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

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FINAL FINDINGS

Eurostat EDP dialogue visit to Latvia

26-27 May 2015

EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Latvia on 26-27 May 2015, 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 (the Central Bank). Representatives from the Privatisation Agency and the Ministry of Transport also participated during the relevant sessions (please see the list of participants in Annex 1).

Eurostat undertook this visit in order to review the implementation of ESA 2010 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Latvian EDP. The visit focused on the sector classification of specific units (including Eiropas dzelzceļa līnijas and RB Rail, the Latvian Development Finance Institution Altum, and the Deposit Guarantee Fund), the recording of transactions of the Maintenance Guarantee Fund (UGF), the recording of Citadele sale and put option with the EBRD and the recording of the EU flows. The participants concluded 22 action points during these meetings.

As regards the institutional responsibilities, the Latvian statistical authorities explained the planned changes to the regulation on preparation and reporting of EDP data and agreed to transmit the updated regulation as soon as it is officially adopted. Concerning the preparation of the ESA 2010-based EDP inventory, Eurostat welcomed the plan of the authorities' plan to transmit this document to Eurostat in June 2015.

As a result of the review of the latest notification of EDP data (April 2015), the Latvian statistical authorities agreed to provide the description of savings bonds, to ensure consistency between the stocks and flows of trade credits and to ensure proper recording of the amounts unlikely to be collected by the Maintenance Guarantee Fund in the government accounts. Eurostat, in turn, agreed to inform the CSB about the result of the investigation related to treatment of SDRs in government accounts.

The comprehensive discussions about sector classification led to the following conclusions. Eurostat confirmed the classification of the holding company Eiropas dzelzceļa līnijas in general government and the joint venture RB Rail in the non-financial corporations sector of Latvia. Based on information about RB Rail to be provided by the CSB, Eurostat agreed to provide its opinion on the future treatment of transactions carried out by RB Rail and its assets and liabilities in national accounts. Eurostat also confirmed the classification of the Deposit Guarantee Fund in the financial corporations sector for the time being as it is part of the Financial and Capital Market Commission. Eurostat is currently re-examining the treatment of deposit guarantee schemes with the aim of ensuring equal treatment of sector classification across the Member States.

Eurostat also took note of the merger in 2015 of the three institutions forming the Development Financial Institution Altum ("single development institution") and invited the Latvian statistical authorities to provide information about its estimated impact on Maastricht debt.

As regards the implementation of the accrual principle for taxes and social contributions, the participants reviewed the new item “Subsidised electricity tax” and the Latvian statistical authorities agreed to provide a note presenting the details of the tax, including the information about the payers and its recording in national accounts. The authorities also agreed to update the recording of tax amnesties in the EDP inventory.

Concerning the recording of interest, Eurostat took note that the cash based data on interest are not available for the units reclassified to government sector. The authorities agreed to assess the difference between interest accrued and paid for larger reclassified units and to find out a way to collect data on interest payments from such units.

The participants also reviewed the recording of the EBRD put option and the Citadele sale, which has been discussed in depth with the Latvian statistical authorities since July 2014. In April 2015 Eurostat and the CSB agreed in principle on the recording, whereas a few details remained to be clarified. As regards the price to be paid by private investors in this privatization process, Eurostat took note that 74.7 MEUR is the final amount paid for the Citadele equity. Eurostat also encouraged the authorities to ensure appropriate recording of the EBRD put option in the 2012 government accounts (partial call of the guarantee).

Concerning the reporting of guarantees granted by government, the Latvian statistical authorities agreed to start reporting of the data on provisions estimated by the Treasury. The participants also concluded that the new guarantee scheme for housing loans granted by Altum should be treated as standardised guarantees.

The participants reviewed the recent improvements in the recording of EU flows. The most important change concerned the imputation of revenue relating to investments of a number of reclassified enterprises (mostly hospitals) recorded as gross fixed capital formation. As the recording of EU flows play a significant role in the compilation of government accounts in Latvia, Eurostat encouraged the Latvian statistical authorities to closely monitor the impact of the EU flows on the Latvian government accounts also in the future. The authorities also confirmed that the treatment of unused JEREMIE resources ensures neutrality of impact on government deficit.

As regards access to the data on military expenditures, Eurostat encouraged the Latvian statistical authorities to establish a system of receiving detailed information from the Ministry of Defence.

The discussion about capital injections in public corporations focused on relations of government with the national airline Air Baltic Company (ABC) and the capital injections in kind in the large public transport company Rigas Satiksme (Riga Transport Company). Eurostat took note that there are no changes in the recording of loans (“the second tranche”) provided by government to Air Baltic Company. The Latvian statistical authorities agreed to provide a note describing in detail how the transfer of real estate assets from Riga City to Rigas Satiksme will be recorded in government accounts. As a result of the discussion about dividends received by government from public corporations, the Latvian statistical authorities agreed to provide a note about the super dividend test for the Central Bank for the dividends received by government in 2013 and 2014.

Finally, the participants also reviewed the recording of revenues received by government for emission trading permits, recent sales of mobile phone licences and the treatment of PPP projects. Eurostat confirmed the approach applied by the CSB as regards recording of revenues from the sale of EU Allowances¹ (EUA) and encouraged the Latvian statistical authorities to consult the CSB on draft PPP projects and their statistical classification before their finalisation. The authorities agreed to contact the national telecom regulator in order to enquire about recent sales of mobile phone licences and to incorporate the relevant data in the Latvian government accounts.

