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Directorate D: Government Finance Statistics
Unit D-3: Statistics for Excessive Deficit Procedure (EDP 2)



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FINAL FINDINGS

EDP Dialogue Visit to Latvia
15-16 February 2012

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Latvia on 15-16 February 2012, 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 carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that the provisions of the ESA95 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Latvian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were to assess the institutional arrangements of the EDP compilation; to clarify the issues relating to EDP tables raised in the context of the previous notifications; to analyse sectorisation practices; to verify the recording of government transactions with banks; to analyse methods used for the EU flows' recording; to analyse the recording of assumption of debt of the Latvian Olympic Committee; and to verify the recording of capital injections by government in Air Baltic Corporation. The agenda of the meeting is in Annex 2.

Concerning the institutional issues, Eurostat took note of the new legislation, which has increased the CSB's powers with respect to EDP compilation and reporting. The CSB agreed to send to Eurostat a copy of the implementing guidelines for the Regulation.

Eurostat encouraged the CSB to start drafting the EDP inventory according to the new structure and welcomed the Latvian statistical authorities' reinforced commitment to verify the "future period expenditures / revenues" recorded in the EDP tables.

When discussing the significant revisions made to the data of reclassified state real estate company "Valsts Nekustamie Īpašumi", Eurostat noted that it is important to cross-check the statistical discrepancies between non-financial and financial accounts for all reclassified enterprises on a regular basis, and ensure that revaluation of assets is properly excluded from all business accounts data used for reclassified enterprises when compiling ESA95 based non-financial accounts.

Eurostat and the CSB agreed that, in future, reclassifications of large public corporations to general government should be made in the data from the first year in which their ratio of sales to production costs falls below 50% (i.e. when they are considered non-market). The treatment of subsidies paid to the Riga bus company was clarified and the CSB agreed to check the calculation of the 50% test for all transport companies.

Eurostat took note that the losses of Parex Banka are still expected to be in accordance with the base scenario of the restructuring plan. The Central Bank agreed to inform Eurostat when Parex Banka is removed from the MFI list and the CSB agreed to re-examine the statistical classification of Parex Banka shortly after this.

Eurostat took note that the 15 year loan from the government to the Deposit Guarantee Fund could be repaid without recoveries from Krajbanka, and hence should be recorded in financial accounts. Losses of deposits of municipalities and reclassified enterprises should be recorded as other changes in volume in 2011.

Eurostat agreed to contact the CSB with its view on 2011 deficit impact (39 or 50 MLVL) of anticipated losses of the Mortgage and Land Bank (MLB), whilst confirming that any further realised losses beyond the amount recorded in 2011 would be recorded in later years. The

Central Bank agreed to provide Eurostat with its conclusions about the MFI list treatment of MLB after the commercial assets have been sold / transferred to another body.

Concerning the time of recording of EU flows in the government accounts, Eurostat agreed that the CSB should proceed with the method, which is based on MoF's EU funds management information system. This newly proposed method would ensure 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.

Eurostat agreed with the proposal to treat the guarantees given to the Latvian Olympic Committee's (LOC) lending as government debt at the time of inception, but suggested to record the first debt assumption in end-2011 in the amount of debt outstanding in end-2011.

Eurostat agreed with the proposed recording of capital injections by the government in Air Baltic Corporation (ABC) as capital transfers and to record the purchase of shares as a capital transfer from government to Krajbanka. Eurostat noted that recoverability of the loan from government to ABC should be verified when it is disbursed.

Eurostat took note of the government's intention to auction European Trading System (ETS) permits in 2012. Concerning the recording in national accounts it recalled that when the cash is received from the auction of the ETS permits an entry of other accounts payable is recorded; and the revenue is to be recorded when the certificates are surrendered.

Quarterly financial accounts (QFAGG) data showed significant other economic flows in government equity liabilities in 2011, which according to the CSB related to reclassifications of port authorities to the general government sector.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Latvian statistical authorities during the meeting and the documents provided before the dialogue 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 dialogue visit to Latvia on 15-16 February 2012.

The delegation of Eurostat was headed by Mr François Lequiller, Director of Directorate D: Government Finance Statistics. Eurostat was also represented by Mr John Verrinder, Head of unit Unit D-3: Statistics for Excessive Deficit Procedure (EDP 2), Ms Viera Karolova, Ms Giovanna Dabbicco and Mr Peeter Leetmaa. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers (please see the list of participants in Annex 1).

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). A board member of government's financial consultant Prudentia and the "Air Baltic" co-ordinator from the Ministry of Transport participated during the session on Air Baltic Corporation.

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that the provisions of the ESA95 Eurostat Manual on Government Deficit and Debt (MGDD) and Eurostat decisions are duly implemented in the Latvian EDP and Government Finance Statistics (GFS) data.

