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Unit C-4: Statistics for Excessive Deficit Procedure II



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FINAL FINDINGS

EDP Dialogue Visit to Latvia

15-17 February 2011

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Latvia on 15-17 February 2011, 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.

Eurostat undertook the EDP dialogue visit with the main aims of assessing the institutional arrangements of the EDP compilation and accuracy of the Latvian EDP data. In particular, Eurostat intended to verify the recording of government transactions with Parex Bank and to clarify the recording of the sale of Assigned Amounts Units (AAUs). Special attention was also paid to the adjustment lines "Future period expenditures/revenues" and "EU funds corrections" of the EDP tables. A total of 30 action points were agreed in the course of the meeting.

Concerning the institutional issues, the national regulation on responsibilities and inter-institutional co-operation for preparation of the EDP notifications had expired in mid-2010. Although a close co-operation continues even in the absence of the approved new regulation, the participants concluded that it is important to have the new regulation in place as soon as possible.

Eurostat expressed concerns about the possibility of data revisions since very preliminary estimations for the state budget "flash" Treasury data and quarterly financial accounts data are used in the April EDP notifications. It is believed that more up-to-date budgetary data should be available in March. The CSB agreed to provide a note explaining how to improve (by April 2012) the quality of source data available for April notification.

The unexpected discovery of a liability of the state to bio fuel producers (covering 2006-2010) after the October 2010 notification was also an issue of concern. According to the Latvian authorities this isolated case should, however, not be considered as an indication of general lack of exhaustiveness in the government balance sheet.

Concerning the EDP inventory, the CSB agreed to improve the descriptions of the adjustment lines of the EDP notification tables 2, which explain the differences between the working balance and the EDP deficit.

Eurostat expressed concerns about the large amounts regularly reported in the adjustment lines "Future period expenditures/revenues" shown under other accounts receivable/payable in EDP tables 2, which were, due to availability of only very provisional data by April notifications, significantly revised between April and October 2010. The CSB agreed to investigate the nature of the revisions of these adjustment lines.

For the government transactions in the context of the financial crisis, the individual government transactions into Parex Bank and their treatment in national accounts were discussed in detail. A total loss of 166 mio LVL has been envisaged according to the base scenario of the restructuring plan of the bank, which projects future losses to be covered by government in the course of winding down Parex Bank. Eurostat concluded that there were several options which could be followed in recording the losses of Parex, among which the option following the spirit of the relevant Eurostat Decision (base it on

written or other irrefutable evidence arising from the base scenario of the restructuring plan) were preferred by the CSB.

With regard to recording of flows related to the EU, there were some drawbacks identified in time of recording, in particular for the flows which go from central government to final beneficiaries via local government. The lack of up-to-date coefficients used for determining the national co-financing part was observed as well. The Latvian authorities agreed to work on the adjustments which needed to be added to the existing cash estimation approach.

The super dividend test on the earnings of the Bank of Latvia was also discussed. The CSB agreed to check the calculation of operating profit of the central bank, notably for capital gains / losses.

Concerning the treatment of the Public Private Partnership (PPP) projects, the analysis of risk transfer of the Ogre Art School PPP project had been pending since the 2009 EDP dialogue visit. The participants concluded that this PPP's contract details need further analysis and Eurostat will also further analyse the Kekava kindergarten project.

So far the CSB has not recorded the cash receipt from sales of Kyoto emission allowances (Assigned Amounts Units – AAUs) as government revenue. Eurostat explained that – under the temporary recording approach – AAUs are to be considered as non-financial non-produced assets and government revenue should be recorded at the time of their sale. The Latvian authorities agreed to revise the recording accordingly.

The discussions were open and constructive, and Eurostat appreciated the explanations provided by the Latvian authorities and the documents submitted before the visit.

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended¹, 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 15-17 February 2011.

Eurostat was represented by Mr John Verrinder, the head of unit C.4 – Statistics for Excessive Deficit Procedure II, Ms Viera Karolova 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 the annex). Latvia was represented by the Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF) and the Bank of Latvia (the central bank, CB).

Eurostat undertook the EDP dialogue visit with the main aims of assessing the institutional arrangements of the EDP compilation and accuracy of the Latvian EDP data. In particular, Eurostat intended to verify the recording of government transactions with Parex Bank and to clarify the recording of sale of Assigned Amounts Units (AAUs). The adjustment lines "Future period expenditures/revenues" and "EU funds corrections" of the EDP tables were also in the centre of the discussion. A total of 30 action points were agreed in the course of the meeting.