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

¹ The permits traded in the EU Emissions Trading Scheme (ETS).

EUROSTAT EDP DIALOGUE VISIT TO LATVIA
26-27 MAY 2015

AGENDA

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- 2. Follow-up of the 2013 EDP visit**
- 3. Changes in data sources**
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 - 6.2. Implementation of the accrual principle
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- 7. Other issues**
 - 7.1. ESA 2010 Transmission Programme
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INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, 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 26-27 May 2015.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot (director of directorate D "Government Finance Statistics (GFS) and quality") and Eurostat was also represented by Mr Peeter Leetmaa and Mr Denis Besnard. 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.

Latvia was represented by the Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF), the Treasury of Latvia and the Bank of Latvia (the Central Bank). Representatives from the Privatisation Agency and the Ministry of Transport also participated during the relevant sessions.

Eurostat undertook this visit in order to review the implementation of ESA 2010 and MGDD methodology and to assure that Eurostat decisions are duly implemented in the Latvian EDP.

The visit focused on the sector classification of specific units (including Eiropas dzelzceļa līnijas and RB Rail, the Latvian Development Finance Institution Altum, and the Deposit Guarantee Fund), the recording of transactions of the Maintenance Guarantee Fund (UGF), the recording of Citadele sale and put option with the EBRD and the recording of the EU flows.

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 visit.

1. INSTITUTIONAL RESPONSIBILITIES FOR EDP/GFS DATA COMPILATION AND REPORTING AND THE QUALITY MANAGEMENT FRAMEWORK

Introduction

The CSB informed Eurostat before the meeting that the new Cabinet Regulation concerning provision of the CSB with statistics necessary for preparation of information for EDP is being reviewed. Among other issues, the new Regulation would also address access to the data on the second pension pillar, whereas currently the Social Security Insurance Agency (SSIA) is not prepared to provide the CSB with statistics about the second pillar pensions.

Discussion

The Latvian statistical authorities explained to Eurostat the foreseen changes to the Regulation. In addition to formalisation of the receipt of data relating to the second pension pillar, the updated regulation would have references to the new ESA and it would also formalise the communication with the Ministry of Defence (see also part 6.3.6 and action point 17). The authorities agreed to provide Eurostat with the updated Regulation as soon as it is adopted.

Findings and conclusions

Action point 1. The Latvian statistical authorities will transmit to Eurostat the updated cabinet regulation on preparation of general government deficit and debt as soon as it is officially adopted.

2. FOLLOW-UP OF THE 2013 EDP VISIT

The CSB has completed in time all action points of the EDP pre-euro accession visit carried out to Latvia in April 2013. As regards action point 7, The CSB sought clarification about the item 2 “Stock of provisions” in the EDP questionnaire table 9.1, which has been addressed under the agenda item “6.3.3. Government guarantees and guarantee calls” (please see below). Concerning action point 8, the calculation of net financial effect of the pension reform was finalised by end-October 2013.

3. CHANGES IN DATA SOURCES

Before the meeting, the CSB submitted documents relating to development of new data sources for recording of the EU flows, which was addressed under the agenda item “6.3.5. Recording of EU flows”.

4. REVISION POLICY, EDP INVENTORY

Introduction

The Member States are currently updating their EDP inventories in the light of the implementation of ESA 2010. Eurostat recalled the issue at the visit as it is foreseen to publish the revised inventories on Eurostat website by the end-2015.

Discussion

The participants shortly reviewed issues relating to revisions to deficit and debt data and discussed the delivery of the ESA 2010 based EDP inventory to Eurostat. The Latvian statistical authorities explained that the revisions to the deficit data relate mainly to reclassified corporations. Following Eurostat’s enquiry about possible impact of auditing in government data, the authorities explained that the State Audit Office checks whether the budget execution is according to the law, which normally does not lead to revisions to data. However, the CSB nevertheless has contacts with the State Audit Office in order to be informed about any events, which would potentially impact the government data.

As regards the ESA 2010-based EDP inventory, the Latvian statistical authorities intend to transmit it to Eurostat in June 2015.

Findings and conclusions

Eurostat welcomed the plan of the Latvian statistical authorities to transmit to Eurostat the ESA 2010-based EDP inventory in June 2015 and the CSB confirmed its plan².

5. FOLLOW-UP OF THE APRIL 2015 EDP REPORTING – ANALYSIS OF EDP TABLES AND THE RELATED QUESTIONNAIRES

Introduction

The aim of this agenda item is to review the latest notification of EDP data (April 2015).

Discussion

Several issues relating to the EDP tables and related questionnaires were discussed, including the treatment of savings bonds intended for individuals, the insurance-related adjustment lines of EDP tables 2, reporting of negative values under item “Interest receivable” of EDP table 2A, Special Drawing Rights (SDRs), consistency between stocks and flows of trade credits and the accumulated receivables of the Maintenance Guarantee Fund (MGF; Uzturliðzekļu Garantijas Fonds).

Eurostat noted that normally instruments such as saving bonds issued by government should be classified under currency and deposits (F.2) and not under debt securities (F.3) as latter should include only negotiable instruments. The Latvian statistical authorities agreed to report a description about the savings bonds to Eurostat.