The main aims of the visit were to assess the institutional arrangements of the EDP compilation; to clarify the issues relating to EDP tables raised in the context of the previous notifications; to analyse sectorisation practices; to verify the recording of government transactions with banks; to analyse methods used for the EU flows' recording; to analyse the recording of assumption of debt of the Latvian Olympic Committee; and to verify the recording of capital injections by government in Air Baltic Corporation. The agenda of the meeting is in Annex 2.

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 the dialogue visit.

1. STATISTICAL INSTITUTIONAL ISSUES

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

Background

The CSB leads a permanent working group consisting of its own staff and representatives from the involved institutions: Ministry of Finance, the Treasury and Ministry of Economy, as well as from the Central Bank. The CSB has also a power to invite representatives from other state institutions for discussions of specific questions (the Ministry of Defence, the Ministry of Welfare, Riga City Council, etc). The legal basis for the above-mentioned working group is the Cabinet Regulation No 748 (Riga, 4 October 2011), which has

strengthened the central role of CBS and has given it new powers to request statistical information.

The Regulation prescribes how the EDP notification shall be prepared and submitted to Eurostat. The Regulation defines the content and the detail of data to be submitted to the CSB for notification purposes by the main data providers – MoF and the Treasury. In addition the CSB now has the right to request that any kind of information from all units belonging to S.13 and all units over which government has control. The CSB provided to Eurostat before the visit a translation of the regulation.

The data exchange between the Central Bank and the CSB is fixed in a separate bilateral agreement.

Discussion

Eurostat took note of the new legislation, which has increased the CSB's power in the EDP compilation and reporting, and that this is being implemented. The implementing guidelines for the regulation are currently under preparation. Quality assurance of data verification procedures was discussed and according to the CSB there is no quality report on the verification process for the data transmitted by the main data providers.

Conclusions

Action point 1: The CSB will send a copy of the CSB/Central Bank bilateral agreement to Eurostat by end-March 2012, if possible in English¹.

Action point 2: The CSB will send to Eurostat a copy of the implementing guidelines for the Regulation, when they are finalised.

1.2. Data sources

1.2.1. Changes in data sources

The Latvian statistical authorities explained that use of public accounts data available by 1 March (instead of flash data available in January) for the year n-1 should limit revisions between April and October notifications of year n.

The Latvian authorities explained that Latvian public accounting is based on an "IPSAS-like" accrual system: the standard IPSAS are applied, except for taxes (time adjusted cash method) and for transfers other than EU transfers. Eurostat informed the Latvian statistical authorities about the ongoing Eurostat study on suitability of IPSAS in the EU Member States and encouraged the Latvian statistical authorities to complete the survey.

1.2.2. EDP inventory

Eurostat thanked the CSB for completing the inventory with a description of the adjustment lines in EDP tables 2 (subsequently published on 21.10.2011) and encouraged the CSB to start drafting the EDP inventory according to the new structure.

1.2.3. Other accounts receivable / payable

Discussion

Eurostat welcomed the Latvian statistical authorities' reinforced commitment to verify receivables / payables recorded under "future period expenditures / revenues" in EDP tables

¹ E-mail sent by the CSB on 29.02.2012.

2, which have undergone significant revisions impacting the deficit in past EDP notifications for years t-1 and t-2.

The document on “future period expenditures / revenues” submitted by the CSB prior to the meeting indicated that the item “future period expenditures” for 2010 includes use of advance payments granted in 2008 and 2009 by Ministry of Regional Development and Local Government (MRDLG) for national and regional development centres and development pre-school infrastructure in the amount of 55.6 MLVL. The funds were spent by local government in 2010.

Conclusions

The Latvian statistical authorities agreed to verify the correct and consistent recording of the use of advance payments by the MRDLG, for the amount of 55.6 MLVL in 2010, across all EDP notification tables.

Action point 3: By end-March 2012, the CSB will check if the reduction in “future period expenditures” in 2010 concerning the Ministry of Regional Development and Local Government was consistently recorded across all EDP notification tables (in particular Table 2C)².

2. FOLLOW-UP OF THE OCTOBER 2011 EDP REPORTING – ANALYSIS OF EDP TABLES

Background

The net lending / borrowing of the reclassified state real estate company "Valsts Nekustamie Īpašumi" was revised by 0.25% of GDP between the April and October 2011 EDP notifications, i.e. from 15.9 to -16.3 MLVL. Around half of this revision came from a revision of the profit/loss account and the other half due to change in the treatment of revaluation of investment properties. In the clarification for the October 2011 EDP notification, Eurostat suggested to investigate the possibilities to improve the quality of the quarterly-based assessment of profit/loss and revaluation of the properties. Due to problems relating to the treatment of the revaluations, the deficit (of the non-financial accounts) was further revised to -1.0 MLVL in the document submitted by the CSB before the meeting, which also indicated that the financial accounts had shown a surplus of 0.5 MLVL in the data prepared for the October 2011 EDP notification.

