treasury in relation to the loss of Krajbanka deposits.

Several other issues discussed in the course of the general review of the March 2013 notification are shown under other items of this report.

Conclusions

Eurostat and the CSB agreed that the CSB will respond to the Eurostat request for clarification by 12 April 2013, and in particular, will describe the information received from constructor of South Bridge concerning the construction costs, and how it is incorporated in the EDP figures, and will provide full details of the derivatives contracts of Riga city[2].

Concerning the time-adjustment for second pillar pensions, the participants agreed that there is no need for an other adjustment line in EDP table 2D related to the payments made to second pillar than the line "Other creditors".

<u>Action point 2</u>. As soon as possible (for the April 2013 EDP notification), the CSB will record subscriptions to the International Development Association as capital transfers in all relevant EDP notification years[3].

<u>Action point 3</u>. As soon as possible (for the April 2013 EDP notification), the CSB will ensure that claims against Reverta are recorded in the EDP questionnaire table 8.1 under claims against public corporations until opening balance sheet of 2012 and that the reclassification of Reverta is reflected in other changes in volume in 2012[4].

<u>Action point 4</u>. As soon as possible (for the April 2013 EDP notification), the Latvian statistical authorities will clarify how the time-adjustment for second pillar pensions is shown in EDP Table 2D, ensure that there is no double counting of this adjustment, and provide to Eurostat an explanation of the method used. The Latvian statistical authorities will confirm if the transfers from second to first pillar is in the working balance of social security funds[5].

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[2] On 12.04.2013 the CSB provided breakdown of the item "Correction of the South Bridge costs" for 2012 and provided Eurostat with details about the on market interest rate swaps of Riga city.

[3] The subscriptions to the IDA hwere recorded as capital transfers in the April 2013 EDP notification.

[4] Implemented in the April 2013 EDP notification.

[5] The CSB informed Eurostat on 12.04.2013: as the time difference (average delay is 1.5 months) between revenues of social contributions transferred to second pillar schemes is reported under "other creditors" in table 2D, the special correction line is not necessary (i.e. the correction line "Correction of second pillar of pension" was removed). E-mail 07.05.13: transfers from second to first pillar are in the working balance of SSFs.

3. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

The participants discussed changes in the list of general government units. Concerning the central government sub sector, Eurostat took note of the relatively large number (27) of liquidated budget units and reclassification of two real estate companies and Reverta (latter is covered more in detail under item 3.3.1) into this government sub sector in 2012. According to the information at CSB's disposal there are no other similar real estate companies to be classified into the government sector. For the local government sub sector, Eurostat took note of the number of liquidated units (21) and reclassification of the ten port authorities from this sub sector to the non-financial corporations sector.

Eurostat enquired about the reason for the large operating loss of public corporation Latvijas Valsts Radio Un Televīzijas Centrs in 2011 (19.5 MLVL). The CSB confirmed that this loss was related to the deposits lost in Krajbanka. The CSB also confirmed that, according to the available information, the Latvian public corporations have not incurred costs on behalf of government in 2011 or 2012.

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

Background

A one month time-adjusted cash method is applied to all main tax categories (VAT, PIT, excise tax, electricity tax) and to social contributions.

The VAT rate was reduced from 22% to 21% in mid-2012 and PIT was reduced from 25% to 24% at the beginning of 2013.

Discussion

The Latvian statistical authorities confirmed that there have been no changes to the tax or social contributions systems in Latvia in 2012, except the VAT reduction. Concerning VAT refunds, the authorities informed Eurostat that the cash adjustment figures shown in row "Difference in cash and time adjusted cash" of EDP table 2A are net of such refunds, and provided a monthly breakdown of these amounts. For tax amnesties, the authorities informed Eurostat that, as one off exercise, companies were granted the possibility to pay arrears at reduced rates between October 2012 and January 2013. This would affect the VAT receipts in 2013.

3.2.2. Interest

Background

The data is available on an instrument by instrument basis by government sub sector. The principle of recording accrued interest under instrument is being followed for all instruments and consolidation of interest revenue and expenditure is applied for all government sub sectors.