As regards EDP tables 2, Eurostat enquired about zeroes reported for 2014 within the insurance-related adjustment lines. The Latvian statistical authorities explained that these data are not yet available by April notifications, but only by EDP notifications in September. The authorities agreed to report “L”-s for these items in the future April EDP notifications.

Eurostat was also wondering why the item “Interest receivable” under other adjustments of EDP table 2A (central government) is negative for 2014. The Latvian statistical authorities explained that it is mainly due to issuance of securities with premium, which is received at issuance in the year 2014, whereas it cannot be recognized as a revenue in that year. Behind the large positive figure for 2014 in the line “Issuances above / below nominal value” of EDP table 3B is a large-scale issuance of securities with discount (face value in the amount of 2.1 billion EUR). The authorities also informed Eurostat that the item “Interest receivable” in EDP table 2C (local government) relates to a loan from the Treasury to local government relating to of enterprise and student credits.

As regards the zero value for 2014 under the item “Net incurrence of other liabilities”, the authorities noted that there were no more transactions in SDRs (F.1) in 2014. The authorities also explained that under ESA 95 transactions in SDRs were shown under assets, but under ESA 2010 are shown under liabilities of central government. Eurostat agreed to further check the treatment of SDRs taking into account the situation of Latvia and report back to the CSB.

² On 12.06.2015 the CSB sent the ESA 2010-based EDP inventory to Eurostat.

The participants also discussed the recording of trade credits and consistency between the EDP questionnaire table 4.1.2 and the EDP table 4 (consistency between the stocks and flows of trade credits). The Latvian statistical authorities agreed to provide Eurostat with a respective note.

The MGF, as a budget institution, is classified in the central government sub-sector. The function of the MGF is to provide child support in case the parents who live separately from the child fail to do it. The MGF establishes claims against those non-paying parents and collects the claims. However, the fund has accumulated around 110 MEUR of unpaid claims during ten years. The participants agreed that the amounts not likely to be collected would need to be recorded as government expenditures. The Latvian statistical authorities agreed to analyse the profile of the accumulated receivables and to ensure proper recording of the amounts unlikely to be collected in Latvian government accounts.

Findings and conclusions

Action point 2. The Latvian statistical authorities will provide Eurostat with detailed description on the savings bonds (intended for individuals) by end-August 2015³.

Action point 3. Eurostat encourages the Latvian statistical authorities to introduce “L” (not available) for the adjustment line “Claims on non-life insurance” in EDP tables T2A and T2C in April EDP notifications from the April 2016 EDP notification onwards.

Action point 4. Eurostat will inform the CSB about the result of the investigation related to treatment of SDRs in government accounts by end-August 2015⁴.

Action point 5. The Latvian statistical authorities will ensure consistency between the EDP questionnaire table 4.1.2 and the EDP table 4 (consistency between the stocks and flows of trade credits) by the October 2015 EDP notification⁵.

Action point 6. The Latvian statistical authorities will analyse the profile of the accumulated receivables of the Maintenance Guarantee Fund (Uzturlīdzekļu Garantijas Fonds) in order to identify the share of receivables not likely to be collected. Based on this information the authorities will ensure proper recording of the amounts unlikely to be collected in the government accounts for the full period when these receivables were accumulated. This is to be carried out by end-August 2015⁶.

³ On 31.08.2015 the CSB sent the detailed description of the savings bonds and provided further details on 10.09.2015.

⁴ On 03.07.2015 Eurostat confirmed to the CSB that the SDRs recording as agreed in March 2014 is appropriate and can be continued in the Latvian government accounts.

⁵ On 30.09.2015 the CSB provided information on consistency between the EDP questionnaire table 4.1.2 and the EDP table 4.

⁶ On 31.08.2015 the CSB sent description of the situation and proposal for changes in receivables in EDP tables 2A and 3B. Eurostat proposed a slightly different approach on 16.09.2015 (to exceptionally record receipts by government on a cash basis), which was accepted by the CSB on 18.09.2015. The recording for years 2004-2007 was agreed on 21.09.2015.

6. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

6.1. Delimitation of general government, 50% rule and qualitative criteria

6.1.1. Review of the changes in the list of general government units

Introduction

Under this agenda item Eurostat carried out its usual review of changes in the list of units belonging to the general government sector of Latvia, mainly based on the documents submitted by the CSB before the visit.

Discussion

The participants reviewed the main changes in the list of units classified in general government sector since the last Eurostat EDP visit to Latvia (April 2013). Eurostat took note that several real estate companies were reclassified to general government in the beginning of 2014, following the example of the largest state real estate company in Latvia. Eurostat noted that in such situations reclassifications should be applied to all (back) years when these companies were non-market units. The Latvian statistical authorities explained that in fact there are data availability problems for enterprises, which were not classified within general government sector in previous years. This is in particular the case for real estate companies whose financial results are largely impacted by revaluations in fair value of their fixed assets. The authorities agreed to provide Eurostat with information about time of creation of these real estate companies and to ensure consistent sector classification over time. The authorities also informed Eurostat that there is currently a court case pending on the issue of sector classification of one real estate company.

