

**Inventory of the methods, procedures and sources  
used for the compilation of deficit and debt data and  
the underlying government sector accounts  
according to ESA 2010**

*Latvia*

**June 2017**

## Background

Compilation and publishing of the Inventory of the methods, procedures and sources used to compile actual deficit and debt data is foreseen by Council Regulation 479/2009, as amended.

According to Article 8.1: *“The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 2010.... Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording.”*

In line with the provisions of the Regulation set up in Article 9, *“Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data”*.

The content of the Inventory and the related guidelines have been endorsed by the Committee on Monetary, Financial and Balance of Payments statistics in June 2012 and are followed by all EU Member States.

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**Annex I – list general government units**

## **A. Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data**

This chapter provides a summary description on the general government sector components and specifies institutional responsibilities and basic data sources used for EDP tables and for the compilation of general government national accounts. Special attention is given to EDP tables: detailed description of components of the working balance and the transition into EDP B.9 (net lending/net borrowing); compilation of Maastricht debt and of stock-flow adjustments; explanation of the link between EDP table 2 and 3, balancing process and statistical discrepancies.

### **1. General Government**

This section describes the coverage of the General Government sector and the sub-sectors for Latvia.

The general government sector is composed by 3 sub-sectors: S.1311, S.1313 and S.1314. It includes:

#### **1.1. Central government subsector (S.1311)**

Central government subsector includes following units:

##### 1) Central budgetary organisations

- ministries and central institutions (27);
- ministries and central institutions subordinated institutions (148);
- derived public persons partially financed from the budget (46) (*other public person established by law or on the basis of law. Such public person has been conferred its own autonomous competence by law, which includes also establishing and approval of its own budget, such a person may have its own property, mainly public*);
- organisations not financed from the budget (6) (*institutions of direct State administration subordinated to a member of the Cabinet performing certain State administration functions or tasks and whose activities are fully, except the case provided for in this Law, financed from the revenues thereof for the paid services provided and other own revenues, gifts, donations and foreign financial assistance*);
- public foundations (2) (*a foundation, also a fund, is an aggregate of property that has been set aside for the achievement of a goal specified by the founder, which shall not have a profit-making nature*).

##### 2) Other central organisations

- capital companies controlled and financed by central government (49) (*reclassified enterprises from S.11 to S.13 following 50% criterion*) (ESA 2010, § 20.29-20.31).

#### **1.2. State government subsector (S.1312)**

The subsector is not covered in the Latvia.

Institutional arrangements, sources, procedures and methods used for the calculation of deficit and debt data

### **1.3. Local government subsector (S.1313)**

Local government subsector includes following units:

- 1) Local budgetary organisations
  - municipalities of 9 cities under state jurisdiction;
  - municipalities of 112 counties;
  - 710 indirect local government organisations.
- 2) Other local organisations
  - capital companies controlled and financed by local government (78) (*reclassified enterprises from S.11 to S.13 following 50% criterion*) (ESA 2010, § 20.29-20.31).

### **1.4. Social security funds subsector (S.1314)**

Social security fund subsector includes State Social Insurance Agency.



## 2. Institutional arrangements

This section provides general information on institutional arrangements relating to the production and dissemination of government deficit and debt statistics:

- responsibility of national authorities for compilation of individual EDP tables and underlying government national accounts, as defined by ESA 2010 Transmission Programme;
- institutional arrangements relating to public accounts which are used by statistical authorities for compilation of government national accounts and EDP tables;
- general overview about accounting system used by public units, internal quality checks and external auditing;
- communication between individual national authorities involved in EDP;
- publishing of deficit and debt statistics.

### Legal basis for the compilation of GFS and EDP data

Legal basis for the collection and compilation of fiscal data:

- Law „On Budget and Finance Management” (adopted on 23.03.1994 with amendments and the corresponding Cabinet Regulations);
- Cabinet Regulation No. 773 of 16.12.2014 “Procedure for the Preparation and Submission of Quarterly Financial Reports”.

Legal basis for the collection and compilation of EDP data:

- Cabinet Regulations No 756 of 22 December 2015 „ Procedures for preparing the Notification of General Government Deficit and Debt” prescribes the procedure by which the notification of general government deficit and debt specified in Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (Codified version), shall be prepared and submitted to the responsible structural unit of the European Commission – Statistical Office of the European Union *Eurostat*.

## 2.1. Institutional responsibilities for the compilation of general government deficit and debt data

**Table 1. - Institutional responsibilities for the compilation of general government national accounts and EDP tables**

Institutional responsibilities <i>(the appropriate cells are crossed)</i>		NSI	MOF	NCB	Other	
<b>Compilation of national accounts for General Government:</b>						
Nonfinancial accounts	annual	X				
	quarterly	X				
Financial accounts	annual	X				
	quarterly	X				
Maastricht debt	quarterly	X				
<b>Compilation of EDP Tables:</b>						
EDP table 1	actual data	deficit/surplus	X			
		debt	X			
		other variables	X			
	planned data	deficit/surplus		X		
		debt		X		
		other variables				
EDP table 2 (actual data)	2A central government	X				
	2B state government					
	2C local government	X				
	2D social security funds	X				
EDP table 3 (actual data)	3A general government	X				
	3B central government	X				
	3C state government					
	3D local government	X				
	3E social security funds	X				
EDP table 4		X				

*NSI - National statistical institute including units subordinated to the NSI (the latter is to be specified in comments)*

*MOF – Ministry of Finance/Economy including units subordinated to the MOF (to be specified in comments)*

*NCB – National Central Bank*

*Other – other national body, to be specified in comments*

Official names of the institutions involved in preparation of EDP notification:

*Centrālā statistikas pārvalde*

*Finanšu ministrija*

*Valsts kase*

Central Statistical Bureau

Ministry of Finance

Treasury

<i>Aizsardzības ministrija</i>	Ministry of Defence
<i>Latvijas banka</i>	Bank of Latvia
<i>Valsts sociālās apdrošināšanas aģentūra</i>	State Social Insurance Agency

The Central Statistical Bureau (CSB) is responsible for preparing and submitting the notification (both April and October) to *Eurostat*. Institutions involved in preparation of the notification are the Ministry of Finance and the institution subordinate thereto – the Treasury. The CSB prepares the notification in accordance with the methodological principles of Regulation (EU) No 549/2013 of the European Parliament and the Council of 21 May 2013 on the European System of National and Regional Accounts in the European Union (hereafter – ESA 2010), using the data submitted by the involved institutions and the data collected by the CSB. The CSB organises working groups for comprehensive investigation of methodological issues and data sources, as well as for analysis and assessment of the notification results. Next to the above-mentioned involved institutions the CSB invites the Bank of Latvia and if necessary other organisations responsible for government financial statistics for collection and analysis of related data.

The CSB confirms the final EDP data prior to submitting to *Eurostat*.

The EDP tables officially signed by the CSB president are sent to *Eurostat* via eDAMIS.

### **2.1.1 Existence of an EDP unit/department**

One of the functions of the CSB Government Finance Statistics Section is preparation of EDP notifications.

Government Finance Statistics Section is a part of the Macroeconomic Statistics Department. Next to drafting the EDP notification the Government Finance Statistics Section is also responsible for preparing General government sector non-financial and financial accounts, government debt calculations, as well as for preparation of financial accounts of all sectors.

The CSB Government Finance Statistics Section in line with the above-mentioned (see Paragraph 2.1 Cabinet Regulations No 756 of 22 December 2015) receives information from the Treasury, the Ministry of Finance and the Ministry of Defence and summarises information from statistical reports. For the preparation of the April notification provisional information is provided, while for the October notification – information from the annual report. The CSB performs calculation in all EDP tables. The forecast data are provided by the Ministry of Finance. Inter-institutional meetings chaired by the CSB are organised on a range of methodological matters and the possible corrections in the EDP table data.

### **2.1.2 Availability of resources for the compilation of GFS data**

The Government Finance Statistics Section is responsible for preparing statistics for quarterly and annual government finance statistics, as well as for EDP preparation.

There are 8 employees at the CSB who are responsible for preparing government financial statistics.

Employees are involved in creating data source questionnaires, data analysis and checking. The responsible employees if needed prepare data upon a request from international and national organisations.

## **2.2. Institutional arrangements relating to public accounts**

### **2.2.1 Legal / institutional framework**

The legal framework and general principles for accounting is stipulated by the Law “On Accounting”. It refers both to institutions financed from the central and local governments budgets and to central and local government capital companies.

Law “On Budget and Financial Management” determines the procedure for the formulation, approval and implementation of the State budget and local government budgets and the responsibility in the budget procedure. Financial management applies to the funds of the state budget and local government budgets.

The Treasury is responsible for the state budget financial accounting.

Cabinet regulations No 1486 of 15 December 2009 issued in line with Section 2 of Article 29 of Law “On Budget and Financial Management” stipulate the order how budget institutions shall organise accountancy.

Accounting (except for taxes) is based on accrual for all government units and public corporations.

Accounting records and evidence of all public units are regularised by a related national legislation.

The Ministry of Finance develops and implements the accounting rules. Regulations for the accounting and organisation, as well as cash operation are issued by the Cabinet of Ministers. In creating, improving and coordinating new financial statements the Ministry of Finance cooperates with the Treasury, sworn auditors, ministries and other institutions involved.

The accounting system is constantly improved.

### **2.2.2 Auditing of public accounts**

#### *2.2.2.1 General government units*

##### State and local government institutions, derived legal persons and Saeima

The State Audit Office audits state and local government institutions, as well as derived public persons, except the Saeima (parliament of the Republic of Latvia). The Saeima is financially independent. Legitimacy of the Saeima, accounting and annual statements, cost-effectiveness of expenditure, as well as annual reports are checked by the Public Expenditure and Audit Committee.