Eurostat thanked the CSB for the documents submitted before the dialogue visit. The discussions were open and constructive, and Eurostat appreciated the explanations provided by the Latvian authorities.

The previous EDP dialogue visit, which took place in February 2009, focused on sector classification of public units, time of recording of income tax as well as recording of accrued interest, government intervention into Parex Bank and treatment of flows related to JEREMIE (Joint European Resources for Micro to Medium Enterprises) and sector classification of newly created government agencies. Eurostat congratulated the Latvian authorities for completing all, but one, action points. The analysis of risk transfer of the Ogre Art School Public Private Partnership (PPP) project had been pending since the 2009 visit. The follow-up of the 2009 visit was discussed under the relevant agenda items in this meeting.

With regard to procedural arrangements, Eurostat explained the procedure, indicating that the Main conclusions and action points would be sent to the CSB for review. Then, within weeks, the Provisional findings would be sent to the CSB for review. After this, Final Findings would be sent to the CSB and the Economic and Financial Committee (EFC) and published on the website of Eurostat. The participants discussed and concluded the following.

¹ Amended by Council Regulation (EC) No 679/2010.

1. INSTITUTIONAL ISSUES

1.1 Institutional responsibilities

Introduction

The CSB leads a permanent Working Group including representatives of CSB, the Ministry of Finance, the Treasury, the Ministry of Economy and the Bank of Latvia.

Discussion

The CSB informed Eurostat that the national regulation, which specified the responsibilities for preparation of the EDP notifications and inter-institutional co-operation within the relevant Working Group in Latvia, had expired in mid-2010. This national EDP regulation became invalid because the national law underlying the regulation had been replaced by another legal act.

The new draft was under preparation by the Working Group. Changes would be, in principle, limited to new aspects of procedures for Public Private Partnership (PPP) projects.

Conclusions

The participants concluded that it is important to have the new regulation covering these powers and procedures in place as soon as possible. However, it was stressed that, in practice, a close co-operation continues even in the absence of the approved new regulation.

Action point 1. The CSB will provide Eurostat with a copy of the new national regulation on EDP issues, when it is signed.

1.2 Data sources

1.2.1. Changes in data sources

Introduction

The level of detail of source data has recently increased and reporting over the internet has become a common practice. The CSB can directly access the public accounting system and the bridge tables linking the national classification with ESA codes are published on the CSB and MoF websites.

Eurostat asked about recent developments in data sources and on the unexpected discovery of a liability of the state to bio fuel producers.

Discussion

The Latvian authorities explained that IPSAS have not been fully implemented in public accounting, but the public accounting standards are gradually moving towards IPSAS. However, there is a lack of resources, especially at the local government level. IPSAS

brings more detailed data, but also a change in the accounting classification. The implementation of the ESA 2010 will be another challenge.

Data for public enterprises are currently obtained mainly from statistical surveys and from the State Enterprise Register, but from September 2012 profit and loss account data will be received from the Treasury.

Eurostat noted that the number of government units has fallen significantly, from 1900 in end-2008 to 1264 units in end-2010. The CSB explained that, mainly due to the economic crisis, there was a state administrative reform leading to a significant reduction in the number of municipalities (in mid-2009) and the closure of many state institutions.

The Latvian authorities also explained that the "flash" (operational) Treasury data on budget execution for the year t-1 from January of the year t and quarterly financial accounts data for the year t-1 from early March of the year t are used for the subsequent April EDP notification. Eurostat expressed concerns about the possibility of data revisions since very preliminary estimations for the state budget are used in the April EDP notifications. It is believed that more up-to-date budgetary data – including any accounting corrections – should be available in March.

Eurostat asked whether there are any "extra-budgetary accounts", where the transactions not entering the working balance are recorded. The Latvians authorities confirmed that this is not the case, since all transactions of the state budget are recorded under the first line of the EDP table 2A and enter the budgetary (Treasury) accounts.

After the October 2010 notification the CSB received information from the Ministry of Agriculture about a liability of the state to bio fuel producers involving unpaid subsidies for 2006-2010 (the program ended in 2010). According to the document "Changes in data sources", submitted to Eurostat before the dialogue visit, this new information would lead to a revision of the government deficit for 2006-2010, peaking at -0.1 % of GDP in 2009, to be recorded in financial accounts under "Other accounts payable". The payment schedule has been established by a court decision and does not involve interest payments unless the payments schedule were not to be followed. Eurostat expressed its concern about this discovery and asked if this called into question the exhaustiveness of the government balance sheet.