The participants also briefly discussed the sector classification of Rigas Satiksme (Riga Transport Company). For such transport company, an important issue to consider is the distinction between subsidies on products, which are considered as part of sales in the market / non-market test (50 % test), and subsidies on production. The Latvian media have hinted that this company has received large subsidies lately. The Latvian statistical authorities confirmed that Rigas Satiksme should remain outside general government based on the 50 % test (the amount of subsidies on production is still much smaller than subsidies on products), but nevertheless agreed to provide Eurostat with detailed information on receipts by direct sales and by type of subsidies. Another issue about this company (capital injection in kind) was addressed under the agenda item “6.3.7. Capital injections in public corporations”.

Findings and conclusions

Action point 7. The Latvian statistical authorities will inform Eurostat about the time of creation of the public real estate companies and will ensure that these companies are classified in government sector in all (back) years when these companies were non-market units. Eurostat encourages the authorities to make efforts in assessing the impact of revaluations of real estate in order to eliminate their effect on government deficit, as a first step, for years back to 2011 by end-August 2015⁷.

⁷ On 31.08.2015 the CSB sent the information about the six real estate companies for 2011-2014. On 10.09.2015 the CSB further informed Eurostat that it will reclassify the real estate companies to the

Action point 8. The Latvian statistical authorities will provide Eurostat with the market / non-market test (50 % test) of Rigas Satiksme (Riga Transport Company) for 2013 and 2014, to be accompanied by the breakdowns of its revenues into subsidies on products, subsidies on production and receipts from direct sales by the October 2015 EDP notification⁸.

6.1.2. Review of specific units (Rail Baltica II, Single Development Institution etc.)

Introduction

Eurostat and the CSB had identified three cases before the visit, which required special attention in the context of sector classification: Rail Baltica, Deposit Guarantee Fund and Development Financial Institution Altum (“single development institution”).

Rail Baltica

According to the information provided by the CSB before the visit, Estonia, Latvia and Lithuania have engaged in a joint project “Rail Baltica II” in order to integrate the Baltic States in the European rail network. The project will cost approximately total 3.7 billion euro for all three states, whereas a major part of the project is to be covered by the EU financing. In order to accomplish this goal in Latvia, the government founded in October 2014 a limited liability company Eiropas dzelzceļa līnijas (EDL) and a joint venture RB Rail. EDL is 100% owned by government and holds 1/3 of the equity of RB Rail. The government invested 0.68 MEUR in EDL in 2014, to be followed by similar equity injections in 2015, 2016 and in 2017.

RB Rail is a joint-stock company owned in equal proportions by the three Baltic States, whereas it is registered in Latvia. However, the railway infrastructure will continue to be owned by countries in which the respective part of the infrastructure is located. The costs associated with building of the infrastructure will be allocated according to the same principle – each country will cover only costs of infrastructure that is located on its territory. A ten-year business plan of RB Rail would be elaborated in the near future.

Deposit Guarantee Fund

As for the autonomy of decision of the Deposit Guarantee Fund (DGF), according to the law, the financial supervisor Financial and Capital Market Commission (FCMC) shall ensure the accumulation of funds with the DGF, the management of the DGF and the payment of guaranteed compensation, as well as exercise the right of actual creditors to make claims against deposit takers in the amount of the guaranteed compensation paid.

Development Financial Institution Altum (“single development institution”)

According to the information provided by the CSB before the visit, on 15 April 2015 three institutions united in a single development financial institution, which provides support in kind of financial instruments (guarantees, loans, risk capital, etc.) – Latvian Development Finance Institution Altum (Altum) (S.13), Latvian Guarantee Agency

general government sector from 2006 onwards in the data to be submitted to Eurostat in September 2015.

⁸ On 30.09.2015 the CSB provided information about market / non-market test (50 % test) of Rigas Satiksme, including the breakdowns of its revenues.

(LGA) (S.125) and Rural Development Fund (RDF) (S.126). The new institution is a joint stock company called Development Financial Institution Altum (DFIA), which is owned 100% by the central government. This single institution takes over all rights and obligations of Altum, LGA and RDF and will continue implementation of all state support programmes of these institutions. Altum, which was called Mortgage and Land Bank of Latvia until end-2013, was in fact already classified within the central government sub-sector as a captive financial institution (MGDD I.6.2 paragraphs 24-29) from the beginning of 2014 as it ceased its commercial activities by end-2013.

Discussion

Rail Baltica

In view of the Latvian statistical authorities, EDL should be classified within the general government following the MGDD guidance on public holdings (MGDD I.6.2 paragraph 18), whereas the authorities were wondering about sector classification of RB Rail. Based on available information Eurostat agreed with sector classification of EDL and advised to classify RB Rail in the non-financial corporations sector of Latvia, as a foreign-controlled non-financial corporation (S.11003). The Latvian statistical authorities agreed to provide Eurostat with relevant information about RB Rail (business plan etc.). Among other issues, the management of EU funds relating to this project should be clarified. Based on this information, Eurostat would then provide its opinion on the future treatment of flows and stocks of RB Rail in national accounts.

Deposit Guarantee Fund

The participants also reviewed sector classification of the DGF as Eurostat is currently re-examining the treatment of deposit guarantee schemes in the European context in general. Eurostat confirmed for the time being that the DGF, which does not act autonomously from the FCMC, does not form a separate institutional unit. FCMC (and therefore also the DGF) is classified within the financial auxiliaries (S.126) sub-sector.

Eurostat also recalled that the contributions to this fund should be recorded as tax, rerouted through government, whereas these flows would not affect government deficit (MDGG I.5 paragraph 14).

