



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Public finance

Luxembourg, 26 February 2007

- FINAL FINDINGS -

EDP Mission to Latvia

18-19 December 2006

Executive Summary

The EDP dialogue visit to Latvia took place on 18-19 December 2006 with the aim to assess existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the progress achieved in implementing ESA 95 methodology (sectorization of units, accrual principles), to assure that provisions from the ESA95 Manual on Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 3605/1993, as amended).

First, Eurostat discussed with the Latvian authorities the institutional arrangements and source data used for the compilation of government finance statistics. As regards institutional arrangements, Eurostat found the institutional arrangements well established in Latvia, and appreciated the way the work is organized as well as transparency initiatives. As regards data sources, Eurostat found the source data situation in Latvia particularly good, with substantial access to balance sheet information.

As far as the analysis of the April 2006 EDP notification is concerned, Eurostat examined in detail the tables of the EDP reporting and suggested some changes, especially concerning the working balance, the capital injections and the recording and correction of EU grants.

The tables in the "*questionnaire related to EDP tables*" were analysed. It was agreed that the Latvian authorities will fill in more figures in the next notification.

Concerning the delimitation of general government sector, the Latvian authorities made a clear effort in the past two years, and will keep on working on this issue. Eurostat welcomed and encouraged the work done in this field.

The follow-up of Council Regulation 2516/2000 and recording of other transactions on an accrual basis were discussed. Eurostat found that the recording of other accounts receivable/payable is not completely consistent and encouraged the Latvian authorities to make use of the existing working group on data sources to clarify this issue.

Similarly, Eurostat found that the Central Statistical Bureau had access to substantial information and had rightly engaged in active corrections for EU flows, so to comply with the Eurostat decision, but that, in doing so, a double counting had arisen, which has to be corrected and which would have an effect on the deficit levels of 2002-2005.

Concerning PPP projects, Eurostat concluded that the LV authorities have to set up clear rules for assessing the risks of PPPs, and concerning the ongoing projects they will have to inform Eurostat.

As regards capital injections, Eurostat recommended the CSB to pay bigger attention to this issue. In particular, the CSB, when aware of capital injections undertaken, shall systematically assess whether the injections can be considered as equity injection or as capital transfers. Concerning some specific injections it was decided that the Latvian authorities will reclassify these as capital transfers, where necessary.

Concerning the military expenditures, Eurostat concluded that the Latvian authorities follow the decision taken by Eurostat, although there are still some technical issues to be cleared by the CSB.

As regards other methodological issues, such as recording of taxes and social contributions, recording of interest, state guarantees, debt assumptions, debt cancellations, debt write-offs, super-dividends and privatisations, Eurostat found no contentious issues.

Concerning the ESA95 transmission programme, the Latvian authorities agreed to ensure more consistency of non-financial accounts with financial accounts, and will finalize the revision of financial accounts.

The meeting was constructive and Eurostat welcomed the transparent, well structured and comprehensive approach of Latvia to the EDP related work. Eurostat also appreciated the volume of additional documentation provided by the Latvian authorities.

Provisional findings

1. Introduction

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 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 in Latvia on 18-19 December 2006.

The delegation of Eurostat was headed by Mr. Ascoli, Head of Unit C3, Public Finance. The Directorate General for Economic and Financial Affairs and the European Central Bank (ECB) also participated in the meeting as observer. The Latvian authorities were represented by the C S B, the Treasury, the Ministry of Finance, the Ministry of Economy, and The Bank of Latvia. Eurostat carried out this EDP dialogue visit with the aim to assess existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to review the progress achieved in implementing ESA 95 methodology (sectorization of units, accrual principles), to ensure that provisions from the ESA95 Manual on Government Debt and Deficit and recent Eurostat decisions are duly implemented and that specific government transactions are properly recorded in the EDP tables, and, finally, to examine the compliance with the ESA95 transmissions programme and the consistency of these data with EDP statistics (as requested by the Regulation (EC) 3605/1993, as amended).

2. Statistical capacity issues

2.1 Institutional responsibilities

Introduction

Eurostat inquired about the institutional arrangement and division of responsibilities in the framework of the EDP reporting and government finance statistics.