The State Audit Office audits income and expenditure of state and local government institutions, as well as of derived public persons, expenditure of funds of the European Union and other international organisations included in the state or local government budgets.

Ministries and other central institutions as well as local governments submit the consolidated annual statement to the Treasury till May 1 of the financial year following the reporting year in the order as stipulated by regulatory enactments for annual accounts. Ministries and other central State institutions shall attach to the annual accounts the opinion of the State Audit Office regarding the correctness of the preparation of the annual accounts. Local governments shall attach a sworn auditor’s report to their annual statement. The State Audit Office attaches a sworn auditor's report or a report of sworn auditors’ commercial company.

The Minister of Finance submits to the State Audit Office a report on the financial year (annual statement) by 1 July of the year following the financial year.

The State Audit Office submits to the Minister of Finance an opinion regarding the annual statement on the financial year by 15 September of the year following the financial year.

The Minister of Finance submits the annual statement together with the State Audit Office's opinion to the Cabinet till October 1 of the following financial year.

The Cabinet shall submit to the *Saeima* the report on the financial year concerning the implementation of the State budget and local government budgets together with the opinion of the State Audit Control by 15 October of the financial year following the reporting year.

The results of ministry audits are available from May 1 of the financial year following the reporting year.

The Treasury's annual statement on the financial year concerning the implementation of the State budget and local government budgets is available from July 1 of the financial year following the reporting year for the CSB as data source.

The State Audit Office provides an opinion on the correctness of the preparation of annual statements of ministries and other central institutions no later than within 60 days from the date of receipt of the respective statement.

Audit reports are published in the State Audit Office's homepage, in the individual homepages of each institution.

### Reclassified capital companies

In accordance with the Annual Accounts Law and the Law "On State Audit Office" state capital companies are subject both to the State Audit Office and sworn auditors' audit procedure.

The State Audit Office controls financial funds of state and local government capital companies, as well as financial funds of those capital companies, where shares belong to state and local government capital companies.

All flows and all accounts of the unit are audited.

In line with the Annual Accounts Law all capital companies are audited, except capital companies, where two of the indicators (balance total – 800 000 EUR, net turnover – 1000 000 EUR and average number of employees in the reporting year –50) do not exceed the criteria. Statements of these units need not be checked by a sworn auditor as provided for in the Law „On Sworn Auditors”.

In the event indicators of a capital company exceeds two of the criteria mentioned before, as well as if the company's transferable securities are included in the market regulated by Member States, the financial statement of the company is checked by a sworn auditor in line with the Law on “Sworn Auditors”. Verification of the annual statement also includes accounting check in order to establish, whether the accounting complies with the general principles of accounting and if the provisions of the regulatory enactments for drafting annual statements and the provisions of the company statutes are met.

Annual statements prepared by capital companies in line with the provision of the Law “On Accounting” are verified by a sworn auditor, who prepares an audit report as provided for in the Law “On Sworn Auditors”. The annual statement consists of the financial statement and management report on the company's development in the reporting year. The annual statement provides information on the company's funds, liabilities, financial situation, profit or loss and cash flow. Verification of the annual statement also includes accounting check in order to establish if the practice complies with the general accounting principles. It is also established, if the provisions of the regulatory enactments stipulating the order for preparing annual statements and company's statute are observed.

Capital companies submit the annual report to a sworn auditor right after it is drafted.

Capital companies no later than a month after the approval of the annual statement and no later than four months after the end of the reporting year, i.e. till May 1, while companies with the activity scope exceeding two of the criteria mentioned before and capital company – the parent capital company of the group, which prepares the consolidated annual statement no

later than seven months after the end of the reporting year, i.e. in August, shall submit a copy of the annual statement and sworn auditor's report (if there is such) to the State Revenue Service (SRS) together with a certificate stating that the annual statement is approved.

The SRS electronically sends all capital company statements to the Register of Enterprises (RE) no later than within five working days after receiving. The RE ensures public accessibility of the received documents.

In line with Cabinet Regulations No 277 of 3 June 2014 “Issue of the information of the Register of Enterprises of the Republic of Latvia”, determining the order for issuing the information of the Register of Enterprises, SIA Lursoft IT (Lursoft) has concluded a licence agreement with the RE, which means that Lursoft as the re-user has the right to provide the RE information to third persons. Information from Lursoft on the annual statements of capital companies is a chargeable service.

In line with the terms mentioned before information on the annual statements of capital companies is available in Lursoft homepage and in homepages of the largest capital companies.

Audit reports may also include a risk analysis and other relevant details established in the course of the audit procedure.

The information of auditing process is included in the Annex 2.

#### *2.2.2.2 Public units, not part of general government*

See 2.2.2.1 section “Reclassified capital companies”.

## **2.3. Communication**

### **2.3.1 Communication between actors involved in EDP**

#### *2.3.1.1 Agreement on co-operation*

Inter-institutional cooperation (the Ministry of Finance, the Treasury, the Ministry of Defence, the Central Finance and Contracting Agency, the Social Insurance Agency and the Bank of Latvia), involved in the EDP preparation is regulated by the Cabinet Regulations referred to in Paragraph 2.1.

There is no special agreement, while the Cabinet Regulations referred to in Paragraph 2.1 determine the deadlines for the involved institutions to submit the required data to the CSB.

Cabinet Regulation referred to in Paragraph 2.1 determine duties of each institution for the preparation of the EDP notification.

Within the framework of the current EDP notification procedure the CSB may convoke inter-institutional working group for comprehensive analysis of methodological issues and data sources and for the analysis and assessment of the notification results. Meetings are held on weekly basis in run-up to the submission of notification.

Short minutes are prepared on the discussed themes.

Cabinet Regulation referred to in Paragraph 2.1 determine the deadlines for the involved institutions (the Ministry of Finance, the Treasury) to provide information for the preparation of the EDP notification.

When the Ministry of Finance and the Treasury improve or introduce changes to financial statements, it is coordinated with the CSB. The CSB takes part in the discussions on the changes in the financial statements with regard to both – the content and deadlines.

#### *2.3.1.2 Access to data sources based on public accounts*

Summarised data are submitted electronically in excel. However, if needed individual data are also provided.

Officially submitted data are confirmed with the electronic signature of the head of the institution.

The CSB has the access right to view Treasury's state and local government budget statement information system, containing summarising information and partially individual information on institutions and local governments – both on transactions and residue.

The CSB has access to the information system of the management of European Union Structural Funds and Cohesion Fund containing information on the implementation course of separate projects in each planning stage by a separately selected period (administrated by the Ministry of Finance for 2007-2013 planning period and by the Central Finance and Contracting Agency for 2014-2020 planning period).

Available data via different means (paper, electronic form, database, etc.) are consistent. Main aggregates and balancing items are identical in different documents.

### **2.3.2 Publication of deficit and debt statistics**

#### *2.3.2.1 Publication of EDP data*

In a press release the CSB publishes the main EDP data shortly before the Eurostat press release, once the data are coordinated with Eurostat (around April 20 and October 20).

All EDP tables are published in the CSB homepage – both in Latvian and English:

[http://www.csb.gov.lv/sites/default/files/dokumenti/edp\\_tabulas\\_en\\_aprilis\\_2017.pdf](http://www.csb.gov.lv/sites/default/files/dokumenti/edp_tabulas_en_aprilis_2017.pdf)

Prior to the official Eurostat press release the CSB publishes a press release on the key notification results. After the Eurostat press release full content of all EDP tables is published, providing general description of the notification.

Practically, data are published only when the explanatory process between the state and Eurostat is completed, therefore the data are consistent.

Explanatory document concerning EDP data is provided in following link:

<http://www.csb.gov.lv/en/statistikas-temas/notification-general-government-budget-deficit-and-debt-30515.html>

#### *2.3.2.2 Publication of underlying government ESA 2010 accounts*

ESA 2010 Table 2, 25, 28, 9, 11 data are partially published in the CSB data base according to CSB press release calendar:

<http://www.csb.gov.lv/en/dati/advance-release-calendar-34481.html>

### 3. EDP tables and data sources

This section reports on availability and use of basic data sources for the compilation of national accounts and EDP tables, by general government subsectors and main units/groups of units. It also aims at describing adjustments to basic data source in order to compile ESA 2010 based deficit/surplus; EDP tables compilation techniques, balancing practices; link between EDP table 2 and 3.

#### 3.1. EDP table 1

##### 3.1.1 Compilation of Maastricht debt

###### 3.1.1.1 Specification of debt instruments

AF.22 and AF.29 – Deposits

Liabilities for currency and deposits – registered only in the central government subsector. These are the currency and deposits in the Treasury for public authorities, local government authorities, capital companies reclassified to government, Social security fund and other authorities.

This position includes the subordinated debt attributable to the former related parties of the JSC “Reverta”.

AF.331 and AF.332 – Debt securities

S.1311: Short-term bonds are government securities with the maturity of up to one year (including). Long-term bonds are government bonds with the maturity of more than a year and notes of JSC “Reverta” – private placement and public issue.

S.1313: Local governments have not issued any debt securities.

S.1314: Social security fund is not authorised to issue debt securities (in line with the applicable legislation).

AF.41 and AF.42 – short-term and long-term loans

S.1311: These positions include the received loans, guaranteed loan payment, financial leasing.

S.1313: Loans from financial institutions and the Treasury received by local government budget institutions and capital companies reclassified to local government.

Loans for local government budget institutions and capital companies controlled and financed by local government received from financial institutions and the Treasury.

S.1314: Social security fund has received loans from financial institutions and the Treasury.



### 3.1.1.2 Data sources used for the compilation of Maastricht debt

The main data sources used for the compilation of Maastricht debt are the following:

- for the April notification -
  - o Report “Information for the calculation of the general government budget deficit and debt”;
  - o Quarterly financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” by quarter of year n-1 (2-FAP),
- for the October notification -
  - o Report “Information for the calculation of the general government budget deficit and debt”;
  - o Annual financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” in year n-1 (1-FAP).