Development Financial Institution Altum (“single development institution”)

Eurostat agreed with the proposal of the Latvian statistical authorities to classify the new institution DFIA within the general government sector following MGDD guidance regarding sector classification of captive financial institutions (MGDD I.6.2 paragraphs 24-29). The authorities agreed to provide Eurostat with information about the debt impact of the merger of the three institutions.

Findings and conclusions

Action point 9. Eurostat confirms the classification of the holding company Eiropas dzelzceļa līnijas in general government sector and the joint venture RB Rail in the non-financial corporations sector of Latvia, on the basis of the information provided before and during the visit. The Latvian statistical authorities will provide Eurostat with relevant information about RB Rail, in particular its business plan and the arrangement as regards the EU funding as soon as this information is available. Based on this Eurostat will provide its opinion on the future treatment of transactions carried out by this unit and its assets and liabilities in national accounts.

Eurostat also confirms the classification of the Deposit Guarantee Fund in financial corporations sector for the time being as it is part of the Financial and Capital Market Commission, which belongs to financial corporations sector⁹. Eurostat is currently re-examining the treatment of deposit guarantee schemes in the European context with the aim of ensuring equal treatment of sector classification across the Member States.

Action point 10. Eurostat invites the Latvian statistical authorities to provide information about the estimated impact on Maastricht debt of the merger of the three institutions forming the Development Financial Institution Altum (“single development institution”). In particular, by presenting the liabilities of these units by the categories of Maastricht instruments, non-Maastricht instruments and consolidation within government sector by end-July 2015¹⁰.

6.2. Implementation of the accrual principle

6.2.1. Taxes and social contributions

Introduction

The CSB submitted before the visit a document including detailed and comprehensive information about time adjustment by different types of taxes, including the treatment of the new item “Subsidised electricity tax”. Tax amnesties were shortly discussed as well.

Discussion

The participants first reviewed the new item “Subsidised electricity tax”, which has been introduced as a temporary measure for the period of 2014-2018. Eurostat sought information about the payers of this new tax and its time of recording in Latvian government accounts. The Latvian statistical authorities agreed to provide this information well before the October 2015 EDP notification.

Tax amnesties, which concern several taxes (VAT, personal income tax etc.), were introduced in 2012 as a response to the economic crisis. At Eurostat’s request, the Latvian statistical authorities agreed to review the respective part of the EDP inventory (see also above part 4 about the EDP inventory).

Findings and conclusions

Action point 11. The Latvian statistical authorities will provide a note presenting the details of the Subsidised Electricity Tax, including the information about payers of the tax and its recording in national accounts by end-July 2015¹¹.

Action point 12. Eurostat invites the Latvian statistical authorities to clarify the recording of tax amnesties in national accounts. The authorities will do this by developing the respective part in the EDP inventory by end-July 2015¹².

⁹ On 08.07.2015 Eurostat again confirmed to the CSB that the DGF would be effectively part of the FCMC for national accounting purposes (classified in S.126) for the time being as it is not an institutional unit because of a lack of decision-making autonomy.

¹⁰ On 24.07.2015 the CSB submitted detailed data on the impact on government debt of the merge of the three institutions.

¹¹ On 24.07.2015 the CSB submitted a detailed description of the new tax and its recording in national accounts.

6.2.2. Interest

Introduction

The focus of this agenda item was on the data submitted by the CSB before the meeting within the special questionnaire on interest.

Discussion

Eurostat enquired about the recording of interest payments by the units reclassified to government sector in EDP tables 3 (central and local government). According to the Latvian statistical authorities such units (companies) report an accrual based data and, whereas cash based data on interest (interest payments) are not available. The authorities agreed to investigate the issue in order to find out a way to collect data on interest payments from such units.

Based on the document submitted by the CSB before the meeting, Eurostat also sought information about the discount on loans (F.4), which should not normally occur. According to the Latvian statistical authorities it relates to a loan from the EU Commission as the government received in the beginning less than the nominal value. The authorities noted that they followed the suggestion of the ECB, i.e. to apply similar recording to loans as for securities.

Findings and conclusions

Action point 13. The Latvian statistical authorities will assess the difference between interest accrued and paid for larger reclassified units (e.g. 4-5 units) by end-August 2015¹³.

The authorities also agreed to find out a way to collect data on interest payments from the units reclassified to government sector.

6.3. Recording of specific government transactions

6.3.1. Government operations relating to the financial crisis

The participants noted that currently there are no outstanding issues as regards government operations relating to the financial crisis, except for clarification about the recording of the EBRD put option and the Citadele sale, which is covered under the next agenda item.

6.3.2. Recording of EBRD put option and the Citadele sale

Introduction

This agenda item addressed two cases which concern transactions of the Privatisation Agency (PA; classified in central government) with non-government units. The first is

¹² On 12.06.2015 the CSB submitted to Eurostat the updated EDP inventory. The CSB submitted this information in a separate document also on 24.07.2015.

¹³ On 31.08.2015 the CSB sent the information about differences between cash and accrued interest for larger reclassified units, which in fact match for these units. On 10.09.2015 the CSB also confirmed that these interest payments in cash are reported in EDP T3B (and T3A).

sale of Citadele Bank equity to private investors and the second is a call of guarantee granted by the PA to the European Bank for Reconstruction and Development (EBRD). These issues were being discussed in depth with the Latvian statistical authorities since July 2014. During the EDP notification period in April 2015 Eurostat and the CSB agreed in principle on the recording, whereas a few details remained to be clarified.