Discussion

The Latvian authorities explained the institutional responsibilities' arrangement concerning the compilation of EDP notifications and ESA 1995 transmission programme for government. The main data source is the Treasury, which is responsible for the organization and execution of the State budget and for managing the government debt, and which reports to the Ministry of Finance. The Treasury aggregates and compiles all government data for central government budgetary units (the "State"), local government and social security sub-sector. Data are available to the CSB with an online access to the Treasury database, and also in the form of two publications (one monthly and one yearly).

The cooperation between the various bodies involved in the government finance statistics process has been formalized. A working group, chaired by the CSB, has been established to coordinate the work and to discuss methodological issues. The rules and responsibilities are laid down in a government resolution/agreement. The working group meets regularly, and particularly at time of notifications. Minutes are written.

Eurostat welcomed these cooperation initiatives. A translation of the agreement, and the annexed tables (in Latvian), were provided to Eurostat by the LV authorities.

The Latvian authorities publish the notification figures on their website. The (consolidated) inventory is not published yet, because the LV authorities found it insufficiently comprehensive and consumer friendly in Latvian to publish. They are actively working on improving it, and will publish it later on.

Findings and conclusions

In conclusion, Eurostat found the institutional arrangements well established in Latvia, and appreciated the way in which the work is organized as well as transparency initiatives.

2.2 Data sources' main problems

Introduction

Eurostat enquired about the exhaustiveness, timeliness and consistency of data sources used in compilation of the government finance statistics.

Discussion

The first estimates for government activities are available on 20 January of each year, with the monthly report of the Treasury (“Official report of the Treasury on General Government Consolidated Budget Execution”), which is on a cash basis. In accordance with article 4.2 of Cabinet Instruction No.7 of 18 July 2006 (The order for preparation of the notification on state budget deficit and governmental debt), the “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia” Treasury report is available in July and includes balance sheets of government. It enables the CSB to carry out more comprehensive accrual adjustment for deficit measurements and to calculate other accounts payable/receivable for EDP Table 2 as well as EDP Table 3. In order to be able to report these already in the April notifications, the Treasury recently introduced a new quarterly reporting, which will make it possible for the CSB to report other accounts payable/receivable already in the April EDP notifications.

The Treasury database includes budget data (cash), balance sheet information, and even accrual-based “results” of individual units. Budget and balance sheet information is aggregated and consolidated by the Treasury services (monthly and yearly). The so called “accounting” balance sheets of the State’s units and of the local government units are compiled by the Treasury. In addition, a “financial” balance sheet is also compiled by the Treasury, which excludes some information but includes some other balance sheet items.

Data for other central government bodies (that is, enterprises sectorized to the central government sector) and data for local government reallocated enterprises is collected by the CSB through statistical surveys. These collect financial statements information on an accrual basis (balance sheets and profit and loss accounts). There is an agreement to cooperate with the State Revenue Service for obtaining data on these corporations, as supplementary information to the surveys.

New comprehensive classification guidelines on revenue, expenditure (economic and functional), financial transactions, debt, and sectorization have been issued at the end of 2005 (government regulations 1032, 1031, 934, 875, 842, and 810 respectively). In addition, a new Cabinet regulation 867 (“Procedures, by which Budgetary Institutions Organise the Accounting Thereof”) expands the existing accrual accounting elements of budget units to a full accrual system (except for taxes).

Findings and conclusions

In conclusion, Eurostat found the source data situation in Latvia particularly good, with substantial access to balance sheet information. Eurostat noted also the forthcoming further improvements.

2.3 Revision policy

Introduction

Eurostat asked for the existence of a revision policy in the field of national accounts, especially for government accounts and also in the case of EDP data.

Discussion

The LV authorities explained that a national accounts revision policy is under preparation. A second draft of this policy has been drafted. It will also include a revision policy section concerning the EDP related data. In principle, EDP table data are revised twice after the first April notification, in the following October and April EDP notifications. The CSB is also working on the revision of financial accounts.

Findings and conclusions

Eurostat took note of the explanations.

3. EDP Tables

The LV authorities submit the EDP tables on time, and their coverage is good. There were several specific issues discussed.