Premiums and discounts are spread over the life of the instrument on accrual basis. Premiums and discounts related to the issue of securities enter the working balance of EDP table 2 on cash basis and are neutralised in the line "Difference between interests paid and accrued".

Discount and premium are both calculated and accounted separately in the securities transaction data.

Discussion

The participants reviewed the data on cash based and accrued interest submitted by the CSB before the meeting. In particular there was an explanation of the impact of the early repayment of an IMF loan towards the end of 2012, and a clarification of the calculation of discounts.

3.3 Recording of specific government transactions

3.3.1. Government operations relating to the financial crisis

Background

Reverta

Reverta (ex Parex Banka) was nationalised in 2008 and subsequently split into a "bad bank" (Parex) and a "good bank" (Citadele) in mid-2010. The government (Privatization Agency) holds 83.07 percent of Reverta shares, a 13.61 percent stake belong to the EBRD and 3.32 percent to minority shareholders. Currently, the bank's operations focus on three main areas - loan restructuring, debt collection and property management.

The April 2011 EDP notification included the recording of anticipated losses in the amount of 166 MLVL in the 2010 deficit, following the base scenario of the restructuring plan described in Commission Decision of 15.09.2010[6].

In 2011 the government decided to transform Reverta to an institution without a banking licence. The State Treasury’s outstanding deposits were converted to bonds issued by Reverta in end-2011. The Finance and Capital Markets Commission (FCMC) removed the banking license on 15 March 2012; this public financial defeasance unit was then classified into government sector as of the end of the first quarter of 2012.

Mortgage and Land Bank (MLB)

In November 2009, the government approved a strategy for a gradual transformation of the 100% state-owned MLB into a development bank. In November 2011 the government approved a plan to transform the MLB into a development bank and a strategy for the sell-off of the bank’s commercial assets. According to the transformation plan, the sale of the MLB's commercial assets would lead to losses, which are to be covered partly by government and partly by the MLB's own funds. The sale process started in 2011Q4 and has not finished yet. Four out of six bundles were sold in 2012; the remaining bundles (a property development business and a property assessment, lending, construction and legal services company HipoNIA) are expected to be sold by end 2013Q2. In the beginning of April 2013 the government decided that the Privatization Agency (PA) will take over most of the remaining commercial assets of the MLB, including the subsidiary HipoNIA.

In 2011 the government decided to place a 50 MLVL long-term deposit with the MLB as liquidity support to ensure the process of expropriation of commercial part, which was recorded in the 2011 government deficit (as a capital transfer) due to expected losses related to the sale of commercial assets of the MLB. In 2012 the government decided to increase the

[6] Commission Decision on 15.09.2010 on The State Aid, case number C 26/2009.

MLB's equity by 25 MLVL. The capital increase did not require additional budget allocations, because long-term government deposits were used for that purpose.

In addition, in 2012 the MoF made another capital injection in the MLB for the amount of 38.4 MLVL in order to replace the ERDF resources that were injected in the MLB capital in 2009, following the European Commission's audit reports of 2012.

Discussion

Reverta

The Latvian statistical authorities explained that losses of Reverta are still expected to be broadly in accordance with the base scenario of the restructuring plan.

Eurostat agreed with the CSB's proposal, which is based on the MGDD (2013 edition) IV.5.2.3, the second paragraph, to record the impact of reclassification in the amount of 81.3 MLVL as deficit increasing capital transfer. This amount corresponds to the value of revaluation of assets on Reverta's balance sheet.

The CSB also presented calculation of reclassified Reverta's deficit for 2012Q2-2012Q4. Eurostat suggested to use consolidated financial statements of the Reverta group instead of the financial statements of the main unit as the investment properties are on the balance sheet of Reverta's subsidiaries, which lack autonomy of decision. The Latvian statistical authorities confirmed that there are no financial derivatives related to Reverta.

MLB

The Latvian statistical authorities informed Eurostat that a decision in principle about removal of MLB's banking licence has been made. Therefore, the MLB does not need to meet the relevant capital compliance levels and it can therefore repay 25 MLVL (planned for 2013). HipoNIA, which is to be taken over by the Privatisation Agency, has a loan from the MLB and would receive another 75 MLVL loan from the Treasury. It would then become a defeasance structure to be classified into government sector.