The PA and the EBRD concluded a put option agreement in April 2009, which forms part of the Parex Bank shares purchase contract, followed by minor amendments in July 2009, July 2010 and November 2012.

With this put option agreement the PA guaranteed to the EBRD its investment in Parex Bank. Based on the information submitted by the CSB (including originals of the confidential contracts), Eurostat concluded together with the CSB that this put option is not a financial derivative instrument in national accounts context (i.e. it is not a marketable instrument) and therefore it should be recorded as a guarantee in national accounts. The activation of the put option (i.e. call of the guarantee in national accounts) is related to the privatisation of the Citadele Bank, which is the “good bank” after the split of Parex Bank in 2010. The privatisation was concluded in 2015 and the Latvian authorities have agreed with Eurostat that the disposal of equity (F.5) should be recorded in 2015, i.e. once the privatization is approved also by the relevant regulators. Other supporting factors to record the disposal of equity in 2015 were that the cash for the equity had not yet been paid in 2014 and also the final amount was not known in 2014. The provisional amount of 74.0 MEUR was specified in the equity sale contract, which was subject to change depending on the Citadele Bank’s financial result for 2014.

As regards time of recording of the put option, the Latvian statistical authorities informed Eurostat in April 2015 that there is a payable in the amount of 88.2 MEUR in the 2014 accounts of the PA, which led to recording of the guarantee call (deficit increasing capital transfer) in 2014 (instead of 2015). Following Eurostat’s request, the authorities submitted the PA annual report for 2014 before the meeting in May 2015.

Discussion

Following Eurostat’s enquiry, the Latvian statistical authorities confirmed that 74.7 MEUR is the final amount paid for the Citadele equity by the private investors. Eurostat also sought information about time of recording of the partial settlement (partial call of the guarantee in national accounts) in the amount of 1.26 MEUR in 2012. The authorities agreed to analyse the matter and report the outcome to Eurostat.

Findings and conclusions

Action point 14. Eurostat encourages the Latvian statistical authorities to ensure appropriate recording of the EBRD put option in the 2012 government accounts (partial call of the guarantee) by the October 2015 EDP notification¹⁴.

Eurostat also took note that 74.7 MEUR is the final amount paid for the Citadele equity by the private investors.

¹⁴ On 30.09.2015 the CSB informed Eurostat that according to information provided by Privatisation agency partial call of the guarantee was recorded in 2012.

6.3.3. Government guarantees and guarantee calls

Introduction

The aim of this agenda item was to review the treatment of the large guarantee call which took place in 2013 relating to Liepājas Metalurģs (LM, a private steel company), the granting of guarantees the Privatisation Agency (PA, part of S.13) the item “Stock of provisions”, which is currently not filled in the EDP questionnaire table 9.1 and the new housing loans guarantee scheme.

In 2013 the government guarantee granted on LM’s debt was called in full (73.6 MEUR). Subsequently, the government managed to recover 0.877 MEUR in 2014, which was recorded as a deficit improving capital transfer in 2014.

There is a new housing loans guarantee scheme provided by Altum, which became operational in 2015. According to Altum’s website the loans would be granted to families with children in order to acquire or construct homes. The loans are granted by commercial banks, while Altum will provide loan guarantees for banks. Depending on the number of children, the guarantees can vary within the range of 10-20% of the loans.

Discussion

As regards the transactions relating to the guarantee call by LM, the Latvian statistical authorities noted that further recoveries from the LM are expected during the coming years, which would be recorded as deficit improving capital transfers in government accounts.

Eurostat also enquired about the presentation of the large amount of guarantees (126.6 MEUR as of end-2014) granted by government to the PA, which forms part of the total outstanding guarantees (399.3 MEUR as of end-2014) as reported by the CSB in the EDP questionnaire table 9.1. The issue had been briefly discussed in the past, but not in detail. The Latvian statistical authorities explained that in fact this amount relates to the relationship of the PA with the EBRD. In other words, the ultimate beneficiary of the guarantee is a non-government unit. Eurostat agreed with keeping this amount within the figures reported in the EDP questionnaire table 9.1.

The third issue discussed concerns the item “Stock of provisions” of the EDP questionnaire table 9.1 as the CSB had wondered about the meaning of this item. Eurostat suggested that one example may be the information about provisioning of the government guarantees estimated by the Treasury, which is presented in the annual reports of the State Audit Office of Latvia. The Latvian statistical authorities agreed to introduce the data on provisions estimated by the Treasury in the EDP questionnaire table 9.1.

Finally, the participants also discussed briefly about the new scheme of housing loans guarantees granted by Altum. The participants concluded that this scheme should be treated as standardised guarantees, whereas currently there is not yet information available in order to record provisions for calls under standardised guarantees (F.66) and the related expenditures as the scheme was launched only in 2015.

Findings and conclusions

Action point 15. The Latvian statistical authorities will introduce in the EDP questionnaire table 9.1 the data on provisions estimated by the Treasury by the October 2015 EDP notification¹⁵.

Eurostat agreed with keeping the guarantees granted to the Privatisation Agency (part of S.13) within the figures reported in the EDP questionnaire table 9.1 as the ultimate beneficiary of the guarantee is a non-government unit.