Discussion

The revaluation of assets and the substantial revisions of data related to the real estate company "Valsts Nekustamie Īpašumi" were discussed. Eurostat expressed concerns about the several substantial revisions of the real estate company's data. Eurostat also enquired about the nature of the item “long-term investments held for sale” presented in the detailed data for "Valsts Nekustamie Īpašumi".

The data submitted by the CSB before the meeting indicated cash-based reporting for public derived persons under other government bodies of the EDP tables 2. The CSB clarified that the related accrual adjustments are reported in EDP T2A under the item other accounts receivable/payable. Eurostat explained that normally the B.9 (accrual based) should be recorded under these EDP tables' 2 lines. Eurostat suggested to insert an explanatory

² The CSB confirmed on 30.03.2012 that reduction in “future period expenditures” in 2010 is consistently recorded across all EDP notification tables.

comment in EDP questionnaire table 3 where non-accrual data are used and also to explain it in the EDP inventory.

Conclusions

Eurostat noted that it is important to cross-check the statistical discrepancies between non-financial and financial accounts for all reclassified enterprises on a regular basis, and ensure that revaluation of assets is properly excluded from all business accounts data used for reclassified enterprises when compiling ESA95 based non-financial accounts.

Action point 4: The CSB will investigate the statistical discrepancy for "Valsts Nekustamie Īpašumi" (the reclassified real estate enterprise) for 2010 and seek to eliminate it for the end-March 2012 EDP notification³.

Action point 5: The CSB will confirm if the entry for "long-term investments held for sale" of Valsts Nekustamie Īpašumi corresponds to financial or non-financial assets, and inform Eurostat by end-March 2012⁴.

3. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

Background

At the last EDP dialogue visit (February 2011) the CSB explained that when a unit was analysed to be non-market for three past years in a row, it is reclassified into the general government sector in the following year, i.e. the reclassification is not applied for the past years. Although in general the CSB follows MGDD rules, it explained in September 2011 that it does not have sufficiently detailed statistical information on these units for the years before reclassification to compile government accounts of an appropriate quality. However, improvements were expected in the near future in this area.

As a follow-up of the last dialogue visit, in order to carry out the 50% test, Eurostat suggested to split the subsidies paid to "Rīgas Satiksme pašvaldības SIA" (Riga bus company) into other subsidies on production and subsidies on products, noting that the latter are linked to the volume of transport services and thus should be included in sales for the 50% test. Those subsidies on products could in fact be considered as social transfers in kind, since they are in the form of ticket price reductions for students and pensioners.

Discussion

Eurostat enquired about the progress made in the area of reclassification for the years before a reclassification decision is made and the CSB confirmed that the situation has improved in this respect. Eurostat also explained the basis on which government subsidies and social transfers can be considered as sales for the purposes of the 50% test.

Conclusions

³ The CSB wrote on 30.03.2012 that it had analysed all available data sources and reduced the statistical discrepancy to 0.3 MLVL and provided detailed split of revised revenue and expenditure.

⁴ The CSB confirmed on 30.03.2012 that the entry "long-term investments held for sale" corresponds to non-financial assets.

Eurostat and the CSB agreed that, in future, reclassifications of large public corporations to general government should be made in the data from the first year in which their sales drop below 50% of production costs (i.e. when they are considered non-market). The CSB agreed to check the calculation of the 50% test for all public transport companies.

Eurostat welcomed that the CSB will complete the new public corporations questionnaire on a voluntary basis by end-March 2012, using 2010 data.

Action point 6: By end-May 2012 the CSB will confirm to Eurostat the basis on which "Rīgas Satiksme pašvaldības SIA" (Riga bus company) is paid by the government for use of buses by social groups, providing information on the relevant Regulation. The CSB will check the calculation of the 50% test for all transport companies receiving such payments⁵.

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

Discussion

The Latvian statistical authorities explained that there is a new vehicle tax on enterprises in force from 2012, which is usually paid once per year at the time of technical inspection of vehicles. The funds are directly paid to the Treasury's account. The Latvian statistical authorities explained that, if the payments are made with lower frequency (for example, at the technical inspections carried out with 2 year's interval), they will allocate the amounts to the years for which the tax was due.

Eurostat also raised a question on possible timing differences between receipts of social contributions and their transfer to second pillar schemes.

Conclusions

Eurostat took note of the new vehicle tax in force from 2012 and the CSB's plans for its recording in national accounts. There was some uncertainty about the arrangements for government to pass on social contributions to the second pillar pension scheme and the Latvian statistical authorities agreed to clarify the issue.

Action point 7: By end-March 2012, the Latvian statistical authorities will confirm if there is a timing difference between receipts of social contributions and their transfer to second pillar schemes. If so, the authorities will investigate if the related transactions in other accounts payable should be imputed in financial accounts⁶.