The participants also discussed the replacement of the ERDF resources by state capital (38.4 MLVL) in 2012. The Latvian statistical authorities confirmed that the MLB was allowed to keep the ERDF resources, but not as part of equity capital.

Conclusions

Action point 5. As soon as possible (for the April 2013 EDP notification), the CSB will recalculate the impact of reclassified Reverta (2012Q2-2012Q4) using consolidated financial statements of the Reverta group. The CSB will provide an updated calculation sheet for the impact[7].

Action point 6. As soon as possible (for the April 2013 EDP notification), the Latvian statistical authorities will confirm that the 2012 injection into the Mortgage Bank of 38.4 MLVL is in the working balance of EDP table 2A and will provide information on the budget line used. The injection will be added to the EDP questionnaire table 10 and the

[7] The CSB recalculated the impact of reclassified Reverta (2012Q2-Q4) using consolidated financial statements of the Reverta group for the April 2013 EDP notification.

supplementary table for the financial crisis, and the CSB will check the ESA data to see if the injection has been recorded as a capital transfer[8].

3.3.2. EU flows

Background

In the past the CSB made cash-based adjustments at the level of the central Treasury "EU accounts". Attempts were made towards introducing a more sophisticated accruals-based recording in the April 2011 EDP notification, and the time of recording of EU flows was further developed and implemented in the October 2011 notification. The new method, which is based on information from the MoF's EU funds management information system (MIS), enables continuous monitoring of individual projects and allows to identify precise amounts at the time when the expenditure takes place. The method ensures that revenue from the EU would be recorded on accrual basis at the time when funds are actually spent on behalf of the EU by local and other government bodies.

Discussion

The participants reviewed the MIS based data for 2012 submitted before the meeting by the CSB. The detailed data on EU flows time adjustment shows that cash revenues from the EU increased in 2012, which reflects release of the 2011 EU structural funds in 2012.

The replacement of the ERDF resources by the state capital in the MLB is covered under item 3.3.1 of this report.

3.3.3. Guarantees

Discussion

The participants reviewed reporting of guarantees in the EDP questionnaire and recording of transactions related to the Latvian Olympic Committee. The CSB raised a question about reporting of 89 MLVL guarantee provided to the Privatisation Agency (classified in the government sector) in the EDP questionnaire. The participants agreed that this amount should be included in the questionnaire table 9.1 as the ultimate beneficiary of the guarantee is Citadele banka. The participants also reviewed reporting of provisions and write offs in this questionnaire table.

Conclusions

<u>Action point 7</u>*. As soon as possible (for the April 2013 EDP notification), the CSB will check the recording of provisions in public accounts and check if these should be reported in the EDP questionnaire table 9.1, and will remove the entries for write offs as latter are not related to guarantees[9].*

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

The CSB informed Eurostat that the majority of the debt assumed in 2012 relates to the new guarantee provided by government to the Latvian Olympic Committee in 2012 (0.62 MLVL),

[8] For the April 2013 EDP notification, the Latvian statistical authorities confirmed that the injection is in the working balance of the EDP table 2A and is recorded as capital transfer in the ESA data, and provided information on the budget line used.
[9] Implemented in the April 2013 EDP notification.

which is recorded as a debt assumption by government at the time of inception. The amount of debt write offs was also not significant in 2012.

3.3.5. Capital injections in public corporations, dividends, super dividends

Background

Air Baltic Corporation (ABC) was established by the government and SAS in 1995. In 2009 SAS sold its 47.2% stake to a private company Baltijas Aviacijas Sistemas (BAS), which pledged its shares to Krājbanka. The government later purchased the shares for a nominal value of 0.2 MLVL and became the owner of 99.8 per cent stake. The company had losses since 2008 (except 2009), with 2011 losses reaching 84.8 MLVL. The CSB classified the purchase of shares as a capital transfer from government to Krājbanka in 2011.