Conclusions

The Latvian authorities confirmed that the isolated case of the liability of the state to bio fuel producers should not be considered as an indication of general lack of exhaustiveness in the government balance sheet. All balance sheets for a year are audited by the State Audit Office by September of the following year.

Action point 2. By 30 September 2011, the CSB will provide a note explaining how to improve (by April 2012) the quality of source data used in compilation of quarterly financial reports by the Treasury for the year t-1 for central and local government and social security funds available for April notification.

1.2.2. EDP inventory

Eurostat thanked the CSB for submission of an updated EDP inventory before the visit and noted that inventory could be further improved by completing it in terms of information describing the adjustment lines in EDP notification tables 2, which explain the differences between the working balance and the EDP deficit. The CSB agreed to modify the inventory and that the revised Latvian EDP inventory could be published after the April 2011 notification.

Action point 3. By 31 March 2011, the CSB will include in the EDP inventory a description of the nature of each adjustment line in EDP tables 2 - and will send the updated inventory to Eurostat².

1.2.3. Other accounts receivable/payable

Introduction

The Latvian authorities and Eurostat discussed the recording of the reimbursement of the pension cuts made in 2009, the adjustment lines "Future period expenditures/revenues" and consistency of other accounts receivable/payable between EDP tables 2 and 3.

On 16 June 2009 the Saeima (Parliament) adopted a Law with the aim to cut the old-age pensions by 10% and pensions for working pensioners by 70% for the period July 2009 to December 2012. The Constitutional Court ruled against the pension cuts on 21 December 2009 (case No. 2009-43-01) and specified that cuts made in the second half of 2009 must be paid back to pensioners no later than 2015. The respective adjustment item is under "Other accounts payable" of EDP table 2D.

Discussion

With regard to the reimbursement of the pension cuts overruled by the Constitutional Court in 2009, the CSB confirmed that, in fact, all pensioners had already been reimbursed in 2010.

Eurostat expressed concerns about the large amounts regularly reported in the adjustment lines "Future period expenditures/revenues", which were significantly revised between April and October 2010 notifications. The CSB noted that only very provisional data are available on "Future period expenditures/revenues" by April notifications.

Eurostat also noted that other accounts receivable/payable should be reported consistently in EDP tables 2 and 3 and asked the CSB for confirmation. The CSB confirmed that the consistency is ensured between the tables and explained that the differences are due to the public corporations classified to the government sector.

² The revised inventory was published on Eurostat's website on 26.04.2011.

Conclusions

Action point 4. By 31 July 2011, the CSB will investigate the nature of the revisions in "Future period expenditures/revenues" shown under other accounts receivable/payable in EDP tables 2 between the April and October 2010 EDP notifications, identifying which ministries/municipalities contributed most to the revisions, and will report to Eurostat.

Action point 5. By 31 March 2011, the CSB will clarify that the adjustment row in EDP table 2D records the complete settlement of outstanding pension liabilities in 2010, and will report to Eurostat³.

Action point 6. By 31 March 2011, the CSB will transmit a table to Eurostat showing the individual items contributing to the differences in other accounts receivable/payable for central government and local government between EDP tables 2 and 3, for the period 2007-2010⁴.

2. FOLLOW-UP OF THE OCTOBER 2010 EDP REPORTING

Introduction

The participants discussed the data reported in the EDP tables and in the EDP questionnaire.

Discussion

Eurostat noted that there are large revisions between April and October of the other government bodies' (public corporations classified to the general government sector and other entities) data. The Latvian authorities explained that the other government bodies do not always report accurately state grants in quarterly statistical questionnaires, which are used in the April EDP notifications.

Eurostat enquired if the EDP data are checked against the counterpart-based data in Money and Banking Statistics, but according to the CSB this is not the case.

Following Eurostat's suggestion with regard to table 2A, the CSB agreed to move the adjustment item "Financial balance of Social Security budget" under the "Working balance (+/-) of entities not part of central government".

Eurostat also asked for information about consolidation of inter sub sector flows (e.g. between central government and local government) in the situations where the data from different sub sectors do not match. The Latvian authorities confirmed that this is not a problem as possible inconsistencies are solved at the Treasury by assessing and cross-

³ Implemented under other accounts payable of the EDP table 2D in the April 2011 notification.