Additional data sources:

- o Monthly report on debt / Treasury/ – “Central and local government external loans and debt securities”, report "Central and local government domestic loans and debt securities";
- o Central and local government quarterly financial reports / Treasury/;
- o Report on the Central government budget execution and local government budgets drafted in line with the requirements provided for in Article 31 of the Law “On Budget and Financial Management” and structure stipulated by Cabinet Regulations No 375 of 29 May 2012 “Procedures for Preparing a Financial Year Report”, collecting information from ministries, central public authorities and local government reports and general government budget financial accounting (together with appendices, for example, List of loans of ministries and central public authorities, List of local government loans, Report on the Central government external loan, Report on the Central government domestic loans);
- o Information on treatment of expenditure for the construction of the South Bridge in the Riga municipality balance of payment.

Additional information – surveying individual respondents.

- Report “Information on general government deficit and general government debt calculations” (05.03. and 15.08.);
- Monthly report on debt / Treasury/ (t+15);
- Central and local government quarterly financial report (05.03. and 15.08.);
- Report on Central government budget execution and local government budgets (01.07.);
- Quarterly financial reports of the capital companies reclassified to government /CSB/ (2-FAP) for April notification 02.03 and annual report (1-FAP) for October notification 14.09.

**For the April EDP notification** – data are collected applying the monthly financial reports of the Treasury (“Central and local government external loans and debt securities” and “Central and local government internal loans and debt securities”) and quarterly financial reports of the general government and local government sector, as well as quarterly financial reports of the capital companies reclassified to government / (2-FAP).

The final data are revised in the "Report on the Central and local government budget execution" (Treasury), submitted till July 1 of the current year (for year n-1) to the State Audit Office in line with provisions of the law "On Budget and Finance Management". The data source for the capital companies reclassified to government is the annual report / (1-FAP) submitted after sworn auditor's examination of the annual report.

### 3.1.1.3. Amendments to basic data sources

No deviations in terms of valuation of debt for individual GG units.

No adjustments, because all debt instruments are valued at the nominal (face) value of the instrument.

Complementary information on counterpart sector includes information on the loans of the capital companies reclassified to government from the Treasury – see 3.1.1.4/3.

Additional adjustments are made:

Reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according Eurostat advice to classify in the October 2011 notification the PPP's assets (and associated debts) in the government sector since the beginning of this project.

Identical adjustment for the same amount will be reflected till 2021.

Reclassification (from F.8L to F4L) – expenditure for the construction of the South Bridge (Riga municipality).

Reclassification (from F.71L to F.4L) – contract between Riga City and Deutsche Bank AG (called “Interest Rate Swap”) where both parties make monthly payments to each other during the period of 20.06.2008 – 26.06.2028. The Riga City received a loan from Deutsche Bank AG in the first period until July 2013 then makes repayments (in 15 equal instalments) over the second period starting from July 2013.

LOC debt paid by the central government – through subsidies the government has repaid the guaranteed loan on behalf of the LOC (Latvian Olympic Committee), which is regarded as debt assumption at the time of inception.

#### 3.1.1.4 Consolidation of Maastricht debt

##### Consolidation on the general government sector level -

- *between S.1311 and S.1313 - it includes consolidation:*  
local municipality loans from Treasury, as well as loans to capital companies reclassified to local government from Treasury.
- *between S.1311 and S.1314 - it includes consolidation:*  
short-term and long-term loans from Treasury.

Sources of information used for the consolidation of debt:

##### Consolidation within the framework of S.1311 and S.1313:

- Central and local government quarterly financial reports;
- Report on the execution of the general government budget “List of general government loans”;
- Quarterly financial reports of the capital companies reclassified to government / (2-FAP) for April notification and annual report (1-FAP) for October notification.

##### Consolidation within the framework of S.1313:

- Central and local government quarterly financial reports;
- Report on the execution of the general government budget “List of general government loans”;
- Quarterly financial reports of the capital companies reclassified to government / (2-FAP) for April notification and annual report (1-FAP) for October notification.

**Consolidation on the general government sector level –**

- Central and local government quarterly financial reports;
- Report on the execution of the general government budget “List of general government loans”;
- Quarterly financial reports of the capital companies reclassified to government / (2-FAP) for April notification and annual report (1-FAP) for October notification.

Deviations are possible between public and local government authorities and capital companies reclassified to government – the total debt amount incorrectly divided in counterpart sectors.

Amount of loans granted by the Treasury to public and local government authorities, to Social security fund, capital companies reclassified to government can be determined from the Treasury report on the issued loans.

Treasury reports are considered as a more reliable data source; still the information in the event of deviations are specified individually surveying the respondent.

The revisions on debt figures are LOC (2011) and Euro coin adjustments (2014 and 2015).

In FA F.4L indicates government assigned guarantee (+) and the repaid principal amount of the guarantee (-);

In NFA correction of Latvian Olympic Committee indicates – adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment (D.3 (PAY)) and including in the government expenditure (D.9 (PAY)) in the amount of the guarantees assigned to the LOC at the moment of issue and loan interest payments repaid on behalf of the LOC inclusion in the government expenditure (D.41 (PAY)).

## **3.2. Central Government sub-sector, EDP table 2A and 3B**

### **3.2.1. Data sources for main Central Government unit: “The State”**

- Basic data sources

For April notification:

- 1) “Official report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1”, Central government consolidated budget execution and local government budget execution are reported in the aggregated report “General Government Consolidated Budget Execution”;
- 2) Report “Information for the calculation of the general Government Deficit and debt”.

In addition to the October notification:

- 1) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 2) Report “Information for the calculation of the general Government Deficit and debt” (revised).

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):

- 1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance);

- 2) Received income for the use of state capital (dividends) in year n-1 (Ministry of Finance);
  - 3) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and Central Finance and Contracting Agency);
- 4) Detailed information on cash flow income and expenditure in breakdown by D.3, D.7 and D.9 and EU fund (Treasury);
- 5) Detailed information on swap transactions (Treasury);
- 6) Report on the government deficit financing elements in the reference year (Treasury);
- 7) Detailed information on debt instruments in year n-1 (Treasury);
- 8) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB);
- 9) Forecast of the Ministry of Finance (GDP forecast for reference year n, forecast for state budget deficit or surplus for year n, government debt forecast for reference year n, gross capital formation forecast for reference year n, paid interest forecast for reference year n).

In addition to the October notification:

- 1) Collected information on participation in the capital of capital companies and other financial investments in year n-1 (Treasury).

The main central government unit, as reported in the working balance of EDP T2A, refer to central budgetary organisations (13 ministries and 14 central authorities), 46 derived public persons partially financed from the budget, 6 organisations not financed from the budget and 2 public foundations.

**Table 1 – Availability and use of basic source data for the main central government unit**

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>	+	<i>cross appropriate cells</i>		
				<b>Budget Reporting</b>			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				<b>Financial Statements</b>			
				(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
				(7) Cash flow statement			
				<b>Other Reporting</b>			
				(8) Statistical surveys			
A	Q	T+65	T+7	(9) Other: Quarterly financial reports			x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

### 3.2.1.1 Details of the basic data sources

#### **Data sources used for compilation of national accounts**

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories. Mainly it is always

possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non – consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 and F.5.

### ***Working balance (WB)***

The data, as reported in the WB (in the first line of EDP T2) are used for compilation of B.9 and national accounts for the Central Government.

#### ***3.2.1.2 Statistical surveys used as a basic data source***

It is not relevant.

#### ***3.2.1.3 Supplementary data sources and analytical information***

##### ***3.2.1.3.1 Supplementary data sources used for the compilation of non-financial accounts***

In order to meet ESA 2010 requirements, additional correction is made – correction of Latvian Olympic Committee – adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment. Main central government unit involved. Information is available on a regular basis starting from 2002, used in April and October notification. Related adjustment leads to changes in B.9.

##### ***3.2.1.3.2 Supplementary data sources used for the compilation of financial accounts***

The same correction as in 3.2.1.3.1. is used for the compilation of financial accounts.

#### ***3.2.1.4 Extra-budgetary accounts (EBA)***


All flows of a non-financial nature are recorded in the so called budgetary accounts which enter the WB, as reported in the first line of EDP table 2.

### **3.2.2 Data sources for other Central Government units**

Other Central Government units include:

- 1) Capital companies controlled and financed by central government (net borrowing / net lending of units reclassified from S.11 to S.1311) – from statistical survey data (profit and loss account, balance sheet data, etc.). Basic data are on accrual basis;
- 2) Derived public persons and entities non-financed from budget. Public derived persons (not fully financed from budget) and entities non-financed from budget are entities, which are not included in working balance of central government voted by the parliament, but are included in consolidated general government. The data sources are the same as for the main central government unit.

**Table 2 – Availability and use of basic source data for other central government units:**

Available source data				Source Data Accounting	Source data used for compilation of	
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			B.9 (NFA)	B.9f (FA)
		First results	Final data			
1	2	3	4	5	7	8
		<i>T + days</i>	<i>T+months</i>			
				<b>Budget Reporting</b>		
				(1) Current revenue and expenditure		
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	
				(3) Current and capital revenue and expenditure and financial transactions		
				(4) Balance sheets		
				<b>Financial Statements</b>		
				(5) Profit and loss accounts		
				(6) Balance sheets		
				(7) Cash flow statement		
				<b>Other Reporting</b>		
A	Q/A	T+65	T+9	(8) Statistical surveys	x	x
				(9) Other:		

See notes to table 2, on the used abbreviations.

### 3.2.2.1 Details of the basic data sources

It is not relevant.