In April 2010 the acquisition of LVL 30 million of zero-coupon bonds from ABC was carried out by the government (through Latvian State Radio and Television Centre) and BAS, of which government's contribution was 15.6 MLVL. The bonds – which offer no remuneration for more than 5 years, since they are to be converted into capital on 1 July 2015 – are counted as share capital in the ABC accounts. The CSB recorded 15.6 MLVL as government expenditure in the 2010 government accounts.

In October 2011 the government disbursed to ABC a loan for the amount of 16 MLVL, in parallel with a 14 MLVL loan provided by BAS. In December 2011 government decided to provide to ABC a convertible loan of 67 MLVL, divided into two tranches of which only the first one of LVL 41.6 MLVL was immediately made available to ABC (see below information on the second tranche). Consequently, 57.6 MLVL (16+41.6) was capitalised by government according to the agreement between government and BAS in December 2011. Eventually, BAS did not participate in the capital injection, and the CSB classified 57.6 MLVL as a capital transfer in the 2011 government accounts.

In November 2011 Krājbanka executed 2.8 MEUR payments of ABC funds after Krājbanka operations were restricted by the FCMC.

Finally, a sanction mechanism was introduced in the 3 October 2011 agreement on the financing and management of ABC where private creditors of ABC had agreed to transfer their 35 MEUR claims to the government or its appointed company for LVL 1 if BAS failed in its obligation to participate in the financing of ABC. In 2012 the government decided that a claim of 5 MEUR towards ABC for syndicated loan 2 – the part granted by Taurus, of a total of 35 MEUR – was to be assigned to ABC for a price of LVL 1.

Discussion

The Latvian statistical authorities informed Eurostat that 9 MLVL of the second tranche (25.4 MLVL) of the convertible loan was granted to ABC in 2012Q4. Although only part of this 9 MLVL was transferred in cash to ABC in 2012, interest started to accrue immediately on the full amount.

The authorities informed Eurostat that receipt of 0.4 MLVL dividends (related to the profits earned in 2006 and 2007) from ABC in 2012 were recorded in the Treasury bookkeeping system (deduction from tax refunds to ABC).

Conclusions

Eurostat confirmed that the execution of 2.8 MEUR payments by Krājbanka and the activation of the sanction mechanism, where private creditors should transfer their claims, do not have an impact on the government accounts. Also, Eurostat agreed with the recording of the 9 MLVL loan as a capital transfer from government to ABC in the 2012 government accounts. The participants agreed that 0.4 MLVL should be recorded as withdrawal of ABC equity (super dividends) by government[10]. However, the related on-going legal dispute may lead to a different outcome and this may impact on the statistical recording.

3.3.6. Emission trading permits

The participants concluded that the amounts related to 2012 are limited and will be followed up bilaterally.

3.3.7. Others: financial derivatives, PPPs, privatization, sale and leaseback operations, securitisation.

Background

The types of derivative instruments that have been used by the government are interest rate swaps (IRS), currency swaps and Forex swaps. Two IRSs were cancelled in 2009, eight in 2010, one in 2011 and 43 in 2012. Despite the large number of cancellations the impact on the 2012 working balance was only -6.7 MLVL (the impacts in 2009, 2010 and 2011 were -9.3, 21.7 and 2.6 MLVL respectively).

Discussion

The participants reviewed the detailed information on spreading the effect of swap cancellations, provided by the CSB before the meeting. The large number of swap cancellations in 2012 was related to early repayment of the IMF loan. The CSB confirmed that there are no off-market swaps.

The participants also reviewed the revisions to debt as reported in March 2013 EDP tables. Starting from 2008 the loans in XDR currency were included in the stock of debt, which were swapped with currency swap contracts. Previously the end-year rates of Bank of Latvia were applied on the XDR loans for 2008-2011 and on USD securities for 2011. In April 2013 notification the authorities introduced the recording according to MGDD VIII.3 (2013 edition), which is based on the rates as specified in the swap contracts.

The Latvian statistical authorities confirmed that there are no changes concerning the PPP projects and government is not involved with sale and leaseback and securitisation operations.