⁴ The table was sent on 31.03.2011 confirming that the differences are due to the enterprises reallocated to the government sector.

checking the data sources. Among other things, the threshold for such investigations is quite low – a difference of a few thousand LVL would already lead to verification.

Conclusions

Action point 7. By 31 December 2011, the CSB will investigate ways in which the statistical questionnaires for other government bodies (re-classified public corporations and other entities) can be improved for the recording of state grants. The CSB will also investigate using administrative (Treasury) data in addition/parallel to the survey, and will report to Eurostat.

Action point 8⁵. By 31 March 2011, the CSB will report the adjustment item "Financial balance of Social Security budget" under the "Working balance (+/-) of entities not part of central government".

Action point 9. By 31 July 2011, the CSB will provide the results of a comparison of "F.2 Currency and deposits" and possibly other financial transactions, with Money and Banking Statistics by sub sectors of government.

3. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

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

Introduction

Several important reclassifications took place for the year 2009. Following the dialogue visit in 2009, the government owned joint-stock companies "Pasažieru vilciens" ("passenger train") and "Latvijas autoceļu uzturētājs" ("Latvian road maintainer"; major company involved in construction and maintenance of state highways) were reclassified to government sector as of 01.01.2009. Health care institutions, of which only 9 were classified in non-financial corporations' sector (S.11), were also analysed in depth after the 2009 visit.

Discussion

Eurostat enquired how many consecutive years are used as a basis for decision of reclassification and if reclassification of these units, which were reclassified from 2009, should have taken place also for year(s) before 2009. The CSB answered that the data of three consecutive years are used. When a unit appeared 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. The CSB explained that there are problems in obtaining the individual data suitable for national accounts compilation for past years for reclassified bodies and agreed to examine its classification approach and to investigate how to deal with this problem.

⁵ Implemented in the April 2011 notification.

Eurostat thanked the CSB for the good practice of submission of the table "List of the public enterprises by activity (31.12.2010)" by NACE categories and suggested to annex it to the EDP inventory in future. Based on this table, Eurostat enquired about the sector classification of public bus companies (NACE 6021, Other scheduled passenger land transport). The CSB explained that these companies are normally just above the 50 % ratio of sales to costs. Eurostat invited the CSB to investigate the type of subsidies (subsidies on products/other subsidies on production) paid to bus companies. Due to their relatively large number, Eurostat also asked about the nature of the real estate management companies (NACE 7032, Management of real estate on a fee or contract basis). The CSB replied that around 99 % of those companies are involved in management of community housing.

Eurostat noted that the special questionnaire about public corporations completed in 2009 indicates that liabilities of Latvian public corporations have increased significantly during 2005-2008 and requested details on the most indebted public corporations.

Conclusions

Action point 10. By 30 September 2011, the CSB will examine its classification approach and will investigate how to deal with problems in obtaining data for past years for reclassified bodies, and will report to Eurostat.

Action point 11. By 30 June 2011, the CSB will investigate which type of subsidies, if any, are paid to bus companies (NACE 6021), whether these are subsidies on products or other subsidies on production, and will report to Eurostat.

Action point 12. By 30 September 2011, the CSB will provide a table to Eurostat showing the most indebted public corporations, including the size of their debts at end-2010.

3.2. Implementation of accrual principle

3.2.1. Taxes and social contributions

The CSB confirmed that reporting of "A" (=activity) for final tax settlements is correct in the "Questionnaire on Taxes and Social Contributions", indicating that the cash payments are shifted to the period when the activity took place. The CSB also confirmed that the Latvian tax system does not include tax credits and agreed to report "not applicable" for tax credits in the next return of this questionnaire.

Following Eurostat's question the CSB confirmed that interest and fines are reported separately from tax revenues in the data sources.

Eurostat also enquired about the strong positive time adjustment for VAT in 2010. The CSB explained that this is related to the economic cycle and a change in the VAT rate.

3.2.2. Interest

Eurostat welcomed the tables "Recording of interest flows in EDP tables 2007-2009", which was a good input for the discussion. Following Eurostat's enquiry, the CSB confirmed that all interest, which was previously partly recorded under other accounts receivable/payable, is now recorded under the respective instruments. The CSB also

confirmed that repayment of discount is no longer recorded in the discrepancy line of EDP table 3. In this respect, under the line "Difference between interest (EDP D.41) accrued(-) and paid(+)", only the accrued discount is reported.

The CSB also clarified that the difference between D.41 paid/accrued figures in EDP tables 2D and 3E is due to reporting of interest revenue in EDP table 2D.