The participants also concluded that the new guarantee scheme of housing loans granted by Altum should be treated as standardised guarantees.

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

The participants reviewed the data on debt assumptions and debt write-offs by government for years 2013-2014 submitted by the CSB before the visit. Eurostat took note of the small amounts confirmed the recording as applied by the CSB.

6.3.5. Recording of EU flows

Introduction

The recording of EU flows, which play significant role in the compilation of government accounts in Latvia, has always been a challenge to the CSB because of its complexities (the flows are between government sub-sectors / budget units and reclassified enterprises; EU financing has to be distinguished from government own financing etc.). Due to improvement of the EU flows' recording, several large scale revisions to government deficit data have taken place.

Before the October 2014 EDP notification the Latvian statistical authorities carried out in-depth analysis of calculation of use of EU funding repayments and other foreign financial aid provided to enterprises reclassified in government sector. Before the April 2015 EDP notification, in order to improve reflection of EU funding on the general government deficit, the authorities additionally carried out an in-depth analysis of various data sources. In order to specify expenditure carried out in the respective year additional analysis was carried out on EU funding repayments and other foreign financial aid into the government budget. Various data sources were compared: data of the Treasury, data of the MoF EU funds management information system and information from Rural Support Service.

Besides the improvements introduced to the recording of EU flows, the participants also shortly discussed the issues relating to unused funds of the JEREMIE programme.

Discussion

The Latvian statistical authorities provided an overview of the recent improvements in the recording of EU flows. The most important change concerned the imputation of revenue relating to investments of 32 enterprises (mostly hospitals classified in central government) recorded as gross fixed capital formation (P.51) in order to ensure neutrality

¹⁵ On 30.09.2015 the CSB introduced in the EDP questionnaire table 9.1 the data on provisions estimated by the Treasury.

of impact of EU flows on government deficit. In addition, in spring 2015 the authorities investigated the unused resources in order to remove from the source data so called “recirculated money”. The authorities intend to further analyse these recirculated amounts (e.g. to create additional codes for EU money returned to the “basic budget”) before the October 2015 EDP notification and agreed to provide Eurostat with a note on these modifications in the recording of the EU flows.

The participants also shortly discussed about the way the EU flows data compilation is organised in Latvia. The authorities confirmed that the data are compiled by various sub-categories, including separately by the programmes.

The Latvian statistical authorities also informed Eurostat about the treatment of the unused EU funds (JEREMIE). The European Investment Fund (EIF) and government of Latvia launched the JEREMIE programme in 2008 with the aim of providing to SMEs:

- (1) Equity investment.
- (2) Development loans.
- (3) Mezzanine finance.
- (4) Energy efficiency loans.

In 2012 government took over this programme from the EIF and the active investment period has ended by now. Eventually the activities under items (3) and (4) did not materialise and the respective funds must be returned to the European Commission. The authorities confirmed that the treatment of unused resources ensures neutrality of impact on government deficit.

Findings and conclusions

Action point 16. The Latvian statistical authorities will provide Eurostat with a note on recent modifications in the recording of the EU flows by the October 2015 notification. Eurostat encourages the Latvian statistical authorities to closely monitor the impact of the EU flows on the Latvian government accounts also in the future¹⁶.

The Latvian statistical authorities confirmed that the treatment of unused JEREMIE resources ensures neutrality of impact on government deficit.

6.3.6. Recording of military equipment procurement

The participants reviewed the revisions to military expenditures data made in October 2013. The discussion revealed that the EDP questionnaire tables 7 are in fact filled by the Ministry of Defence, whereas the CSB lacks access to the more detailed data underlying the figures reported in tables 7. Eurostat encouraged the Latvian statistical authorities to establish a system of receiving detailed information from the Ministry of Defence.

¹⁶ On 30.09.2015 the CSB provided information on recent modifications in the recording of the EU flows, including improvements in the adjustment of EU funds' repayments to the budget and further explanation about adjustments to EU-funded investments made to reclassified enterprises.

Findings and conclusions

Action point 17. Eurostat encourages the Latvian statistical authorities to establish a system of receiving detailed information from the Ministry of Defence about the military expenditures in order to be able to record accurately these expenditures in government accounts. The authorities will report about the progress to Eurostat by end-December 2015.

6.3.7. Capital injections in public corporations

Introduction

This agenda item focused on relations of government with the national airline Air Baltic Company (ABC) and the capital injections in kind in the large public transport company Rigas Satiksme (Riga Transport Company).

The Latvian government has injected funds within ABC in various forms in the course of 2010-2014, including loans granted by government to ABC in the total amount of 36.14 MEUR since the fourth quarter of 2012 (“the second tranche”)¹⁷.

According to Latvian media, Riga municipality transferred 16 pieces of real estate properties to Rigas Satiksme on 31 March 2015, whereas the decision about the transfer was already made in 2010. The transferred properties include pieces of land, a residential building and a transformer station. It seems that these properties are already in use by Rigas Satiksme. According to available information the market value of the properties had not been established by the time of the transfer.

Discussion

The participants reviewed the document on capital injection test for 2013-2014 by individual companies submitted by the CSB before the visit, status of loans provided by government to ABC and the recent case about capital injection in kind in Rigas Satiksme.