3.1 EDP Table 2A

Introduction

Eurostat inquired about the status of the working balance (whether it is a published figure or not), on a correction line for special budget, and especially on capital injections and on other accounts payable/receivable.

Discussion

The LV authorities explained that the figure for the working balance, whilst derived from the annual report of the Treasury on central government budget execution, is not mentioned as such in the document. Though starting from the main balance line, it is corrected for grants

and donations, which are separately reported. Eurostat indicated that, for transparency reasons, the working balance ought to be an explicitly published indicator that is the basis of government communication on its fiscal policy to Parliament or to the public, and is generally audited. It was suggested that the grants and donations element could be moved to the other adjustments item in EDP Table 2A, with the further advantage of enhancing the consistency between the actual data for past years and the planned data for the current year. Eurostat recommended the Latvian authorities to reflect on the issue.

The LV authorities could not completely comment on or confirm the inventory's statement that financial transactions are excluded from the working balance. Eurostat raised the attention of the LV authorities to the fact that some financial transactions are included in the working balance, as an adjustment is made in the case of capital injections (for 2002 and 2005). Eurostat recommended the CSB to correct the consolidated inventory, and to move the capital injections line from the "other adjustments" line to the "Equities, acquisition" line.

As regards capital injections, Eurostat raised the attention of the LV authorities to the fact that EDP Tables 2A/2C do not seem to systematically show the amounts of capital injections. This is the case for the central government injection in 2004 into the Environmental Fund (*Vides Investiciju Fonds*, VIF) as suggested by its balance sheet. The LV authorities promised to investigate this issue further.

Concerning other accounts payable/receivable, Eurostat enquired on the high figures for tax adjustment in 2004 and 2005. It was noted that such tax adjustments result from a one month time adjustment, applicable to certain taxes: notably VAT collected domestically, but not for VAT collected at the border. The high figure for 2004 reflects the exceptionally large impact of the one month adjustment in that year, because it was applied on a bigger fraction of the VAT receipts after EU accession. Thus, *de facto*, this is an automatic adjustment for the negative impact observed on the cash receipts for 2004 that resulted from the change of VAT collection (VAT on EU imports being not collected at the border anymore). As regards the high amount in 2005, the LV authorities pointed at the steep increases in VAT taxes proceeds, reflecting a boom in consumption. The LV authorities provided Eurostat with 2004 monthly data on VAT as requested. Eurostat found the explanation sound, and requested the LV authorities to provide the monthly receipts for the period 2004-2006 for each of the tax items that are time adjusted.

The LV authorities indicated that the government deficit notified (EDP B.9) was compiled from the transition tables from the working balance, as presented by EDP Tables 2, and then reported in ESA Table 2 on government revenue and expenditure. The government deficit notified was not calculated by an alternative approach (based on an exploitation of source data) when calculating ESA Table 2.

Concerning the EU flows, see section 4.5.

Findings and conclusions

The CSB agreed to reflect on the issues of the published working balance, will correct the consolidated inventory concerning financial transactions in the working balance and will move the capital injections line from the "other adjustments" line to "Equities, acquisition" line. The Latvian authorities will reflect on the issue of the VIF. The Latvian authorities will

provide the monthly receipts for the period 2004-2006 for each of the tax items that are time adjusted.

3.2 EDP Table 2C

Introduction

There were several issues raised about the EDP Table 2 for local government, especially the inclusion of financial transactions in the working balance and capital injections.

Discussion

The Latvian authorities were asked to confirm whether financial transactions are included or not in the working balances. Eurostat also mentioned that the capital injections correction lines are missing from this table.

Findings and conclusions

The LV authorities promised to provide more information on these issues.

3.3 EDP Tables 3A-E

Introduction

The LV authorities were asked to explain who compiles debt data and EDP Tables 3. The issues of other accounts payable/receivable was discussed in detail (see also section 4.3).

Discussion

The LV authorities indicated that the CSB compiles EDP Tables 3 data, predominantly using the balance sheet data for the central government, local government and social security provided by the Treasury. Data for the enterprises reallocated to the government sector are obtained from the survey conducted by the CSB. The information on privatization proceeds is provided by the Ministry of Economy.