3.3 Recording of specific government transactions

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

Introduction

The Latvian authorities explained in detail the individual government transactions into Parex Bank since its nationalisation in November 2008 and their treatment in national accounts was discussed.

Parex Bank was nationalised in 2008 and since then government has placed large amounts of deposits in the bank, which were kept there on a roll-over basis. Following a recommendation of Eurostat the deposits were reclassified to loans (F.4) in the October 2009 notification. Part of these loans and related interest have been converted into capital over 2009-2010 (2009: 113.6 mio LVL; 2010: 53.0 mio LVL), recorded in national accounts as capital transfers. A payment of 101.9 mio LVL for a guaranteed syndicated loan was also recorded as a capital transfer.

At end-July 2010 the bank was split into two institutions. Problematic assets were kept in Parex Bank, and performing assets and private customers' deposits were moved to the newly created Citadele Bank. This was carried out according to a restructuring plan, which was approved by a Commission decision on 15.09.2010⁶.

Discussion

The Latvian authorities explained that the restructuring plan projects future losses to be covered by government in the course of winding down Parex Bank. The total loss envisaged according to the base scenario of the restructuring plan is 166 mio LVL. Eurostat concluded that there were three main options that could be followed in recording the losses of Parex:

- (1) record losses in the past where state deposits have been used to repay Parex debts, and then further losses as they occur;
- (2) following the spirit of the „financial turmoil recording rules“, base it on written or other irrefutable evidence arising from the base scenario of the restructuring plan. Three main questions need to be addressed in the case of this option: (i) what is the evidence and the timing, (ii) how to deal with greater/lesser losses in the case of deviation from the base scenario, (iii) what are the risks that the base scenario will not materialise?;
- (3) in case there are still significant uncertainties about the base scenario, record losses as they occur in the future (with past losses recorded only for recapitalisation operations).

⁶ Commission Decision C(2010)6202.

Eurostat also provided information about ongoing developments on the sector classification of "bad banks". Eurostat pointed out that given the complexity of the issue, guidance might take some time to finalise.

Conclusions

Concerning the three options to follow in recording the losses of Parex, the CSB expressed some preference for option (2), but would carefully consider all options in order to decide on the recording to be implemented in the April 2011 notification, and inform Eurostat.

It was also agreed that the relations between the government and the loss-making Latvijas Hipotēku un zemes banka (Mortgage Bank) should be closely monitored (by the time of the dialogue visit losses of 67.9 mio LVL for 2010 had been published). Finally, the CSB noted that, besides the Parex Bank and the Mortgage Bank, currently there are no more cases to be considered in the context of the financial crisis.

Action point 13. By 31 March 2011, the CSB will consider the three options for recording the losses of Parex Banka, and will report to Eurostat, including the answers to the three questions raised on option 2⁷. Eurostat will keep the CSB informed about discussions on classification of bad banks.

3.3.2. EU flows

Introduction

The "EU funds corrections" are made in table 2A in order to neutralise the deficit from payments of EU to non-government units, which are included in the working balance of central government. In table 2A they are called "Other receivables relating EU funds / Other payables relating EU funds". Concerning the Member States' contributions to the EU budget, an adjustment "TOR payments correction" is made in table 2A under "Other accounts payable".

Discussion

The Latvian authorities explained that there were no changes to the recording of EU flows since 2009, but there are some drawbacks identified in time of recording, in particular for the flows which go from central government to final beneficiaries via public bodies, especially local government⁸. The recording is further complicated by the municipality reform completed in mid-2009. The Latvian authorities also noted that coefficients from previous period are used for determining the national co-financing part as data on the exact amounts are not available. Eurostat explained the various recording practices of EU flows in the Member States.

⁷ A note was sent by the CSB on 29.03.2011, which was further clarified in the clarification process in the context of the April 2011 notification. Option 2 was implemented in the April 2011 notification.

⁸ Municipalities are also "public derived persons" according to Latvian law.

Eurostat also explained that disallowances, which according to the Latvian authorities are currently recorded on cash basis, should be recorded in the period when the Commission makes its decision. The Latvian authorities confirmed that so far no cases of significant disallowances exist.

Eurostat noted that the lines 15-19 in EDP questionnaire table 6 (adjustments for contributions made to the EU) are not in line with the respective lines under other accounts payable in EDP table 2A and the CSB agreed to make a correction.