### 3.2.2.2 Statistical surveys used as a basic data source

For the compilation of nonfinancial and financial accounts are used:

- 1) Quarterly financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” by quarter of year n-1 (2-FAP);
- 2) Annual financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” in year n-1 (1-FAP).

From 1-FAP and 2-FAP following indicators are used for calculating B.9:

- 1) Intangible investments;
- 2) Fixed capital;
- 3) Investment properties;
- 4) Biological assets;
- 5) Stocks;
- 6) Long-term investments stored for sale;
- 7) Profit or loss of the reference year.

From 1-FAP and 2-FAP following indicators are used for calculating B.9f:

- 1) Funds on hand;
- 2) Settlement accounts;
- 3) Term deposits;
- 4) Short-term debt securities;
- 5) Long-term debt securities (by the initial term);
- 6) Financial derivatives;
- 7) Short-term loans (by the initial term);
- 8) Long-term loans (by the initial term);
- 9) Quoted shares;
- 10) Unquoted shares;
- 11) Other participation in the company capital (shares);
- 12) Trade credits (trade receivables) and advance payments;
- 13) Costs of future periods;
- 14) Overpaid taxes;
- 15) Deferred tax assets;
- 16) Other debtors not listed above;
- 17) Issued short-term debt securities (by the initial term);
- 18) Issued long-term debt securities (by the initial term);
- 19) Financial derivatives;
- 20) Provisions for loans;
- 21) Short-term loans (by the initial term);
- 22) Long-term loans (by the initial term);
- 23) Share capital (fixed capital);
- 24) Provisions for pensions and similar liabilities;
- 25) Provisions for scheduled tax payments;
- 26) Trade credits (trade payables) and advance payments;
- 27) Unpaid dividends;
- 28) Taxes and state compulsory social insurance instalments;
- 29) Deferred tax liabilities;
- 30) Income of future periods;
- 31) Accumulated liabilities;
- 32) Other creditors not listed above.

It is an exhaustive survey. It concerns 49 capital companies controlled and financed by central government and 78 capital companies controlled and financed by local government. Survey response rate – 100%.

### *3.2.2.3 Supplementary data sources and analytical information*

#### *3.2.2.3.1 Supplementary data sources used for the compilation of non-financial accounts*

Supplementary information is used from the:

- 1) Annual Reports of the capital companies reclassified to government (access is possible to the information system “Lursoft register of companies' annual reports”);
- 2) Mass media – as indirect information;
- 3) Questioning individual units by phone if it is needed.

#### *3.2.2.3.2 Supplementary data sources used for the compilation of financial accounts*

See 3.2.2.3.1.



### 3.2.3 EDP table 2A

#### 3.2.3.1 Working balance - use for the compilation of national accounts

The data sources used for the compilation of WB in EDP T2A are used for NFA and also B.9.

#### 3.2.3.2 Legal basis of the working balance

Special national legislation determines the legal status of the WB. The main laws are:

- 1) Laws on the State Budget;
- 2) Law on Budget and Financial Management.

The starting line of Table 2A for 2016 is derived from the amount voted by the Parliament and the end of previous year. During a year amendments of law could be made. It is audited by a national auditing authority. The State Audit Office Law determines that the State Audit Office shall perform audits in conformity with international audit standards recognised in the Republic of Latvia. The State Audit Office in performing financial and efficiency audits, as well as examining the conformity of transactions and activities with regulatory enactments and the planned results, shall control:

- 1) revenues and expenditures of the State budget and local government budget resources;
- 2) utilisation of the resources of the European Union and other international organisations or institutions, which resources have been included in the State budget or local government budgets;
- 3) actions with State and local government property or a part thereof.

The State Audit Office (*Valsts kontrole*) shall each year provide an opinion for the *Saeima* regarding the financial year report concerning the implementation of the State budget and concerning the budgets of local governments (the financial state thereof) submitted by the Minister for Finance by 1 October to the Cabinet and by the Cabinet to *Saeima* by 15 October of the following regular financial year after the reporting year.

(Law on Budget and Financial Management (LBFM), Section 32,

<http://likumi.lv/doc.php?id=58057>).

According to the State Audit Office Law (available from <http://likumi.lv/doc.php?id=62538>) Section 1. (3) The State Audit Office shall perform audits in conformity with international audit standards recognised in the Republic of Latvia.

Section 2. (1) The State Audit Office in performing financial and efficiency audits, as well as examining the conformity of transactions and activities with regulatory enactments and the planned results, shall control:

1) revenues and expenditures of the State budget and local government budget resources;

2) utilisation of the resources of the European Union and other international organisations or institutions, which resources have been included in the State budget or local government budgets; and

3) actions with State and local government property or a part thereof.

(2) The objective of the activities of the State Audit Office is to ascertain whether actions with the resources referred to in Paragraph one of this Section are lawful, correct, economical and efficient, as well as provide recommendations for the rectification of discovered deficiencies.

Section 3. The State Audit Office shall:

- 1) submit the opinion on the financial year report to the *Saeima* by September 15 of the financial year that follows the accounting year;
- 2) each year provide opinions regarding the correctness of the preparation of annual reports by ministries and other central public institutions;
- 3) submit reports to the *Saeima* and the Cabinet;
- 4) notify State institutions regarding findings that affect the activities of such institutions, as well as law enforcement institutions regarding violations of legal norm findings in audits;
- 5) co-operate within the scope of its competence with the institutions of the European Union and other international organisations or institutions.

According to the Law on Budget and Financial Management (LBFM), Article 32, the Minister for Finance shall submit to the State Audit Office a report on the financial year by 1 July of the year following the financial year. The State Audit Office shall submit an opinion regarding financial year report to the Minister of Finance by 15 September of the financial year that follows the accounting year. The Minister for Finance shall submit to the Cabinet a report on the financial year together with an opinion of the State Audit Office by 1 October of the following regular financial year after the reporting year.

The Cabinet shall submit the report on the financial year concerning the implementation of the central government budget and the budgets of local governments (the financial state thereof) together with the opinion of the State Audit Office to the *Saeima* by 15 October of the following regular financial year after the reporting year (LBFM, Article 31).

The result from auditing is publicly available on the website of the State Audit Office <http://www.lrvk.gov.lv/>

Cabinet Regulations of 29.05.2012 No 375 „Procedures for Preparing a Financial Year Report” Section 56 determines that the Treasury shall publish the financial year report and additional information required under Section 55 of the present Regulations on the budget execution and financial report consolidation on the Treasury home page [www.kase.gov.lv](http://www.kase.gov.lv) within 10 working days after consideration of the financial year report on state and local government budget execution in the Cabinet.

As a result of auditing there might appear some changes impacting B.9 or B.9f in the October notification as compared to the April notification, as for preparing financial year report on the execution of the state and local government budgets ministries and other central public institutions, as well as local governments shall submit the consolidated annual report to the Treasury till May 1 of the year following the reference year in line with the procedures for financial year report stipulated in the regulatory enactments. In its turn, ministries and other central public institutions shall annex to the report State Audit Office’s opinion on the correctness of preparing the report, and local governments shall annex to the report a sworn auditor’s report (Article 30 of the Law on Budget and Financial Management).

### 3.2.3.3 Coverage of units in the working balance

#### 3.2.3.3.1 Units to be classified outside the subsector, but reported in the WB

The financial balance of Social Security budget is included in the WB.

#### 3.2.3.3.2 Units to be classified inside the subsector, but not reported in the WB

Under the line B.9 of other central government units are reported:

- 1) Capital companies controlled and financed by central government (net borrowing / net lending of units reclassified from S.11 to S.1311) – from statistical survey data (profit and loss account, balance sheet data, etc.);
- 2) Derived public persons and entities non-financed from budget. Public derived persons (not fully financed from budget) and entities non-financed from budget are entities, which are not included in working balance of central government voted by the parliament, but are included in consolidated general government, that's why item "Balance of derived public persons and entities non-financed from budget" appears in Table 2A (S1311) which has been formed from the data of the Treasury information system.

B.9 of capital companies controlled and financed by central government are on accrual basis, whereas B.9 of derived public persons and entities non-financed from budget – on cash basis. The accrual adjustments of derived public persons are reported under D.41 and F.8 adjustment items of EDP T2A. The impact of methodological imputations/reclassifications relating to these units is reflected in their B.9 as reported in EDP T2. A full sequence of ESA 2010 accounts is available for individual units/groups of government units.

#### *3.2.3.4 Accounting basis of the working balance*

The accounting basis of the WB is cash. As cash balance is used, is it pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when none goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

##### *3.2.3.4.1 Accrual adjustment relating to interest D.41, as reported in EDP T2*

Interest expenditures and revenues are recorded on cash basis in the WB. For the calculation of Central Government securities interest on an accrual basis the sources are the Treasury's financial accounting system and other data basis of the Treasury. The interest has two components – the amount of the money expenditure payable as coupon payment each period and the amount of interest accruing each period attributable to the difference between the redemption price and the issue price. The interest based on the difference between the redemption price and the issue price is distributed over the years to the maturity of the bond. Interest and coupon payments on Central Government securities and Eurobonds are recorded in the State budget execution system of the Treasury and in the Treasury's financial accounting system on a cash basis and accrual basis, and are reported in Treasury's reports. Information on redemption of debt above/below par and issuance above/below par is obtained from the Treasury. All interest expenditure of the main entity is recorded in the WB.

Discounts/premiums are recorded in the working balance of the EDP table 2A. The impact of the amortization of discounts/premiums in the working balance of the EDP table 2A is neutralized by adjustment with opposite sign in the correction line "difference between interest paid and accrued". The impact on B.9 is only from the spread discount/premium that is also included in the correction line "difference between interest paid and accrued". In EDP T2 under line „Difference between interest paid and accrued" are reported adjustments for interest expenditure (including discount and premium), interest revenue, FISIM. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP T2.