The discussion focused on two main issues. First, Eurostat drew the attention of the LV authorities to the high level of discrepancies at the levels of central and local governments, although the discrepancy was much reduced at the level of general government. Eurostat invited the Latvian authorities to investigate these issues further.

Second, the issue of other accounts payable/receivable was discussed in detail. It was mentioned by Eurostat that if the working balance is cash based, then the other payable/receivable item should in theory be the same in the two tables (EDP Table 2 and 3). The LV authorities were asked in this context to further investigate the issue, and make a better use of the well developed basic data and of the advantages of the established working group.

In relation to Table 3E, it was also explained by the LV authorities that the social security sub-sector holds its savings in the form of deposit accounts at the Treasury, and not in the form of government securities, which then appear in EDP Table 3B as a debt of central

government. It should be noted that local government can also choose to place their liquidities at the Treasury, which is then acting as a banker. As no other entities (than government units) keep liquidities at the Treasury, the Maastricht debt component “currency and deposits” is set at zero / not applicable in EDP Table 1 for Latvia. Eurostat took note of those explanations.

Findings and conclusions

The Latvian authorities undertook to investigate the issues mentioned above further.

4. Main methodological issues

4.1 Delimitation of the general government sector

Introduction

As a follow-up to the previous mission in 2004, Eurostat inquired about the state of the delimitation of general government. Eurostat asked the LV authorities about two specific cases mentioned in the final minutes of the previous mission. Eurostat also asked for clarification about the pension schemes existing in Latvia.

Discussion

The LV authorities explained that a cabinet regulation was adopted last year, which appointed the CSB as the main body dealing with sectorization issues. As provided with the consolidated inventory, the CSB reallocated numerous enterprises and agencies to the central or local government sector in application of Eurostat rules. Internal CSB rules, showing how units should be re-allocated to the general government sector, were created, verified, updated and disseminated in 2005, and slightly amended in 2006. The list of units is considered to be unchanged for five years except for cases when a particular unit legally ceases its activity and therefore has to be excluded. The list of these units is also available on the CSB web page. The CSB explained that they apply a two step approach: First eliminate units in which government has less than 50% share. The remaining corporations are individually assessed for the market criteria.

As a follow up to the previous mission, the CSB explained that the State Fisheries had been privatised. Concerning the State Television, the CSB has conducted an analysis that showed that these units are market, based on the 50% rule, as their main income is advertisement receipts. The CSB mentioned to Eurostat the case of three units that are sole and monopoly suppliers of services (real estate, internet and diplomatic services) to government. The CSB found that their revenues could not be determined to be sales, the government being the only client, and classified these units in government, to which Eurostat agreed on.

Eurostat also raised the issue of the pension schemes and asked the CSB to make the inventory clearer, especially the table on page 27. Eurostat also asked the CSB to provide information on what the asterisks mean in this table. The LV authorities agreed on this action. The LV authorities confirmed that payments to the “state compulsory funded pension scheme” and the assets thereof are not included in the social security fund sub-sector.

Findings and conclusions

Eurostat noted that appropriate procedures were in place in Latvia for maintaining an appropriate sectorization of government in general, and noted the substantial workload for the CSB that this implied.

The LV authorities agreed to clarify the EDP inventory on pension schemes (especially the table on page 27).

4.2 Taxes and social contributions

Introduction

Eurostat reminded the LV authorities about Regulation 2516/2000, which states that possible revisions shall be subject to agreement between each Member State concerned and Eurostat, and asked the Latvian authorities to explain the method of recording of taxes.

Eurostat also raised the issue of lack of data in the *questionnaire related to EDP tables* table I.

Discussion

The LV authorities distributed a document concerning the recording of taxes, reflecting slight changes compared to the previous questionnaire, but with no change in methods. The LV authorities agreed to include the questionnaire about taxes and social contributions in the inventory. Eurostat recalled that under Regulation of the Parliament and of the Council 2516/2000, changes in methods must be agreed in advance by Eurostat.

Eurostat noted that the LV authorities do not provide information on stocks in table I of the *questionnaire related to EDP tables*. It was explained that the LV authorities may create stocks by using the flow data (provided in the table) of the month January.

Findings and conclusions

Eurostat took note of the methods of recording taxes and social contributions in Latvia. Along the lines mentioned above, the CSB promised to fill in the stock of this table for the next notification round.