The Latvian authorities confirmed that the flows related to the JEREMIE (Joint European Resources for Micro to medium Enterprises) scheme are recorded according to the guidance agreed at the December 2009 Financial Accounts Working Group.

Conclusions

Action point 14. By 15 September 2011, the CSB, in co-operation with the Ministry of Finance, will provide a note on EU funds looking at the adjustments which needed to be added to the existing cash estimation approach for 2009-2010 and assessment of quality.

Action point 15. By 31 March 2011, the CSB will correct EDP questionnaire table 6 for the rows relating to contributions to the EU⁹.

3.3.3. Guarantees

Introduction

According to the table 9.1 of the EDP questionnaire related to the October 2010 notification, government debt guarantees increased sharply in 2009, from 208 mio LVL in 2008 to 713 mio LVL in 2009 (for financial corporations from 60 mio LVL in 2008 to 480 mio LVL in 2009). In March 2009 the central government issued guarantees to the syndicated lenders of Parex Bank for the remaining payments of their loans. In fact, there is only a minor case (0.036 mio LVL in 2008) where a guaranteed loan was assumed by government (EDP questionnaire table 9.2).

Discussion

Eurostat enquired about guarantees provided by local government. The CSB explained that provision of guarantees by local government is believed to be neither wide-spread nor significant in size. Eurostat invited the CSB to investigate possible guarantees provided by larger municipalities.

The CSB described briefly the EU injections made in the recently established Guarantee Agency (GA), which provides export credit. Eurostat raised a question about future arrangements for meeting losses and the CSB agreed to provide relevant information.

⁹ Implemented in the April 2011 notification by making the figures in item 17 of table 6 of the EDP questionnaire consistent with the line "TOR payments correction" under item other accounts payable of the EDP table 2A.

Eurostat recommended that capital injection tests should be made for the GA in the future.

The participants agreed that several improvements should be made in the reporting of guarantees in EDP questionnaire table 9.

Conclusions

Action point 16. By 31 March 2011, the CSB will investigate the existence of guarantees and possible guarantee calls/debt assumptions, for example, by contacting larger municipalities, and will report to Eurostat¹⁰.

Action point 17. By 31 July 2011, the CSB will provide Eurostat with a description of the export credit guarantee system, with focus on statistical recording. The CSB will also confirm the arrangements for meeting losses of the (export credit) guarantee agency treatment, whether from own capital or from government transfers, and will report to Eurostat.

Action point 18. By 31 March 2011, the CSB will

- correct rows 1 of table 9.1 to take into account the guarantees of public financial corporations.*
- include in table 9.1 local government guarantee stocks, with an appropriate footnote on local government data.*
- complete empty cells (stocks) in summary lines of tables 9.1 and 9.2 with zeros as appropriate¹¹.*

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

At the 2009 dialogue visit it was concluded that the Latvian authorities were not aware of debt cancellation or debt assumption in 2008. A minor debt assumption (0.036 mio LVL in 2008) was subsequently recorded in questionnaire table 9.2 from April 2010 notification onwards. There was also education reform loan from World Bank to local governments repaid by central government (debt assumption), but this is consolidated within the general government. The CSB has recorded in EDP questionnaire table 8.1 write-offs under "Other changes in volume" for all years (2006-2009).

Eurostat enquired about the write-offs and the CSB explained that these refer to claims against liquidated companies, which is mainly a historical legacy from the G-20 lending programme of the 1990's. Eurostat pointed out that normally, in government accounts, recording of write-offs should be avoided and instead, in order to reflect losses incurred by government when acting on behalf of public, a debt cancellation following an evidence of non-recoverability of a loan is to be recorded.

¹⁰ A note was sent on 31.03.2011 presenting detailed information on guarantees provided by municipalities to corporations. Debt assumptions by municipalities were introduced in the April 2011 notification (EDP table 2C and EDP questionnaire tables 9.1,9.2 and 9.3).

¹¹ Implemented in the April 2011 notification.

The CSB also confirmed that there were no occurrences of sales of claims and repayment in kind.

3.3.5. Capital injections in public corporations

Introduction

The participants discussed the data sources for equity injections in cash and in kind.

Discussion

The Latvian authorities confirmed that the data source for cash injections in equity is the Treasury, both for central and local government. Eurostat noted that an injection in kind in Latvenergo (2009) was not reflected in the data reported in the October 2010 notification and invited the CSB to examine other possible cases of injections in kind and ensure their recording in EDP is in line with the MGDD guidance.