##### *3.2.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2*

Under accounts receivable F.8 are reported following adjustments:

- 1) Difference between tax revenues in cash and time adjusted tax revenues (VAT, excise tax, electricity tax, subsidised electricity tax, solidarity tax) – accrued taxes (according to approved time adjustment method for each tax) minus cash tax receipts;
- 2) Correction of accrual adjustment of MoF and Central Finance and Contracting Agency EU funds MIS – total amount of future period expenditures has been corrected by amounts, which has not been spent yet;
- 3) EU correction – revenues received from EU has been recognized according realized expenditures, taking into account advance payments;
- 4) Repayments of EU funding – returned amounts of unrealized or uncompleted EU funds` projects to government budget (mostly from S11 and S12 sector`s companies). The correction is used in cases when companies seeing that they will not be able to fully realize the project or seeing that the implementation of the project has incurred expenditure savings paid back these amounts;
- 5) Advance payments and future period expenditures.

Advance payments include advance payments paid (pre-payments) for:

- a) purchase of intangible assets;
- b) development activities and programmes;
- c) licences, concessions, patents, trademarks and similar rights;
- d) research of minerals and similar intangible assets;
- e) other intangible assets n.e.c.;
- f) purchase of fixed assets;
- g) purchase of land, buildings and structures;
- h) purchase of machinery and equipment;
- i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c;
- j) purchase of biological and underground assets;
- k) purchase of non-financial stocks;
- l) purchase of non-financial investments.

Future period expenditures – accounts actual costs, which concern future periods, and advance payments for services, which budgetary institutions will receive in future periods. This indicator includes: prepayments and advances for services (advances for services, prepayments for settlement of accounts of work remuneration, expenditure for social payments in future periods).

- 6) Other debtors – accounts claims (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:
  - a) debts of purchasers and commissioning parties on production, goods and services;
  - b) accumulated revenue from non-financial transactions excluding interest;
  - c) claims against personnel (advances issued to employees, settlement of accounts for shortages;
  - d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

- 1) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors;
- 2) Advance payments and future period revenues.  
Advance payments – liabilities for the received advance payments;

Future period revenues – revenue, which is recognised (received, earned) before the balance sheet date, but applies to the following periods. This indicator includes:

- deferred revenue for services;
  - calculate, but non-disbursed pensions and allowances;
  - deferred revenue for the received donations and gifts;
  - other deferred revenue.
- 3) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes);
  - 4) Support payments to producers of biofuel – account commitments of the budgetary institution to wages and salaries and deductions, except taxes;
  - 5) Accrued contributions to EU budget – revenues received from EU have been recognized according realized expenditures, taking into account advance payments;
  - 6) Other creditors – liabilities to personnel, settlements for scholarships.

Accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

#### 3.2.3.4.3 Other accrual adjustments in EDP T2

There are no other accrual adjustments reported in EDP T2.

#### 3.2.3.5 *Completeness of non-financial flows covered in the working balance*

Under the adjustment "Non-financial transactions not included in the working balance":

- 1) Capital transfers – capital injections in loss making companies;
- 2) Correction of Latvian Olympic Committee – adjustment of government expenditure, cancelling the initial subsidies for guarantee repayment (D.3 (PAY)) and including in the government expenditure (D.9 (PAY)) in the amount of the guarantees assigned to the LOC at the moment of issue and loan interest payments repaid on behalf of the LOC inclusion in the government expenditure (D.41 (PAY)).

It refers to non – financial flows which have not been taken into account calculating WB.

- 3) Correction on National Library – difference between cash expenses in working balance and cash expenses in MoC accumulation account.

#### 3.2.3.6 *Financial transactions included in the working balance*

The WB is based on budgetary classification, which defines content of revenue and expenditure.

In line with Cabinet Regulations No 1032 of 27 December 2005 “On Budget Revenue Classification” the following financial transactions are included in the WB:

- 1) Income from financial investments;
- 2) Income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 3) Loss of income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 4) Donation and gift income from exchange rate fluctuations.

In line with Cabinet Regulations No 1031 of 27 December 2005 “On Budget Expenditure Classification” the following financial transactions are included in the WB:

- 1) Loss from exchange rate fluctuations with regard to foreign financial aid resources;
- 2) Loss from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 3) Loss from exchange rate fluctuations with regard to donation and gift funds.

All types of these financial transactions, included in the WB of the T2A, are excluded in the section “Financial transactions included in the working balance”. There have been no cases when financial transactions were recorded above the line in public accounts.

In EDP table in the adjustment line “Financial transactions included in the WB” are included:

- 1) Capital injections – capital raised in profitable state owned enterprises;
- 2) Contributions to capital of international organisations – includes instalments to the EU international institutions and international institutions, in the result of which Latvia become a holder of the capital shares of the respective institution and (or) gains voting rights;
- 3) Superdividends – dividends paid to government that exceeds operating profit of the company;
- 4) Revenue from financial investments – includes income accounted as income from sale and revaluation of capital shares, sale and revaluation of securities, investments to subsidiaries and revaluation of associated capital companies, recognition of financial investments at fair value, performing tangible investment;
- 5) Corrections inside budget (financial lease and technical corrections) – not included in working balance;
- 6) Gains / losses from exchange rate fluctuations – includes revenues and expenditure from exchange rate fluctuations of all budget types (basic budget, special budget, grants and donations, derived public persons` budgets) included in working balance.

#### *3.2.3.7 Other adjustments reported in EDP T2*

- 1) Dividends paid by capital companies controlled and financed by central government – these amounts paid to government and excluded from the budget;
- 2) Debt assumption: education reform loan from World Bank to local governments repaid by central government;
- 3) Balance of grants and donations – difference between gains and losses of grants and donations, not included in working balance;
- 4) Losses of derived public persons' deposits due to insolvency of "Krājbanka";
- 5) Interest receivable;
- 6) Revenue from state-owned European Trading System permits auction – excluded from budget according to Eurostat`s methodology;
- 7) Claims of non-life insurance and earned premiums.

#### *3.2.3.8 Net lending/net borrowing of central government*

B.9, as reported in the last line in EDP T2, is derived from the same source data used when calculating the WB.

### **3.2.4 EDP table 3B**

#### *3.2.4.1 Transactions in financial assets and liabilities*

Financial accounts are used for the compilation of EDP T3

**Table 3. Data used for compilation of transactions and of stocks of financial assets and liabilities**

	Assets						Liabilities					
Source Data	F.2	F.3	F.4	F.5	F.6	F.8	F.2	F.3	F.4	F.5	F.6	F.8
<b>Calculation of transactions</b>												
Transaction data (integrated in public accounts)												
Other transaction data	X	X	X	X		X	X	X	X	X		X
Stock data	X	X	X	X		X	X	X	X	X		X
<b>Calculation of stocks</b>												
Transaction data												
Stock data	X	X	X	X		X	X	X	X	X		X

For compilation of EDP table 3B and financial accounts for S.1311 units, as the main data sources are used:

- 1) Report “Information for the calculation of the general government budget deficit and debt”;
- 2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance” and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 3) annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

As supplementary data sources mainly are used:

- 1) budget reporting system „*ePārskati*” of the Treasury;
- 2) direct questioning of units, which is often necessary for proper classification of the financial instruments and also for appropriate recording of the flow in the national accounts, e.g. as a financial transaction, or possibly as a revaluation or other change in the volume.

Other direct data obtained from units on regular basis:

- 1) Calculation of the difference between interest EDP D.41 accrued and paid, issuances and redemptions above/below nominal value etc. (data obtained from the Treasury);
- 2) Information from the Ministry of Economics (Privatisation Agency and other institutions under supervision) is required twice a year for compiling the EDP tables and concerns a total reference year. That information describes the particular financial activities of enterprises where government owns shares or other equity;
- 3) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance);
- 4) Detailed information on cash flow income and expenditure in breakdown by EU fund (Treasury);
- 5) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and the Central Finance and Contracting Agency);
- 6) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB);

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible

questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.

Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

Estimations are applied only for F.8 capital companies controlled and financed by central government (for CG level consolidation). Both – the assets and the liabilities are compiled with estimations for F.81 and F.89.

Consolidation is made based on the lowest residual of counterpart information.

Transactions in F.5 liabilities are reported for capital companies controlled and financed by central government. Data source is the annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

#### *3.2.4.2 Other stock-flow adjustments*

1) "Issuance above/below nominal value" – this position includes premiums and discounts related to issuances of government bonds and Treasury bills. Data are obtained from the Treasury.

2) The item "Difference between interest accrued and paid" includes interest accrued to the state debt, which is in the EDP table 3B reported in nominal value.

3) "Redemptions of debt above/below nominal value" – this position includes redemptions of a debt above/ below the nominal value, which is related to the government debt. Data are obtained from the Treasury.

4) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB survey 2FAP, 1FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.

5) "Changes in sector classifications" – includes changes to loans of the capital companies controlled and financed by central and local government due to changes in sector classification (on the basis of the quantitative criterion and qualitative criterion). Data are obtained from the Integrated Statistical Data Processing and Management system data base.

6) "Other volume changes in financial liabilities" – includes the rest of the changes to debt instruments other than sector classification changes. The other volume changes are insignificant in recent years.

#### *3.2.4.3 Balancing of non-financial and financial accounts, transactions in F.8*

##### ***Allocation of discrepancy B.9 vs B.9f***

For the purposes of EDP notification compilation, the allocation of the observed differences between B.9f and B.9 into any item of non-financial or financial accounts have not been done. The observed difference in the EDP notification tables is reported under the item "Statistical discrepancies – Difference between capital and financial accounts (B.9-B.9f)".