3.2.2. Interest

Discussion

Eurostat and the Latvian statistical authorities examined the tables provided on recording of interest in EDP notification tables. Eurostat enquired about the consistency of the adjustment for accrued interest expenditure between EDP table 2A and table 3B and about the high figures and positive adjustments in relation to currency and deposits for 2009 and 2010.

Conclusions

⁵ The CSB submitted on 31.05.2012 an analysis of the 50% test on 19 public enterprises belonging to sector S.11 NACE 49.3 Other Passenger Land Transport, which have received government subsidies for provision of public transport services.

⁶ The CSB wrote on 30.03.2012 that the time difference reaches 4 months and the related records are booked in other accounts payable ("accrued liabilities") of the balance sheet of the State Social Insurance Agency.

Action point 8: The CSB will check the consistency of the adjustment for accrued interest expenditure (excluding discount and premium) between EDP table 2A and table 3B, and report to Eurostat by end-March 2012 on the reasons for differences in 2007-2009, but not in 2010⁷.

Action point 9: By end-March 2012, the Latvian statistical authorities will cross-check the table on interest recording in the EDP notification by instrument, and explain to Eurostat the reason for the high figures and positive adjustments in relation to currency and deposits for 2009 and in particular for 2010⁸.

3.3 Recording of specific government transactions

3.3.1. Specific government transactions in the context of the financial crisis

Parex Banka

Background

Parex Banka was nationalised in 2008 and subsequently split into a "bad bank" (Parex) and a "good bank" (Citadele) in mid-2010. In end-2011, the Privatization Agency held 83.07 percent of Parex Bank shares, a 13.61 percent stake belonged 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 impact of transactions with Parex Banka on 2009 government deficit was 113.6 MLVL, which reflect government injections in share capital.

Transactions with Parex Banka were discussed at the 2011 EDP dialogue visit, where the possibility of recording anticipated losses was considered. Following this, the April 2011 EDP notification included 166 MLVL in the 2010 deficit, following the base scenario of the restructuring plan, which was finalised in August 2010 and quoted in Commission Decision of 15.09.2010⁹. The total impact on the 2010 deficit was 219 MLVL, since it also included injections in share capital (53 MLVL). The CSB agreed to record any deviations from the base scenario as capital transfers in later years.

The government decided to transform Parex Banka to an institution without a banking licence on 22 November 2011 and the shareholders approved this on 28 December 2011. The State Treasury's outstanding deposits were converted to bonds issued by Parex Banka on 29 December. Parex Banka would switch to its new business model and change its name upon receiving permission from the Latvian banking regulator Finance and Capital Markets Commission (FKTK).

Discussion

The CSB provided an update concerning the situation on the restructuring plan and the forthcoming removal of the banking license from Parex Banka. The CSB explained that losses of Parex Banka are still expected to be in accordance with the base scenario of the restructuring plan and that the CSB will record 27.4 MLVL in the 2011 deficit due the

⁷ The CSB informed on 30.03.2012 that it had eliminated small technical mistakes in adjustment for accrued interest expenditure for 2007-2008 and sent updated table "Recording of interest flows in EDP tables" together with the April 2012 EDP clarification.

⁸ The CSB explained on 30.03.2012 that the main reason for high figures of F.2 interest expenditure is considerable stock of deposits held by Social Security Fund in the Treasury. The average interest rates differed considerably between 2008, 2009 and 2010.

⁹ Commission Decision on 15.09.2010 on The State Aid, case number C 26/2009.

capitalisation of accrued interest (instead of 36.5 MLVL, as forecasted in the restructuring plan). The Latvian statistical authorities explained that removal of the banking license may be delayed.

Eurostat explained that, irrespective of any future reclassification to government, the impact on the government deficit in 2010 due to Parex Banka will remain unchanged. For the future, capital transfers will continue to be recorded for accruing interest (having a negative impact on the government deficit) until a possible reclassification to the general government sector.

Conclusions

Eurostat took note that the losses of Parex Banka are still expected to be in accordance with the base scenario of the restructuring plan and that the CSB will record a 27.4 MLVL capital transfer for accrued interest in 2011. It is expected that the banking licence for Parex Banka will be removed in the future. The Central Bank agreed to inform Eurostat when Parex Banka is removed from the MFI list and the CSB agreed to re-examine the statistical classification of Parex Banka shortly after this.

Action point 10: The Central Bank will inform Eurostat when Parex Banka is removed from the MFI list¹⁰. The CSB will then quickly re-examine the statistical classification of Parex Banka against the criteria set in the MGDD defeasance chapter.

Action point 11: Eurostat will inform the Latvian statistical authorities as soon as possible about the classification of promissory notes in other countries¹¹.

Latvijas Krajbanka

Background

At the end of September 2011 the Lithuanian bank Snoras held slightly more than 60 percent of Latvijas Krajbanka, and the market share of Krajbanka in terms of deposits was 5.2 percent. Snoras was taken over by the Lithuanian government on 16 November 2011.