Conclusions

Action point 19. By 31 March 2011, the CSB will confirm if there have been any further cases of injections in kind (apart from Latvenergo), examine these cases and the Latvenergo case, apply the relevant MGDD rules, and will report to Eurostat¹².

Action point 19bis. By 31 July 2011, the CSB will clarify the link between tables "Capital injections/transfers in public corporations in 2009" and the EDP table 3 and will report to Eurostat.

3.3.6. Dividends, super dividends

Introduction

Since the 2009 dialogue visit, the CSB has regularly made super dividends tests and so far there was only one case of recording of super dividends - for Latvijas Valsts Radio un Televīzijas Centrs AS for 2010 in the amount of 2.3 mio LVL. The discussion centred on the profit concept used and the super dividends test for the Bank of Latvia.

Discussion

The CSB confirmed that an "operating profit" concept is used in the super dividend test. Eurostat drew the Latvian authorities' attention to the fact that profits for the Bank of Latvia reported in the document "Revenue from dividends paid to government" submitted before the dialogue visit include item "realised gains/losses (-) from financial operations", as presented in the annual report (2009) of the bank. However, according to the Manual on Government Deficit and Debt (part IV.2.2, 2010 edition): "*To compute the operating profit/loss in a harmonised manner among Member States, unrealised gains on financial assets that are part of the total profit of non-Eurosystem central banks should*

¹² A note was sent on 31.03.2011 indicating that, in addition to the Latvenergo case, there have been a few injections in kind by local government in 2009 and in 2010.

be deducted from the total profit together with any realised holding gains and (un)realised losses included in the total profit". The CSB agreed to check the Bank of Latvia super dividend calculation.

Conclusions

Action point 20. By 31 March 2011, the CSB will check the Bank of Latvia super dividend calculation (notably for realised financial gains/losses) and report to Eurostat¹³.

3.3.7. Public Private Partnerships (PPPs)

Introduction

So far there were only a few cases of PPP contracts in Latvia (an art school and several kindergartens, all for small amounts). Following the discussion that was initiated at the 2009 dialogue visit, the CSB submitted a description of the risk transfer analysis of the Ogre Art School PPP project for the October 2010 EDP notification. The participants discussed this PPP project and the new arrangements introduced since 2009 for the PPP projects in general.

Discussion

The CSB explained that establishment and monitoring of PPP contracts was reinforced by the adoption of a new law in July 2009 and by the attribution of responsibilities to the Central Finance and Contracting Agency under the MoF. However, evaluation of the potential influence of PPPs on state budget long-term liabilities and the government debt is conducted by the Ministry of Economics. The CSB added that the government's aim is not to start new PPP projects until 2012.

In Eurostat's view, in the Ogre Art School PPP contract, the size of the penalty in case of underperformance/non-service by the private partner does not indicate sufficient transfer of availability risk.

Conclusions

The participants concluded that the Ogre Art School PPP contract details need further analysis. Also, further investigation is required about the termination of contract with the private partner in 2010 and subsequent steps. Eurostat will further analyse the Kekava kindergarten project and report to the CSB.

Action point 21. By 24 March 2011, Eurostat will write to the CSB¹⁴ with its comments and questions on the Ogre Art School PPP project and, by 30 June 2011, the CSB will send answers and an update on the project situation.

¹³ A note was sent on 31.03.2011 showing the reduction of the total profit of the Bank of Latvia by the amount of capital gains / losses in order to calculate the operating profit.

¹⁴ Further information was provided on 09.03.2011.

Action point 22. By 30 June 2011, Eurostat will write to the CSB with comments and questions on the Kekava kindergarten PPP project.

3.3.8. Financial derivatives

Introduction

The CSB informed in the clarification to the April 2010 notification that the types of derivative instruments used by government over 2000-2009 are interest rate swaps, currency swaps and Forex swaps. Concerning collaterals, only the loan portfolio of central government is used. Local government units do not enter in contracts that impose collateral obligations.

Discussion

According to the CSB, loans have been used as collateral for financial derivative operations at the central government level, which has not been seen to be the case in other Member States.

Conclusions

Action point 23. By 31 July 2011, the CSB will provide Eurostat with a note on the use of loans as collateral for financial derivative operations¹⁵.

3.3.9. Emission trading permits

Introduction

The Latvian government sold Assigned Amounts Units (AAUs) in 2009 and in 2010 (0.7 % and 0.3 % of GDP respectively). AAUs are allowances for carbon emissions allocated to countries up to their target level under the Kyoto Protocol. These allowances are tradable under Kyoto's international emission trading mechanisms. Each AAU equates to one tonne of CO₂ equivalent.