### ***Changes to intermediate data***

The basic data source used for compilation of NFA and FA is administrative data. Therefore it is treated as the most relevant and reliable data source used for compilation of the national accounts. If there is observed any difference with the counterpart data, the issue is examined by individual questioning of units.

### ***Complementary elements on stocks***

The discrepancy is not allocated to financial instruments and the balance sheet information is not changed.

### ***Accruals***

The observed discrepancy mainly is result from time of recording and sectorization problems.

### ***Ex-post monitoring***

When the discrepancy reaches 0.2% of GDP, it is considered too high.

## **3.3. State government sub-sector, EDP table 2B and 3C**

Not applicable.

## **3.4. Local government sub-sector, EDP table 2C and 3D**

### **3.4.1 Data sources for Local Government main unit**

- Basic data sources

For April notification:

- 1) “Official report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1”, Central government consolidated budget execution and local government budget execution are reported in the aggregated report “General Government Consolidated Budget Execution”;
- 2) Report “Information for the calculation of the general Government Deficit and debt”.

In addition to the October notification:

- 1) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 2) Report “Information for the calculation of the general Government Deficit and debt” (revised).

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):

- 1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance);
- 2) Information on public-private partnership projects (projects with reports on assumptions on financial and economic calculations provided in year n-1 as well as on risk allocation between public and private partners in the partnership agreement, as well as financial data on the public and private partnership projects to be implemented (Ministry of Finance);


- 3) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and the Central Finance and Contracting Agency);
- 4) Detailed information on debt instruments in year n-1 (Treasury);
- 5) Survey on EU funds` spending for capital companies controlled and financed by local government (CSB);
- 6) Information on treatment of expenditure for the construction of the South Bridge in the Riga municipality balance of payment.

In addition to the October notification:

- 1) Collected information on participation in the capital of capital companies and other financial investments in year n-1 (Treasury).

The main local government units, as reported in the working balance of EDP T2C, refer to local budgetary organisations: municipalities of 9 cities under state jurisdiction and municipalities of 121 counties as well as 711 indirect local government organisations.

**Table 1 – Availability and use of basic source data for main local government units**

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>		<i>cross appropriate cells</i>		
				<b>Budget Reporting</b>			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				<b>Financial Statements</b>			
				(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
				(7) Cash flow statement			
				<b>Other Reporting</b>			
				(8) Statistical surveys			
A	Q	T+65	T+7	(9) Other: Quarterly financial reports			x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

*Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.*

*Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.*

*Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.*

### **3.4.1.1 Details of the basic data sources**

#### ***Data sources used for compilation of national accounts***

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories). Mainly it is always possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non-consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 and F.5.

#### ***Working balance (WB)***

The data, as reported in the WB (in the first line of EDP T2) are used for compilation of B.9 and national accounts for the Local Government.

### **3.4.1.2 Statistical surveys used as a basic data source**

It is not relevant.

### **3.4.1.3 Supplementary data sources and analytical information**

#### **3.4.1.3.1 Supplementary data sources used for the compilation of non-financial accounts**

In order to meet ESA 2010 requirements, additional correction is made – correction of Ogre Art School PPP project – reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according to Eurostat's advice classifying PPP's assets (and associated debts) in the government sector since the beginning of this project. Identical adjustment for the same amount will be reflected till 2021. Related adjustment leads to changes in B.9.


#### **3.4.1.3.2 Supplementary data sources used for the compilation of financial accounts**

The same correction as in 3.4.1.3.1. is used for the compilation of financial accounts.

### 3.4.2 Data sources for other Local Government units

Statistical surveys are the basic data source for compilation of national accounts and EDP tables for other Local Government units – capital companies controlled and financed by local government. Basic data are on accrual basis.

**Table 2 – Availability and use of basic source data for other local government unit**

Available source data				Source Data Accounting	Source data used for compilation of	
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			B.9 (NFA)	B.9f (FA)
		First results	Final data			
1	2	3	4	5	7	8
		<i>T + days</i>	<i>T+months</i>			
				<b>Budget Reporting</b>		
				(1) Current revenue and expenditure		
				(2) Current and capital revenue and expenditure		
				(3) Current and capital revenue and expenditure and financial transactions		
				(4) Balance sheets		
				<b>Financial Statements</b>		
				(5) Profit and loss accounts		
				(6) Balance sheets		
				(7) Cash flow statement		
				<b>Other Reporting</b>		
<b>A</b>	<b>Q/A</b>	<b>T+65</b>	<b>T+9</b>	(8) Statistical surveys	<b>x</b>	<b>x</b>
				(9) Other:		

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

#### 3.4.2.1 Details of the basic data sources

It is not relevant.

#### 3.4.2.2 Statistical surveys used as a basic data source

For the compilation of nonfinancial and financial accounts are used:

- 1) Quarterly financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” by quarter of year n-1 (2-FAP);

- 2) Annual financial reports of the capital companies reclassified to government / CSB/ “Financial assets and liabilities” in year n-1 (1-FAP).

From 1-FAP and 2-FAP following indicators are used for calculating B.9:

- 1) Intangible investments;
- 2) Fixed capital;
- 3) Investment properties;
- 4) Biological assets;
- 5) Stocks;
- 6) Long-term investments stored for sale;
- 7) Profit or loss of the reference year.

From 1-FAP and 2-FAP following indicators are used for calculating B.9f:

- 1) Funds on hand;
- 2) Settlement accounts;
- 3) Term deposits;
- 4) Short-term debt securities;
- 5) Long-term debt securities (by the initial term);
- 6) Financial derivatives;
- 7) Short-term loans (by the initial term);
- 8) Long-term loans (by the initial term);
- 9) Quoted shares;
- 10) Unquoted shares;
- 11) Other participation in the company capital (shares);
- 12) Trade credits (trade receivables) and advance payments;
- 13) Costs of future periods;
- 14) Overpaid taxes;
- 15) Deferred tax assets;
- 16) Other debtors not listed above;
- 17) Issued short-term debt securities (by the initial term);
- 18) Issued long-term debt securities (by the initial term);
- 19) Financial derivatives;
- 20) Provisions for loans;
- 21) Short-term loans (by the initial term);
- 22) Long-term loans (by the initial term);
- 23) Share capital (fixed capital);
- 24) Provisions for pensions and similar liabilities;
- 25) Provisions for scheduled tax payments;
- 26) Trade credits (trade payables) and advance payments;
- 27) Unpaid dividends;
- 28) Taxes and state compulsory social insurance instalments;
- 29) Deferred tax liabilities;
- 30) Income of future periods;
- 31) Accumulated liabilities;
- 32) Other creditors not listed above.

It is an exhaustive survey. It concerns 49 capital companies controlled and financed by central government and 78 capital companies controlled and financed by local government. Survey response rate – 100%.

### *3.4.2.3 Supplementary data sources and analytical information*

Supplementary information is used from the:

- 1) Annual Reports of the capital companies reclassified to government (access is possible to the information system “Lursoft register of companies' annual reports”);
- 2) Mass media – as indirect information;
- 3) Questioning with individual units if it is needed.

## **3.4.3 EDP table 2C**

### *3.4.3.1 Working balance - use for the compilation of national accounts*

The data sources used for the compilation of WB in EDP T2C are used for NFA and also B.9.

### *3.4.3.2 Legal basis of the working balance*

Law „On local government” determines formation of revenue and expenditure which forms working balance of EDP T2C.

### *3.4.3.3 Coverage of units in the working balance*

#### *3.4.3.3.1 Units to be classified outside the subsector, but reported in the WB*

There are no units reported in the working balance which do not belong to the government sector as defined by ESA 2010 as well as there are no government units reported in the working balance which do not belong to the particular government subsector.

#### *3.4.3.3.2 Units to be classified inside the subsector, but not reported in the WB*

Under the line B.9 of other local government bodies are reported capital companies controlled and financed by local government (net borrowing / net lending of units reclassified from S.11 to S.1313) – from statistical survey data (profit and loss account, balance sheet data, etc.);

### *3.4.3.4 Accounting basis of the working balance*

The accounting basis of the WB is cash. As cash balance is used, is it pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when none goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

#### *3.4.3.4.1 Accrual adjustments relating to interest D.41, as reported in EDP T2C*

Interest expenditures and revenues are recorded on cash basis in the WB. For the calculation of Local Government securities interest on an accrual basis the sources are the Treasury's financial accounting system and other data basis of the Treasury. In EDP T2 under line „Difference between interest paid and accrued” are reported adjustments for interest expenditure and interest revenue. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP T2.

#### *3.4.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2C*

Under accounts receivable F.8 are reported following adjustments:

- 1) Difference between tax revenues in cash and time adjusted tax revenues (personal income tax) – accrued tax (according to approved time adjustment method) minus cash tax receipts;
- 2) Advance payments and future period expenditures.

Advance payments – include advance payments paid (pre-payments) for:

- a) purchase of intangible assets;
- b) development activities and programmes;
- c) licences, concessions, patents, trademarks and similar rights;
- d) research of minerals and similar intangible assets;
- e) other intangible assets n.e.c.;
- f) purchase of fixed assets;
- g) purchase of land, buildings and structures;
- h) purchase of machinery and equipment;
- i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c.;
- j) purchase of biological and underground assets;
- k) purchase of non-financial stocks;
- l) purchase of non-financial investments.

Future period expenditures – accounts actual costs, which concern future periods, and advance payments for services, which budgetary institutions will receive in future periods. This indicator includes: prepayments and advances for services (advances for services, prepayments for settlement of accounts of work remuneration, expenditure for social payments in future periods).