4.3 Reporting of other payables/receivables

Introduction

The other accounts payable/receivable were discussed in detail.

Discussion

As regards other payables/receivables, the LV authorities provided a detailed table based on the accounting balance sheet. The flow of receivables result from (1) the “accounting balance sheet”, (2) taxes accrual adjustment, (3) flows of the enterprises reallocated to government and, further, (4) the EU adjustment and (5) consolidation corrections.

Eurostat noted that the correction for excess payments (EU own resources advance payments) on the Latvian contribution to the EU budget (in 2004) that appears in EDP Table 2A does not appear in EDP Table 3B, which is erroneous. The CSB will review and possibly correct the situation.

During the visit, a reconciliation exercise between the EDP Table 2A and Table 3B pointed at a difference of about 40 million lats, seemingly on the asset side. Eurostat also noted the question of double counting of the EU corrections (see below).

The CSB also confirmed that it will be able to provide other accounts payable/receivable for the next April 2007 EDP notification, using the new quarterly financial surveys conducted by the Treasury.

Findings and conclusions

In total, Eurostat found that the LV authorities had not fully or appropriately exploited the wealth of information existing on receivables and payables (which is not a straightforward subject), and suggested that the GFS working group take a closer look at how to exploit this information.

4.4 Interest

Introduction

Eurostat received from the LV authorities a note on the recording of accrued interest before the dialogue visit, and inquired whether there are any problems with the recording of accrued interest.

Discussion

Interest data is compiled by the Treasury, using its debt database, and then the CSB uses this information for EDP Tables 2 and 3. The LV authorities had followed the advice given in March 2006 by Eurostat, and prepared the figures accordingly. It was also explained by the Treasury that they have accurate local government data, as local governments need permission from the Ministry of Finance to contract loans outside the Treasury.

Findings and conclusions

Eurostat took note of the explanations.

4.5 EU flows

Introduction

The mission held detailed discussions on the correction for EU flows. The focus of the discussion was whether the CSB's practice of including an adjustment for receivables/payables as well as for EU adjustment implied a double accounting, or not.

Discussion

The LV authorities explained that there is a two tier system in LV for managing the EU flows: ministries at the first level (1st Level Intermediate Bodies), and agencies at the second level (2nd Level Intermediate Bodies & Aid Scheme Managers), which in practice make the payments to contractors or to final beneficiaries and ensure technical, administrative and financial management in respect to final beneficiaries. There is no special bank account for these flows, and they are simply integrated in the account of the Treasury at the Central Bank of Latvia. Ministries receive appropriations each year (amounts to be spent – for expenditure above this level, ministries need special authorisations). Once an expenditure on behalf of the EU is made, it is not certain that the claim is submitted right away by the corresponding agency. Separately, budget units may pay an advance on the delivery of goods and services on EU projects, which are recorded in the balance sheet.

The Treasury staff confirmed the interpretation of three entries of the accounting balance sheet:

- “Expenditures of the next periods for the EU-funded undertakings”, on the asset side, records “advances to suppliers”, prior delivery and/or verification of the goods/services;
- “Claims on EU funding”, on the asset side, records entries when the claim on the EU is established (i.e. the expenditure is certified); and
- “EU funds related liabilities”, on the liability side, had an uncertain nature. In principle these entries must relate to rare occasions of refund to the EU on expenditure erroneously claimed. In practice, units use this entry as temporary accounting entries.

The Treasury staff noted that the EU pre-financing (e.g. on third CSF) was not reported in the “accounting” balance sheet but in the “financial” balance sheet, and that the excess payment on the Latvian contribution to the EU budget (in 2004) did not seem to be appearing in neither, although the LV authorities will further investigate this point.

Eurostat examined the table which is the basis of the EU correction for EDP purposes: the difference between the cash payments on behalf of the EU and the cash receipts from the EU. The Treasury staff confirmed that the cash payments were those of the second level (e.g. payments leaving government accounts) and included “advance to suppliers”. Eurostat found that, in spirit, the table follows the Eurostat decision on the need to neutralize EU flows.