So far the CSB has not recorded the cash receipt from sales as government revenue. Instead, it was removed from the revenue with an adjustment line under "Other accounts payable". The aim of the CSB was to record the revenue at the time when the received funds are used for the expenditures related to environmental projects.

The paper C.1.b of the Financial Accounts Working Group held on 7-9 June 2010 recommended a temporary recording pending the outcome of the OECD/Eurostat Task Force.

¹⁵ The note, which was provided on 29 March 2011 explained that there have been only a few cases where loans are used as collateral and the Treasury has no plans to continue with this practice in future.

Discussion

Eurostat explained that – under the temporary recording approach – AAUs are to be considered as non-financial non-produced assets and government revenue should be recorded at the time of their sale and that there is no link between statistical recording of revenue and the recording of the respective expenditures on environmental projects. The Latvian authorities agreed to revise the recording of AAUs for 2009 and 2010 accordingly.

Conclusions

Action point 24. By 31 March 2011, the CSB will correct recording of Assigned Amounts Units (AAUs) according to the provisional recording explained in the document C.1.b of the 7-9 June 2010 Financial Accounts Working Group meeting. Disposal of non-produced non-financial assets is to be recorded at the time of sale of the AAUs. By 15 March 2011, Eurostat will send to the CSB a letter about the recording of AAUs¹⁶.

3.3.10. Others: privatization, sale and leaseback operations, securitisation.

Introduction

Privatisation at the central government level was undertaken through the State Privatisation Agency (PA), classified in national accounts in general government. The PA is recorded with a zero balance under other Central Government bodies in EDP table 2A since its activities are captured in the adjustment line "Revenue from sale of real estate, less privatisation expenditure".

Discussion

Eurostat enquired about the PA and the respective recording in national accounts. The Latvian authorities explained that the Privatisation Fund (PF) ceased to exist in mid-2009 and now it is mainly selling land. Privatisation receipts go directly to the state budget. Currently the only large asset under their responsibility is shares of Lattelecom. Expenditures of PA have been netted off from sales; however the revenue from sales has entered the national budget from mid-2009.

Eurostat asked if there have been any cases where buildings sold by government have been rented back by government ("sale and leaseback") and the CSB agreed to check the situation.

Conclusions

Action point 25. By 30 September 2011, the CSB will ensure that Privatisation Fund abolition has not led to overestimation of revenues, and that the relevant adjustment line reflects ongoing expenditure of the Privatisation Agency.

¹⁶ Eurostat sent a letter about the recording of AAUs to the CSB on 11.03.2011. This was Implemented in the April 2011 notification by removal of the respective adjustment line from other accounts payable of EDP table 2A.

Action point 26. By 31 March 2011, the CSB will check if buildings sold by government have been rented (back) by government ("sale and leaseback")¹⁷.

3. OTHER ISSUES

Following the CSB's question Eurostat agreed to clarify which GDP should be used as a denominator in the ESA 2010 impact assessment exercise.

The recording of IMF's Special Drawing Rights was discussed and Eurostat agreed to provide a copy of its letter of advice to Romania on accounting for IMF support.

Eurostat enquired about the reporting of major events related to the Quarterly Financial Accounts of General Government (QFAGG). The CSB agreed to clarify several issues raised by Eurostat after the visit.

Action point 27. By 31 March 2011, Eurostat will clarify which GDP should be used for the ESA 2010 impact assessment exercise¹⁸.

Action point 28. Eurostat will provide a copy of its letter of advice to Romania on accounting for IMF support and, by 31 March 2011, the CSB will inform Eurostat whether its recording is in line with the advice¹⁹.

Action point 29. Eurostat will send questions about the major events reported under the Quarterly Financial Accounts of General Government (QFAGG) and the CSB will answer by 31 March 2011²⁰.

¹⁷ A note was sent on 31.03.2011 explaining that, according to the available information, there are no buildings sold and rented back by government.

¹⁸ Eurostat informed the CSB on 21.03.2011 that the GDP reported in the latest EDP table 1 should be used for the ESA 2010 impact assessment exercise.

¹⁹ A copy of the letter was sent to the CSB on 07.03.2011.

²⁰ Eurostat sent the questions on 21.02.2011 and the CSB sent a note on 11.03.2011.

ANNEX. LIST OF PARTICIPANTS

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