Due to a shortage of assets discovered at the bank, on 21 November 2011 the FKTK suspended Krajbanka from provision of all financial services. The Riga Regional Court declared Krajbanka insolvent on 23 December 2011 and KPMG Baltics became its insolvency administrator.

99.8 percent of Latvijas Krajbanka customers had deposits of up to the guaranteed deposit limit of 100 000 euros. About 350 MLVL was to be paid to customers by the Deposit Guarantee Fund (DGF, classified in S.12), however the DGF had reserves of only 150 MLVL. The rest had to be borrowed from the State Treasury: on 28 November 2011, a loan agreement for the amount of 200 MLVL, and with the maturity of 15 years, was concluded to provide the relevant financial resources for the DGF. 185.5 MLVL had been disbursed so far. The revenue (fees paid by financial institutions) of DGF was temporarily increased for 2012 by 50%.

Budget institutions do not receive DGF coverage in Latvia. The central government did not have deposits at the bank, but municipalities and state and municipal enterprises lost part of their deposits in 2011.

¹⁰ The Central Bank informed Eurostat on 16 March 2010 that it has removed Parex Banka from the MFI list because the FKTK withdrew Parex Banka's banking license on 15 March 2012.

¹¹ On 21.02.2012 CSB confirmed that conditions of the Parex Banka bonds were the same as for the government deposits before the conversion and therefore CSB will continue to record these financial instruments as loans.

Further background on a related operation, i.e. the pledge of Baltijas Aviācijas Sistēmas (BAS) shareholding in Air Baltic Corporation to Krajbanka, can be found in part 3.3.5.

Discussion

The Latvian statistical authorities explained that the disbursement of the loan to DGF is to be recorded as a financial transaction because its repayment is assured from the resources of the DGF, including resources to be obtained from asset sale of Krajbanka in the event of its liquidation. The CSB provided Eurostat with the loan payment schedule. The CSB also proposed to record losses of deposits of LG and reclassified enterprises as other changes in volume.

Conclusions

Eurostat took note that the 15 year loan from the government to the DGF could be repaid without recoveries from Krajbanka, and hence should be recorded as a loan in financial accounts. Losses of deposits of municipalities and reclassified enterprises should be recorded as other changes in volume in 2011.

Mortgage and Land Bank (MLB)

Background

The 100% state-owned MLB, which ranked eighth among 31 banks operating in Latvia in terms of assets at the end of September 2011, had a dual role: it has been operating both as a development bank and a universal commercial bank. In November 2009, the government approved a strategy for a gradual transformation of the MLB into a development bank. On 1 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.

Profit and loss account of MLB and capital transfers from the government during 2008-2011Q3 (MLVL):

	Profit(+)/Loss(-)	Capital transfers, D.9
2008	+1.3	-
2009	-54.1	29.5
2010	-67.9	70.3
2011Q1-Q3	+3.3	-

The amounts of 29.5 MLVL and 70.3 MLVL refer to MLB's debt against Nordic Investment Bank, taken over by government. The share capital of MLB was increased by the government in same amounts in the respective years.

According to the transformation plan, the sale of the MLB's commercial assets will lead to losses, which are to be covered partly by government and partly by MLB's own funds. The sale process started in the fourth quarter of 2011 and will continue in 2012.

On 20 December 2011 the government decided to place a 50 MLVL deposit with the MLB as liquidity support to ensure the process of expropriation of commercial part and, from these deposited funds, 39 MLVL was recognised as a negative impact on the government deficit in 2011 in order to cover the planned losses from the implementation of the sales strategy in 2012. The 50 MLVL deposit was placed with the MLB on 30 December 2011.

Discussion

Eurostat and the Latvian statistical authorities discussed the recording of expected losses from the sale of MLB's assets. The participants shared the view that it was difficult to establish with sufficient precision the exact amount of losses at this stage. There was therefore some uncertainty about the amount (39 or 50 MLVL) of the capital transfer to be

recorded from the government to the MLB in the 2011 government deficit. The Latvian statistical authorities explained that, although the government intends to sell all commercial assets, if a satisfactory price offer is not received for some assets then they could be transferred to the Latvian Privatization Agency.

Eurostat suggested to investigate if the MLB will remain in the MFI list after the transformation; the Central Bank noted that it had already started such an analysis.

Conclusions

Eurostat agreed to contact the CSB with its view on 2011 deficit impact shortly after the meeting, and noted that any further realised losses beyond 39 MLVL (or 50 MLVL) would be recorded after 2011. In addition to information and documents provided during the meeting, the Latvian statistical authorities undertook to provide further information in the following days. The Central Bank agreed to provide Eurostat with its conclusions about the classification of MLB in the MFI list after the commercial assets have been sold / transferred to another body.