It was nonetheless concluded that the LV authorities currently recorded some of the EU correction twice: both in the other accounts receivable line and also as a separate entry under other adjustments. The LV authorities agreed to change this recording in order to eliminate the double counting. This will be reflected in the next EDP notification.

From a presentational point of view, Eurostat recommended to decrease or eliminate completely the line among other adjustments, and report the adjustments under the other receivables or payables lines. It was also stressed that amounts in EDP Table 2A and 3B shall be the same.

Eurostat emphasized that the LV authorities seem to have the necessary information about these flows and that they should make use of it for the purpose of adjusting the figures. For this exercise, it would be useful for the working group to exchange points of view.

Findings and conclusions

In total, Eurostat found that the CSB had access to substantial information and had rightly engaged in active corrections for EU flows, so to comply with the Eurostat decision, but that, in doing so, a double counting had unfortunately arisen.

The required action to eliminate this double count will impact the deficit (EDP B.9) of central government, by approximately 20 million lats in 2005, -6 million lats in 2004, 25 million lats in 2003 and 6 million lats in 2002. In addition, the Latvian statistical authorities will further enquire the subject and report to Eurostat.

4.6 State guarantees, debt assumptions, debt cancellations, debt write-offs

Introduction

Eurostat received the note of the LV authorities about state guarantees, debt assumptions, debt cancellation and debt write-offs, and asked additional questions.

Discussion

As regards guarantees, the LV authorities explained that while there is a noticeable stock of outstanding guarantees, these are usually not called, since the conditions of providing guarantees are strictly regulated and controlled by the Treasury, inclusive of a complete risk assessment of the potential beneficiaries. The small calls in the years 2004 and 2005 had been repaid the same year and were related to a special unit (hospital).

The LV authorities confirmed that there were no other debt assumptions apart from the central government debt assumption of a local government World Bank loan.

As regards debt cancellation, the LV authorities mentioned that they haven't had such a recording so far. The CSB was asked by Eurostat to fill in the EDP related questionnaire table IV row 7, even if there are no debt cancellations, since this line concerns the stock of loan assets.

Findings and conclusions

Eurostat took note that the call of guarantees, debt assumptions, debt cancellations, debt write-offs and calls on guarantees were extremely rare events in Latvia.

4.7 PPP projects

Introduction

Eurostat inquired about the current situation of PPP projects in Latvia, as the consolidated inventory showed a new legislative framework for these projects. Eurostat inquired about specific PPP projects that were known to be started but not reported to Eurostat yet.

Discussion

The LV authorities explained that under Latvian legislation, there is a requirement to determine if a long term contract is a concession (government does not pay money, as the user pays) or a procurement contract. PPPs are considered as a special kind of procurement contracts.

The LV authorities explained the institutional arrangements in place for the PPPs. There is a working group, chaired by the Ministry of Economics, the main responsible unit for PPP issues, and also comprising the Ministry of Finance, the Treasury and the CSB. The working group was set up in compliance with Directive No.118 of the Ministry of Economics. The Department of the Structural Economic Policy of the Ministry of Economics was assigned the leadership role in the working group. Representatives from the following institutions are involved as members of this working group: the Ministry of Finance, the Treasury, the Central Statistical Bureau, the Ministry of Transport, the public stock company “Latvijas valsts ceļi” (“Latvian Public Roads”) and the investment agencies of Latvia. The task of the above working group is to prepare for submission to the Cabinet of Ministers of an informative report on the impact of public and private partnership on the general government budget and debt, outlining the accounting mechanism for public and private partnerships and the role of the responsible institutions in this process.

The entity responsible for the assessment of risks involved in PPP projects would be each unit (contrary to what is reported in the inventory) with the Ministry of Economics providing only general guidance.

Eurostat also asked about the ongoing projects. The LV authorities explained that there are currently no ongoing projects, the next one to be foreseen is the one of Road E77 but the contract is not yet signed.

Findings and conclusions

Eurostat concluded that by the time of the April 2007 EDP notification, the LV authorities must have defined clear rules for assessing the risks of PPPs, and decided whether the assets built should be on government balance sheet or not.

Concerning the two ongoing projects, it was decided that the LV authorities will further investigate these. As regards the issue of the construction of a Motorway along Route E77 of the Main Public Road A2 in the Section Riga Bypass-Sēnīte, the contract, as soon as signed with the private investor, will be sent to Eurostat for further investigation.