3) Other debtors – accounts claims (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:

- a) debts of purchasers and commissioning parties on production, goods and services;
- b) accumulated revenue from non-financial transactions excluding interest;
- c) claims against personnel (advances issued to employees, settlement of accounts for shortages;
- d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

- 1) Correction of accrual adjustment of MoF EU funds MIS – total amount of future period expenditures has been corrected by amounts, which has not been spent yet;
- 2) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors;
- 3) Advance payments and future period revenues.  
Advance payments – liabilities for the received advance payments.  
Future period revenues – revenue, which is recognised (received, earned) before the balance sheet date, but applies to the following periods. This indicator includes:
  - a) deferred revenue for services;
  - b) calculate, but non-disbursed pensions and allowances;
  - c) deferred revenue for the received donations and gifts;
  - d) other deferred revenue.
- 4) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes);
- 5) Other creditors – liabilities to personnel, settlements for scholarships.

Accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

#### 3.4.3.4.3 Other accrual adjustments in EDP T2C

There are no other accrual adjustments reported in EDP T2.

#### 3.4.3.5 *Completeness of non-financial flows covered in the working balance*

Under the adjustment "Non-financial transactions not included in the working balance":

- 1) Correction of South Bridge – expenditure which are not included in the report of the Riga Council (the amounts of gross fixed capital formation (P.51) and unfinished construction);
- 2) Capital transfers – capital injections in loss making companies;
- 3) Local government revenue – revenue from non-financial transaction with central government not included in working balance.

It refers to non – financial flows which have not been taken into account calculating WB.

#### 3.4.3.6 *Financial transactions included in the working balance*

The WB is based on budgetary classification, which defines content of revenue and expenditure.

In line with Cabinet Regulations No 1032 of 27 December 2005 “On Budget Revenue Classification” the following financial transactions are included in the WB:

- 1) Income from financial investments;
- 2) Income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 3) Loss of income from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 4) Donation and gift income from exchange rate fluctuations.

In line with Cabinet Regulations No 1031 of 27 December 2005 “On Budget Expenditure Classification” the following financial transactions are included in the WB:

- 1) Loss from exchange rate fluctuations with regard to foreign financial aid resources;
- 2) Loss from exchange rate fluctuations with regard to chargeable services provided by budgetary institutions and other own income;
- 3) Loss from exchange rate fluctuations with regard to donation and gift funds;
- 4) Expenditure from sales/revaluation of shares/securities and acquisition of shares.

All types of these financial transactions, included in the WB of the T2C, are excluded in the section “Financial transactions included in the working balance”. There have been no cases when financial transactions were recorded above the line in public accounts.

In EDP table in the adjustment line “Financial transactions included in the WB” are included:

- 1) Revenue and expenditure from financial operations consists of two parts: revenue from financial operations and expenditures for sales / acquisition and revaluation of shares and securities; according to budget expenditure classification both financial instruments (shares and securities) are involved and we are not in a position two make a split;
- 2) Gains / losses from exchange rate fluctuations – includes revenues and expenditure from exchange rate fluctuations of all budget types (basic budget, special budget, grants and donations, derived public persons` budgets) included in working balance;
- 3) Riga City derivatives and debt transaction – reflection of financial transactions based on the contract between Riga City and Deutsche Bank AG.



### 3.4.3.7 Other adjustments reported in EDP T2C

- 1) Debt assumption: education reform loan from World Bank to local governments repaid by central government;
- 2) Revenue from privatization (except shares and other equity), which are not included in the working balance;
- 3) Correction of Ogre Art School PPP project – reclassification of PPP project (Ogre art school PPP) to government (Ogre county municipality) according to Eurostat`s advice classifying PPP's assets (and associated debts) in the government sector since the beginning of this project. Identical adjustment for the same amount will be reflected till 2021. Related adjustment leads to changes in B.9;
- 4) Losses of derived public persons' deposits due to insolvency of "Krājbanka";
- 5) Interest receivable;
- 6) Claims of non-life insurance and earned premiums.

### 3.4.3.8 Net lending/net borrowing of local government

B.9, as reported in the last line in EDP T2, is derived from the same source data used when calculating the WB.

## 3.4.4 EDP table 3D

### 3.4.4.1 Transactions in financial assets and liabilities

Financial accounts are used for the compilation of EDP T3.

**Table 3. Data used for compilation of transactions and of stocks of financial assets and liabilities**

Source Data	Assets						Liabilities					
	F.2	F.3	F.4	F.5	F.6	F.8	F.2	F.3	F.4	F.5	F.6	F.8
<b>Calculation of transactions</b>												
Transaction data (integrated in public accounts)												
Other transaction data	X	X	X	X		X	X	X	X	X		X
Stock data	X	X	X	X		X	X	X	X	X		X
<b>Calculation of stocks</b>												
Transaction data												
Stock data	X	X	X	X		X	X	X	X	X		X

For compilation of EDP table 3D and financial accounts for S.1313 units, as the main data sources are used:

- 1) Report “Information for the calculation of the general government budget deficit and debt”;
- 2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 3) annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

As supplementary data sources mainly are used:

- 1) budget reporting system „ePārskati” of the Treasury;
- 2) direct questioning of units, which is often necessary for proper classification of the financial instruments and also for appropriate recording of the flow in the national

accounts, e.g. as a financial transaction, or possibly as a revaluation or other change in the volume.

Other direct data obtained from units on regular basis:

- 1) Calculation of the difference between interest EDP D.41 accrued and paid, issuances and redemptions above/below nominal value etc. (data obtained from the Treasury);
- 2) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance);
- 3) Detailed information on cash flow income and expenditure in breakdown by EU fund (Treasury);
- 4) Survey on EU funds` spending for capital companies controlled and financed by central government (CSB);
- 5) Report from the information system of the management of European Union Funds providing information in breakdown by sector of EU funds administration (Ministry of Finance and the Central Finance and Contracting Agency).

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.

Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

Estimations are applied only for F.8 capital companies controlled and financed by central government (for CG level consolidation). Both – the assets and the liabilities are compiled with estimations for F.81 and F.89.

Consolidation is made based on the lowest residual of counterpart information.

Transactions in F.5 liabilities are reported for capital companies controlled and financed by central government. Data source is the annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

#### *3.4.4.2 Other stock-flow adjustments*

- 1) Items "Issuance above/below nominal value" and "Redemptions of debt above/below nominal value" – are not relevant in the case of the EDP table 3D for the Latvia – only zeros are reported in the whole time series.
- 2) The item "Difference between interests accrued and paid" includes interest accrued to the debt, which is in the EDP table 3D reported in nominal value.
- 3) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB survey 2FAP, 1FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.

- 4) "Changes in sector classifications" – includes changes to loans of the capital companies controlled and financed by central and local government due to changes in sector classification (on the basis of the 50% criterion and qualitative criterion). Data are obtained from the Integrated Statistical Data Processing and Management system data base.
- 5) "Other volume changes in financial liabilities" – includes the rest of the changes to debt instruments other than sector classification changes.

### **3.5. Social security sub-sector, EDP table 2D and 3E**

#### **3.5.1 Data sources for Social Security Funds main unit**

- Basic data sources

For April notification:

- 1) "Official report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1", Central government consolidated budget execution and local government budget execution are reported in the aggregated report "General Government Consolidated Budget Execution";
- 2) Report "Information for the calculation of the general Government Deficit and debt".

In addition to the October notification:

- 1) "Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance") and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 2) Report "Information for the calculation of the general Government Deficit and debt" (revised)".

- Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.).

For April and October notification (revised data for the October notification):

- 1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance).

Social security fund subsector includes State Social Insurance Agency.

**Table 1 – Availability and use of basic source data for social security funds**

Available source data				Source Data Accounting	Source data used for compilation of		
Accounting basis (C/A/M)	Periodicity (M/Q/A/O)	Time of availability of annual results for T-1			WB	B.9 (NFA)	B.9f (FA)
		First results	Final data				
1	2	3	4	5	6	7	8
		<i>T + days</i>	<i>T+months</i>	+	<i>cross appropriate cells</i>		
				<b>Budget Reporting</b>			
				(1) Current revenue and expenditure			
C	Q/A	T+65	T+8	(2) Current and capital revenue and expenditure	x	x	
				(3) Current and capital revenue and expenditure and financial transactions			
				(4) Balance sheets			
				<b>Financial Statements</b>			
				(5) Profit and loss accounts			
A	A	T+185	T+8	(6) Balance sheets		x	x
				(7) Cash flow statement			
				<b>Other Reporting</b>			
				(8) Statistical surveys			
A	Q	T+65	T+7	(9) Other: Quarterly financial reports			x

Accounting basis (column 1): C- cash, A- accrual, M-mixed

Periodicity (column 2); M - monthly, Q - quarterly, A - accrual, O - other, to be specified.

Time of availability (column 4): availability of annual results for T-1 = number of months and days after the reporting period.

Column 6, 7 and 8 – those cells are crossed which refer to data sources used for compilation of the WB, B.9 (non-financial accounts) and B.9f (financial accounts), respectively.

Empty cells in column 1, 2, 3 and 4 mean that the data source does not exist.

### 3.5.1.1 Details of the basic data sources

Data reported in the WB are also used for B.9 calculation. Information is available by unit, and by category of transaction/instrument.

For the purpose of national accounts compilation it is possible to exclude flows of units classified in other sectors or subsectors from calculations on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. Non-financial flows are distinguished from financial flows on the basis of budget income and expenditure classifications, where ESA 2010 codes are incorporated. The structure of inflows and outflows are appropriate distinguishing different ESA 2010 categories. Mainly it is always possible to identify individual flows which are to be specifically treated/reclassified according to ESA 2010 requirements. The structure of outstanding amounts of assets and liabilities in balance sheets are appropriate for financial balance sheets and FA compilation. Information

on stocks is consistent with/integrated in the information on related transactions by individual instruments. The structure of AF.8 is detailed enough to make adjustments due to different time of recording used in NFA. It is possible to identify different financial instruments, as defined by ESA 2010 and to distinguish flows and stocks which should be consolidated between GG units/subsectors. Basic data is non-consolidated. Complementary codification at data source by counterpart sector is available. It is possible to identify counterpart sector for F.2, F.4 and F.5.