Action point 12: Based on the information received on losses expected from sale of MLB's commercial assets, Eurostat will consider if loss to be recorded in 2011 should be 39 million or 50 million, and will inform the Latvian statistical authorities by 2nd March 2012¹². Any further realised losses beyond 39 MLVL (or 50 MLVL) would be recorded in 2012 or later.

Action point 13: Shortly after the MLB's commercial assets have been sold / transferred to another body, the Central Bank will examine whether the new MLB (to be formed as a development bank) will be included in the MFI list and inform the CSB and Eurostat.

3.3.2. EU flows

Background

In the past the CSB made cash-based adjustments at the level of the central "EU accounts", which are with the Treasury. However the Latvian statistical authorities had observed an accumulation of advance payments with Local Government and with reclassified units, especially in 2009 and 2010. 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 in the October 2011 notification. The CSB had subsequently proposed another method, improving the method implemented in the October 2011 notification, which is based on information from the MoF's EU funds management information system.

Discussion

The Latvian statistical authorities explained that MoF's EU funds management information system, although not established to specifically serve statistical purposes, enables the continuous monitoring of individual projects and allows to identify precise amounts at the time when the expenditure takes place. The method also makes it easier to identify the institutional sector of final beneficiaries.

Eurostat expressed the opinion that the EU funds management system, presented during the meeting, can provide the necessary detailed data for calculation of the EU accruals adjustment. The newly proposed method would ensure that revenue from EU would be

¹² Eurostat subsequently wrote to the CSB to give its view - as the available information suggests that the losses related to sale of MLB's commercial assets would be equal to or higher than the placed deposit of 50 MLVL, the size of the capital transfer to be recorded from the government to MLB in 2011 should be 50 MLVL.

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. According to this method, 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. Eurostat found this method reasonable and noted that, unless a specific inconsistency between figures on advances paid by the state and received by other government bodies is identified, the difference between original accounting data and counterpart information should be re-attributed to other categories of payables, keeping the accounting total unchanged.

Eurostat underlined that the deficit impact of EU projects is equal to the co-financing element and encouraged the Latvian statistical authorities to ensure that co-financing is recorded at the appropriate moment.

Eurostat recalled that the EU flows which go to the final beneficiaries that are outside government sector should not be recorded in the revenue and expenditure of government in ESA table 2. The Latvian statistical authorities noted that the third-party flows are indeed removed from ESA table 2.

Conclusions

The participants agreed that the CSB should proceed with the discussed method, which is based on the MoF's EU funds management information system. It was also agreed that co-financing elements should be removed from EDP questionnaire table 6. Eurostat would contact the CSB on the recording of EU flows in ESA table 2.

Action point 14: The CSB will remove co-financing from EDP questionnaire table 6 for the end-March 2012 EDP notification¹³.

Action point 15: Eurostat will explain to the CSB its issues with recording of EU flows in ESA Table 0200 by 2nd March 2012¹⁴.

3.3.3. Guarantees

Background

The CSB asked about statistical recording of the government's guarantees on the Latvian Olympic Committee's (LOC) borrowing, which have been given since 2002. The Latvian government has systematically provided "subsidies" to the LOC, and it was recently acknowledged that these subsidies were actually used by the LOC for repayment and servicing of its debts. So far the repayments have been recorded as subsidies D.3 in national accounts. In order to bring the treatment into line with the MGDD, the CSB proposed to record a debt assumption at the time of inception, when the guarantee was granted and to reclassify the subsidies partly as repayments of government debt and partly as interest. As a practical solution the CSB proposed to revise back only to 2008, by allocating in 2008 the difference between stock of guarantees and subsidies for years 2002-2007.

¹³ The CSB removed co-financing from the EDP questionnaire table 6 in the April 2012 EDP notification.

¹⁴ On 2 March 2012 Eurostat provided the CSB with its view about the EU flows' reporting in ESA Table 0200 and questions about the data.

Discussion

Eurostat expressed its view that 2011, when the issue was recognised, should be taken as the year in which the remaining guaranteed debt of the LOC should be considered as assumed by government. This is expected to increase the 2011 deficit and debt by around 24 MLVL (0.2% of GDP).

Eurostat and the Latvian statistical authorities also examined the guarantee tables in the EDP questionnaire and Eurostat drew attention to several reporting issues and inconsistencies between tables 9.1, 9.2 and 9.3. It was agreed that capital injections to Parex Banka should not be reported in table 9.1, since they do not relate to guarantees. Eurostat also noted that table 9.1 refers to GG public accounts and all the flows reported there should reflect only government receipts and payments. In particular, "repayments of claim" (table 9.1 lines 14 and 14b) should not include repayments by debtors to banks.

Conclusions

The Latvian statistical authorities agreed with Eurostat's suggestions to make corrections in tables 9.1, 9.2 and 9.3 and to remove inconsistencies between these tables.