As regards the document submitted by the CSB before the visit, Eurostat identified two cases at the local government level where the accumulated losses were not accounted for in the capital injection test. The Latvian statistical authorities agreed to check the information and to record deficit increasing capital transfers where necessary (the amounts involved are small – less than one MEUR).

¹⁷ Detailed information about government transactions with ABC is available in the final findings report of the Eurostat EDP Pre-euro Accession Visit to Latvia carried out on 8-9 April 2013, which is published on Eurostat website.

The authorities informed Eurostat that there are no changes as regards the recording of loans (“the second tranche”) provided by government to ABC, which are recorded as capital transfers from government to ABC in national accounts. Also, the repayment deadlines of the loans have been extended.

Concerning the capital injection in kind in Rigas Satiksme, the authorities agreed to collect the necessary information and to inform Eurostat about the recording of the transfer of real estate assets based on MGDD III.4.

Findings and conclusions

Action point 18. The Latvian statistical authorities will correct the recording of capital injections for the units with accumulated losses where no capital transfers have been currently recorded (e.g. 2 cases in 2013) by the October 2015 EDP notification¹⁸.

Action point 19. The Latvian statistical authorities will provide Eurostat with a note describing in detail (i.e. including information about the nature of assets) how the transfer of real estate assets from Riga City to Rigas Satiksme (Riga Transport Company) will be recorded in government accounts by end-December 2015.

Eurostat also took note that there are no changes as regards the recording of loans (“the second tranche”) provided by government to Air Baltic Company.

6.3.8. Dividends, super dividends

Introduction

As regards the last two years (2013-2014), super dividends were recorded only in the amount of 0.05 MEUR in 2014.

Eurostat usually pays special attention to the super dividend test applied on profits of the central banks (MGDD IV.2). The issue was addressed at the 2011 EDP dialogue visit and Eurostat agreed with the calculations submitted by the CSB after the visit.

Discussion

The participants reviewed the information on super dividends test submitted by the CSB before the visit. Eurostat noted that there is no need to include in the test the companies in which government holds minority stake. Eurostat also enquired about the super dividend test applied on profits of the Central Bank and the Latvian statistical authorities agreed to provide Eurostat with the results of the test for dividends received by government in 2013 and 2014.

Findings and conclusions

Action point 20. The Latvian statistical authorities will provide Eurostat with a note about the super dividend test for the Central Bank for the dividends received by government in 2013 and 2014 by the October 2015 EDP notification¹⁹.

¹⁸ On 30.09.2015 the CSB informed Eurostat on correction of the mentioned 2 cases.

¹⁹ On 30.09.2015 the CSB provided the super dividend test for the central bank.

6.3.9. Others: privatization, PPPs, emission trading permits, sale and leaseback operations, UMTS, securitisation, financial derivatives

Introduction

According to the note on recording of revenues from the sale of EU Allowances (EUA) submitted by the CSB before the visit, the sales receipts by government were 2.1 MEUR, 10.8 MEUR and 10.2 MEUR in 2012, 2013 and 2014 respectively. This agenda item also addressed recording of sales of mobile phone licences and treatment of Private Public Partnership (PPP) projects.

Discussion

The participants reviewed the note on the recording of revenues received by government for emission trading permits submitted by the CSB. The Latvian statistical authorities explained that revenues from the sale of EU Allowances (EUA) generated during the period from January to April (4 months) of a year are recorded in the same year, whereas revenues from the sale of EUAs generated during the period May to December (8 months) of a year are recorded in the following year. Exception – situations where EUAs of other trading periods are used (from the 2nd 2008-2013 to the 3rd 2013-2020). Eurostat confirmed the approach applied by the CSB.

Eurostat also sought information about recent sales of mobile phone licences and about the collection of information on the sales of the licences in Latvia.

Eurostat had encountered in media sources some information about the recent sales of mobile phone licences in Latvia. The Latvian statistical authorities agreed to verify this information with their national telecom regulator. Apart from that, the authorities informed Eurostat that the regular data source for such information is the separate line in the accounts of the Treasury.

The participants also briefly discussed the PPP projects. There were no new PPP projects initiated during the EU-IMF programme period, which ended in the beginning of 2012. Eurostat stressed that the CSB should have access to draft PPP projects before they are finalised and signed in order to be able to comment on their statistical treatment.

Findings and conclusions

Action point 21. The Latvian statistical authorities will contact the national telecom regulator (SPRK – Public Utilities Commission) in order to enquire about recent sales of mobile phone licences and will incorporate the relevant data in the Latvian government accounts by the October 2015 EDP notification²⁰.

Action point 22. Eurostat encourages the Latvian authorities to consult the CSB on draft PPP projects and their statistical classification before their finalisation.

Eurostat also confirmed the approach applied by the CSB as regards recording of revenues from the sale of EU Allowances (EUA).

²⁰ On 30.09.2015 the CSB informed Eurostat on corrections to the recording of the revenue from recent sales of mobile phone licences, which was further corrected in co-operation with Eurostat in the course of clarification of the October 2015 EDP notification.

7. Other issues

7.1. ESA 2010 Transmission Programme

The participants briefly reviewed the temporary change in the second half of 2014 in the recording method of VAT, which did not impact government deficit. The Latvian statistical authorities confirmed that this was a misunderstanding and the usual method (time adjusted cash) was resumed shortly.

EUROSTAT EDP DIALOGUE VISIT TO LATVIA

26-27 MAY 2015

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