4. ANY OTHER BUSINESS

4.1. Pension reform

Background

The CSB informed Eurostat in March 2013 that the comprehensive systemic pension reform had been introduced in Latvia during late 1990's involving introduction of second pension pillar (State Funded Pensions) in 2001.

Discussion

In 2013 the rate of contribution to second pillar was increased from 2% to 4% of the gross wages; it will be further increased in 2015 to 5% and in 2016 to 6%. The Latvian authorities explained that the main data sources for calculation of 2nd pension pillar impact on

[10] CSB's e-mail 07.05.13: the super dividend will be introduced in the September 2013 EDP notification.

government deficit are the annual report of the State Social Insurance Agency (cash based data) and the Finance and Capital Markets Commission.

Conclusions

Eurostat concluded that the introduction of second pillar in 2001 constitutes a systemic pension reform in the meaning of the recent amendments to the Stability and Growth Pact.

Action point 8. By end-May 2013, the Latvian statistical authorities will provide their calculation of second pillar pensions system impact, explaining sources and how accruals effects may be taken into account.

ANNEX 1. LIST OF PARTICIPANTS

	Name	Organization	Position
1.	Ms Aija Zitcere	Ministry of Finance	Financial Markets Policy Department, Head of Financial Sector Management Division
2.	Ms Līga Liepiņa	Ministry of Finance	Tax Analysis Department, Senior Desk Officer of Revenue Analysis and Forecasting Division
3.	Mr Gints Trupovnieks	Ministry of Finance	Deputy Head of Fiscal Policy Department
4.	Ms Līga Ozoliņa	Ministry of Finance	Fiscal Policy Department, Deputy Head of Fiscal Management Division
5.	Mr Andris Baumanis	Ministry of Finance	Economic Analysis Department, Senior Expert of Fiscal Analysis and Forecasting Division
6.	Mr Vladimirs Loginovs	Privatization Agency	Head of Commercial Department
7.	Mr Reinis Martinsons	IBS Prudentia	Partner
8.	Ms Ilze Meldere	The Treasury	Reports Department, Senior Expert
9.	Ms Silvija Lansmane	The Treasury	Reports Department, Senior Expert
10.	Ms Jana Muižniece	Ministry of Welfare	Social Insurance Department, Director
11.	Ms Sandra Stabiņa	Ministry of Welfare	Social Insurance Department, Deputy Director
12.	Mr Guntis Kalniņš	Bank of Latvia	Monetary Policy Department , Senior Economist
13.	Mr Valdis Masaļskis	Bank of Latvia	Statistics department, Senior Financial Statistician of General Economic and Financial Statistics Division
14.	Mr Kaspars Misāns	CSB	Vice president
15.	Ms Dace Tomase	CSB	Macroeconomics Statistics Department, Director
16.	Ms Vija Veidemane	CSB	Macroeconomics Statistics Department, Government Finance Section, Head
17.	Ms Liene Rimonte	CSB	Macroeconomics Statistics Department, Government Finance Section, Deputy Head
18.	Ms Zane Bondare	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
19.	MsVizma Straume	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
20.	Ms Sandra Kadiķe	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
21.	Ms Inta Vanovska	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
22.	Ms Sorenta Ziemiņa	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
23.	Mr John Verrinder	Eurostat	
24.	Mr Peeter Leetmaa	Eurostat	
25.	Ms Ingrid Toming	DG ECFIN	
26.	Mr Robert Gadsby	ECB	

ANNEX 2. AGENDA OF THE MEETING

1. Changes in data sources

2. Analysis of the March 2013 EDP tables

3. Methodological issues and recording of specific government transactions

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

- Changes to the general government register in 2012 and classification of new and restructured units

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

3.2.2. Interest

3.3 Recording of specific government transactions

3.3.1. Government operations relating to the financial crisis

- Reverta

- Mortgage and Land Bank

3.3.2. EU flows

3.3.3. Guarantees

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

3.3.5. Capital injections in public corporations, dividends, super dividends

- Air Baltic

3.3.6. Emission trading permits

3.3.7. Others: financial derivatives, PPPs, privatization, sale and leaseback operations, securitisation.

4. Any other business

4.1 Pension reform