It was agreed that assumption of the outstanding debt of the LOC will be recorded in 2011, at the time, when it was recognised that the guaranteed debt is de facto government debt. From 2011 onwards, subsidies will be split into repayment of government debt (financial transaction) and repayment of interest (non-financial transaction). Data for the previous years will not be revised in this respect.

Action point 16: The CSB will add data to EDP questionnaire tables 9.1-9.3 for assumed debt of Olympic Committee and debt repayments, amend tables 9.1-9.2 to remove capital injections and "repayments of claim" and to ensure consistent reporting across the tables, for the end-March 2012 EDP notification¹⁵.

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

Discussion

Eurostat and the Latvian statistical authorities examined the debt cancellation tables in the EDP questionnaire. Eurostat took note of the Latvian statistical authorities' explanation that the write-offs of insignificant amounts recorded under other changes in volume in the questionnaire table 8.1 are related to loans taken by private enterprises. The Latvian statistical authorities informed that write-offs of loans are based on the respective government regulations, which are issued once the bankruptcy procedures are completed.

Conclusions

Action point 17: The CSB will correct EDP questionnaire table 8.1 to move the amounts from public corporations to "Other", and put zeroes (not L) where the true figure is zero, in the end-March 2012 EDP notification¹⁶.

3.3.5. Capital injections in public corporations, in particular in Air Baltic Corporation

Background

Air Baltic Corporation (ABC) was established in 1995. Until recently, the government held a 52.6 percent stake in the airline and the private shareholder Baltijas Aviācijas Sistēmas

¹⁵ The corrected tables 9.1-9.3 were sent together with the April 2012 EDP notification.

¹⁶ The corrected table 8.1 was sent together with the April 2012 EDP notification.

(BAS) held 47.2 percent. BAS had pledged its shares to Latvijas Krajbanka, but then it defaulted against its liabilities towards the bank. On 30 November 2011 government bought ABC's shares, that used to be held by BAS, from Krajbanka at their nominal value (0.2 MLVL). Therefore, the government held 99.8 percent in ABC at the time of the dialogue visit.

Unaudited data for period 01.01.2008 - 30.06.2011 showed that ABC had accumulated losses of 95 MLVL. The company showed a 6 MLVL profit for 2009, of which 9 MLVL was income from the sale of ABC brands to BAS.

In 2010 there was a capital injection of 30 MLVL, of which government's part was 15.6 MLVL and BAS's part was 14.4 MLVL. The CSB classified the 15.6 MLVL, which was made by public corporation Latvian State Radio and Television Centre following government's order, as government expenditure in 2010 in the October 2011 EDP notification.

Proportional capital injections (according to shareholdings valid before the purchase of shares from Krajbanka) by government and BAS were planned in 2011. 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. On 13 December 2011 government decided to increase ABC's share capital by 57.6 MLVL (which included the 16 MLVL initially disbursed as a loan in October 2011) and to make it possible for ABC to take a loan from the Treasury for the amount of 25.4 MLVL if BAS abandoned its commitments. In fact, BAS withdrew from the further capitalisation of ABC, but the 25.4 MLVL loan was not disbursed by the time of the dialogue visit.

Discussion

Latvian authorities made a presentation of the transactions relating to ABC. The CSB proposed to record capital injections (57.6 MLVL) and the purchase of shares (0.2 MLVL) from Krajbanka as capital transfers (government expenditure) in 2011.

Conclusions

Eurostat agreed with the proposed recording of capital injections by the government as capital transfers, as the government was the only investor in the loss-making company. Eurostat also agreed to record the purchase of shares as a capital transfer to Krajbanka because the value of the own capital of ABC was negative. Eurostat noted that the recoverability of the 25.4 MLVL loan should be verified when it is disbursed.

Action point 18: When the loan from government to Air Baltic is disbursed, the recoverability of the loan should be checked for compilation of 2012 accounts.

3.3.6. Dividends, super dividends

Eurostat took note of the two small (total less than 1 MLVL) super dividend cases in 2011. Eurostat welcomed the improved calculation of operating profit for the central bank super dividend test and advised the Latvian statistical authorities to include operating profit of the Central Bank in all future super dividend test presentations.

3.3.7. Financial derivatives

Eurostat took note that there was only one swap (interest rate swap) cancellation case in 2011.

3.3.8. Emission trading permits

Background

The Latvian government sold allowances for carbon emissions allocated to countries up to their target level under the Kyoto Protocol (Assigned Amounts Units - AAUs) in 2009 and in 2010. Eurostat advised at the 2011 dialogue visit that negative expenditure (disposal of non-financial non-produced assets: positive impact on B.9) should be recorded at the time of their sale. The Latvian government intends to auction European Trading System (ETS) permits for the amount of 25 MLVL in 2012.