4.8 Capital injections, super-dividends and privatisations

Introduction

In the October 2006 notification, there were several cases pointed out by Eurostat which were discussed during the meeting.

Discussion

Concerning Hipoteku un zemes banka, which benefited from substantial injections in 2002 and 2005, the LV authorities explained that the 2005 capital injection was in response to a new regulation forcing banks to have a higher capital reserve adequacy. The government

chose providing funds itself, rather than raising funds from private investors, to comply with the new regulation on time. Eurostat asked the LV authorities to check under which procedure (“State Aid”, or others) this injection has been undertaken in the EU legislative framework. The LV authorities promised to check this.

Concerning the Jelgavas Autobusu company, it was agreed that since this company seems to have accumulated losses, the CSB will reclassify the equity injection into capital transfer. As regards the Latvijas Garantiju Agentura, the LV authorities will further investigate the case. Concerning the Madonnas Slimnica hospital, the LV authorities indicated that this unit is already classified in general government.

In general, Eurostat recommended the CSB to pay bigger attention to the issue of capital injections. Eurostat reminded that the fact that the recapitalizing event leads to an increase in the equity of the corporation in the balance sheet of the unit was not a criteria for classification. It was decided that besides the action mentioned above, the CSB, when aware of capital injections undertaken, will from now on systematically assess whether the injection can be considered as an equity injection or as a capital transfer. This must be done based on the rules included in chapter II.3. of the MGDD.

As regards privatisation, the LV authorities agreed to provide the compulsory data on privatization proceeds in table Va, line 37 of the *questionnaire related to EDP tables*.

As regards dividends, the LV authorities provided Eurostat with a list of dividends received in 2005. The LV authorities felt that the company Lattelecom had been paying dividends to the government that did not exceed the companies operating profits (e.g. excluding holding gains), but this will need explicit confirmation.

Findings and conclusions

The Latvian authorities agreed to take action on the above mentioned specific issues.

4.9 Military expenditure

Introduction

Eurostat inquired about the data sources of military expenditure and asked for more details on the questionnaire related to EDP table VI.

Discussion

Eurostat asked the LV authorities for clarification on the correct recording of military expenditure. The question was raised on why there is no correction for military expenditure in the EDP Table 2A. It was explained that the correction is implicitly included in the other payables/receivables.

The table VI of the *questionnaire related to EDP tables* was discussed in some detail. The LV authorities explained that the source of all information in the table is the Ministry of Defence. Eurostat asked which of the three items: deliveries, other financial transactions and cash payments were calculated based on the other two. The case of equipments built over many years was also discussed. Eurostat asked for clarification on whether the reported amounts

for equipments built over many years reported in the second section of the questionnaire are included in the deliveries line of the same table (line 1), in the same year, and why no prepayments had been reported.

The LV authorities promised to settle this issue before the next EDP notification (April 2007).

Findings and conclusions

The Latvian authorities agreed to inquire further on data source issues and on the multi year programmes.

5. Other issues

Introduction

Eurostat reviewed with the Latvian authorities the state of data delivery in the framework of the Council regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community, as amended (ESA95 transmission programme) and its consistency with EDP statistics.

Discussion

The consistency of EDP data was high in particular with non-financial government accounts (both annual and quarterly). On the other hand, consistency of EDP data with annualised quarterly financial accounts was not satisfactory.

The LV authorities explained that they have a lack of resources in the compilation of ESA tables 6 and 27. The CSB also explained that a complete revision of financial accounts is undertaken.

Eurostat pointed at some anomalous recording in the Latvian government finance statistics on the liability outstanding for 1996-1998 (based on data requested in the annual financial accounts, i.e. ESA Table 7), and called for considering delivering annual or quarterly financial accounts for general government only for those years.

Concerning Table 27, the stock of receivables should be compiled using the approach for taxes explained in the meeting and the stock of equity should be compiled using interpolation approaches. The CSB indicated that the privatisation agencies would provide also data.

Findings and conclusions

The Latvian authorities agreed to take action but explained that they lack human resources for the above mentioned purpose.