Discussion

Eurostat informed the Latvian statistical authorities about the latest developments regarding the statistical recording of emission trading permits. Eurostat explained the recording principles foreseen in the new MGDD chapter, which would be circulated for Member State comments. Eurostat recalled that when the cash is received from the auction of the ETS permits, an entry of other accounts payable is recorded. The revenue is recorded when the certificates are surrendered.

3.3.9. Others: PPPs, privatization, sale and leaseback operations, securitisation.

The Latvian statistical authorities stated that there are no new PPP projects, sale and leaseback operations and securitisation planned.

4. OTHER ISSUES

4.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

Eurostat asked about quarterly financial accounts (QFAGG) data which showed liabilities of government in equity, and significant other economic flows for some positions (in particular in other accounts receivable/payable). The CSB explained that the equity positions relate to non-government holdings in reclassified enterprises, and the other economic flows from reclassifications of port authorities to the general government sector in 2011.

4.2. Any other business

Eurostat noted that a new Latvian naval vessel (mine ship) was entering service.

Action point 19: The CSB will confirm if the new mine ship was delivered (accepted in service) to Latvia in 2011, and inform Eurostat by end-March 2012¹⁷.

¹⁷ The CSB confirmed on 30.03.2012 that the new mine ship was delivered (accepted in service) to Latvia in 2011.

ANNEX 1. LIST OF PARTICIPANTS

	Name	Title	Organization	Position
1.	Irēna Denafa	Ms	Ministry of Finance	Fiscal Policy Department, Deputy Director
2.	Līga Ozoliņa	Ms	Ministry of Finance	Fiscal Policy Department, Economic and Fiscal Management Division, Head
3.	Jūlija Kekļa	Ms	Ministry of Finance	Economic Analysis Department, Fiscal Impact Analysis Division, Head
4.	Ieviņa Dzenīte	Ms	Ministry of Finance	Tax Administration Policy Department, Revenue Analysis and Forecasting Division, Deputy Head
5.	Normunds Eglitis	Mr	Ministry of Finance	EU Funds Monitoring Department, Senior MIS expert
6.	Gunta Medne	Ms	The Treasury	Deputy Treasurer
7.	Jānis Pone	Mr	The Treasury	Deputy Treasurer
8.	Ligita Agleniece	Ms	The Treasury	Reports Department, Director
9.	Ilze Meldere	Ms	The Treasury	Reports Department, Senior Expert
10.	Silvija Lansmane	Ms	The Treasury	Reports Department, Senior Expert
11.	Agris Caune	Mr	Bank of Latvia	Statistics department, Head
12.	Iļona Aizezera	Ms	Bank of Latvia	Statistics department, General Economic and Financial Statistics Division, Senior Financial Statistician
13.	Valdis Masaļskis	Mr	Bank of Latvia	Statistics department, General Economic and Financial Statistics Division, Senior Financial Statistician
14.	Aija Žigūre	Ms	CSB	President
15.	Dace Tomase	Ms	CSB	Macroeconomics Statistics Department, Director
16.	Vija Veidemane	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Head
17.	Liene Rimonte	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Deputy Head
18.	Zane Bondare	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
19.	Vizma Straume	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
20.	Sandra Kadiķe	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
21.	Sorenta Ziemeiņa	Ms	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
22.	Reinis Martinsons	Mr	Ltd. "Prudentia Advisers"	Member of the Board
23.	Emīls Buiķis	Mr	Ministry of Transport	Coordinator on "airBaltic"
24.	François Lequiller	Mr	Eurostat	
25.	John Verrinder	Mr	Eurostat	
26.	Peeter Leetmaa	Mr	Eurostat	
27.	Viera Karolova	Ms	Eurostat	
28.	Giovanna Dabbicco	Ms	Eurostat	
29.	Ingrid Toming	Ms	DG ECFIN	
30.	Linda Kezberē	Ms	ECB	

ANNEX 2. AGENDA

1. Statistical institutional issues

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

1.2. Data sources

- 1.2.1. Changes in data sources
- 1.2.2. EDP inventory
- 1.2.3. Other accounts receivable / payable

2. Follow-up of the October 2011 EDP reporting – analysis of EDP tables

3. Methodological issues and recording of specific government transactions

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

- public infrastructure companies (railway, highway, transportation companies, airports, ports)
- local government bodies.

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. Specific government transactions in the context of the financial crisis, in particular for:
 - Mortgage and Land Bank (MLB)
 - Latvijas Krajbanka
 - Parex banka and Citadele
- 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, in particular in Air Baltic Corporation
- 3.3.6. Dividends, super dividends
- 3.3.7. Financial derivatives
- 3.3.8. Emission trading permits
- 3.3.9. Others: PPPs, privatization, sale and leaseback operations, securitisation.

4. Other issues

4.1. ESA95 Transmission Programme (tables 2, 6, 7, 9, 11, 25, 27 and 28)

4.2. Any other business