### *3.5.1.2 Statistical surveys used as a basic data source*

The data, as reported in the WB (in the first line of EDP T2) are used for compilation of B.9 and national accounts for the Social security funds.

### *3.5.1.3 Supplementary data sources and analytical information*

It is not relevant.

#### *3.5.1.3.1 Supplementary data sources used for the compilation of non-financial accounts*

It is not relevant.

#### *3.5.1.3.2 Supplementary data sources used for the compilation of financial accounts*

It is not relevant.

## **3.5.2 Data sources for other Social Security units**

It is not relevant.

## **3.5.3 EDP table 2D**

### *3.5.3.1 Working balance - use for national accounts compilation*

The data sources used for the compilation of WB in EDP T2D are used for NFA and also B.9.

### *3.5.3.2 Legal basis of the working balance*

The working balance of Social security funds are included in working balance of central government which is voted by Parliament.

### *3.5.3.3 Coverage of units in the working balance*

#### *3.5.3.3.1 Units to be classified outside the subsector, but reported in the WB*

There are no units reported in the working balance which do not belong to the government sector as defined by ESA 2010 as well as there are no government units reported in the working balance which do not belong to the particular government subsector.

#### *3.5.3.3.2 Units to be classified inside the subsector, but not reported in the WB*

There are no units to be classified inside the subsector, but not reported in the WB.

### *3.5.3.4 Accounting basis of the working balance*

The accounting basis of the WB is cash. As cash balance is used, is it pure cash (in line with transactions in F.2). Cases when planned (budgeted) expenditure not actually spent (when none goods/services have been delivered) in the current year is recorded in the WB as an "actual" expenditure is advance payments and costs of future periods.

#### 3.5.3.4.1 Accrual adjustments relating to interest D.41, as reported in EP T2D

Interest expenditures and revenues are recorded on cash basis in the WB. For the calculation of Social security funds securities interest on an accrual basis the sources are the Treasury's financial accounting system and other data basis of the Treasury. In EDP T2 under line „Difference between interest paid and accrued” are reported adjustments for interest expenditure and interest revenue. It refers only to the main entity. There are no adjustments to accrual interest for the main entity reported under other adjustment lines in EDP T2.

#### 3.5.3.4.2 Accrual adjustments reported under other accounts receivable/payable F.8 in EDP T2D

Under accounts receivable F.8 are reported following adjustments:

1) Difference between tax revenues in cash and time adjusted tax revenues (social security tax) – accrued tax (according to approved time adjustment method) minus cash tax receipts;

2) Advance payments and future period expenditures.

Advance payments – include advance payments paid (pre-payments) for:

- a) purchase of intangible assets;
  - b) development activities and programmes;
  - c) licences, concessions, patents, trademarks and similar rights;
  - d) research of minerals and similar intangible assets;
  - e) other intangible assets n.e.c.;
  - f) purchase of fixed assets;
  - g) purchase of land, buildings and structures;
  - h) purchase of machinery and equipment;
  - i) purchase of motor vehicles, computer machinery, communication and office equipment, library funds, works and objects of arts and other fixed assets n.e.c;
  - j) purchase of biological and underground assets;
  - k) purchase of non-financial stocks;
  - l) purchase of non-financial investments;
- 3) Other debtors – accounts claims (debts of debtors), which have occurred in the result of past transactions (events) (for example, claims regarding the supplied services, claims regarding alienated goods or fixed assets). This indicator includes:
- a) debts of purchasers and commissioning parties on production, goods and services;
  - b) accumulated revenue from non-financial transactions excluding interest;
  - c) claims against personnel (advances issued to employees, settlement of accounts for shortages;
  - d) other claims (claims for overpayments to the recipients of social services, other previously non-classified claims).

Under accounts payable F.8 are reported following adjustments:

- 1) Accounts payable to suppliers and contractors – liabilities of a budgetary institution for the received goods and services, liabilities for settlements against the budget (pursuant to types of budgets) and other short-term liabilities against the budget, suppliers and contractors;
- 2) Liabilities on personnel – liabilities of a budgetary institution for work remuneration and deductions (except for taxes);

- 3) Lump sum payments for pension schemes (detailed explanation is provided in 7.14.);
- 4) Other creditors – liabilities to personnel, settlements for scholarships.

The time difference (average delay is 1.5 months) between revenues of social contributions transferred to second pillar schemes is reported under “other creditors”.

Accrual adjustments in EDP table 2 are fully consistent with F.8 reported in EDP T3 and financial accounts.

#### 3.5.3.4.3 Other accrual adjustments in EDP T2D

There are no other accrual adjustments reported in EDP T2.

#### 3.5.3.5 *Completeness of non-financial flows covered in the working balance*

It is not relevant.

#### 3.5.3.6 *Financial transactions included in the working balance*

The WB is based on budgetary classification, which defines content of revenue and expenditure.

In line with Cabinet Regulations No 1032 of 27 December 2005 “On Budget Revenue Classification” the following financial transactions are included in the WB:

- 1) Revenue from shares sold.

In line with Cabinet Regulations No 1031 of 27 December 2005 “On Budget Expenditure Classification” the following financial transactions are included in the WB:

- 1) Expenditure from sales / revaluation of shares / securities and acquisition of shares.

All types of these financial transactions, included in the WB of the T2D, are excluded in the section “Financial transactions included in the working balance”. There have been no cases when financial transactions were recorded above the line in public accounts.

In EDP table in the adjustment line “Financial transactions included in the WB” are included:

- 1) Revenue / expenditure from sales / acquisition and revaluation of shares and securities.

#### 3.5.3.7 *Other adjustments reported in EDP T2D*

Interest receivable.

#### 3.5.3.8 *Net lending/net borrowing of social security funds*

B.9, as reported in the last line in EDP T2, is derived from the same source data used when calculating the WB.

### **3.5.4 EDP table 3E**

Financial accounts are used for the compilation of EDP T3.

3.5.4.1 *Transactions in financial assets and liabilities***Table 2. Data used for compilation of transactions and of stocks of financial assets and liabilities**

	Assets						Liabilities					
Source Data	F.2	F.3	F.4	F.5	F.6	F.8	F.2	F.3	F.4	F.5	F.6	F.8
<b>Calculation of transactions</b>												
Transaction data (integrated in public accounts)												
Other transaction data	X	X	X	X		X	X		X			X
Stock data	X	X	X	X		X	X		X			X
<b>Calculation of stocks</b>												
Transaction data												
Stock data	X	X	X	X		X	X		X			X

For compilation of EDP table 3E and financial accounts for S.1314 units, as the main data sources are used:

- 1) Report “Information for the calculation of the general government budget deficit and debt”;
- 2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all inclusive balance sheets (loan statement, shares and other equity statement, etc.).

Other direct data obtained from units on regular basis:

- 1) Tax income corrections in year n-1, on the basis of time adjustment method (Ministry of Finance).

Depending on availability of the information, the basic data is compared with the counterpart data and other available information. Such comparison is a condition for appropriate consolidation and balancing process. Concerning the amendment of the data using counterpart information and amendment due to consolidation, it is rather a matter of correction in the classification of the financial instruments, i.e. after examination of the issue and possible questioning of units, the classification of the instrument is harmonised on both sides without impact on B.9.

Concerning amendments due to the specific transactions, the flows are examined in order to ensure proper classification of possible superdividends (or capital injections) according to the ESA 2010 and the Manual on Government Deficit and Debt (MGDD). Concerning the information on debt assumption and debt cancellation, the appropriate classification is ensured by close cooperation with the Treasury, which provides data in the case of such events.

3.5.4.2 *Other stock-flow adjustments*

- 1) Items "Issuance above/below nominal value", "Redemptions of debt above/below nominal value" and "Changes in sector classifications", "Other volume changes in financial liabilities" – are not relevant in the case of the EDP table 3E for the Latvia – only zeros are reported in the whole time series.
- 2) The item "Difference between interest accrued and paid" include adjustment due to the interest accrued to the debt, which is in the EDP table 3E reported in nominal value. The data used for quantification of the “Difference between interest accrued and paid” is obtained from the Treasury on regular bases.
- 3) "Appreciation/depreciation of foreign currency debt" – includes changes in the nominal value of the foreign currency debt due to appreciation/depreciation. Data are obtained



from the Treasury. Data are provided in breakdown by respective financial instrument. For the capital companies controlled and financed by central and local government the data source is CSB survey 2FAP, 1FAP. The data is provided for each financial liability included in debt that is denominated in foreign currency.

In practice there are no such adjustments as „Issuance above/below nominal value“ and „Appreciation / depreciation of foreign currency debt“ for SSF.

### **3.6. Link between EDP T2 and related EDP T3**

#### **3.6.1 Coverage of units**

The same register of units is used for non-financial and financial accounts compilation, and for EDP table 2 and 3 (S1311, S1313, and S1314). There are no possible deviations in sector delimitation in data used for EDP T2 and EDP T3 compilation. The coverage of units reported in EDP table 2 and 3 is identical.

#### **3.6.2 Financial transactions**

For subsector S1311 financial transactions: superdividends and revenue from financial investments which are excluded from the WB as reported in EDP T2 are reported in financial accounts and EDP T3 in F.5, but gains/losses from exchange rate fluctuations are reported in indicator “Appreciation(+)/depreciation(-) of foreign-currency debt”(EDP T3), but on the whole due to different coverage of financial flows (different data sources) different figures on FT reported in the working balance and in financial accounts (S1311, S1313, S1314) as well as EDP T3 are used. Basic data source for T2 transactions are revenues and expenditures of budgetary classification, while data source for financial transactions of T3 are accounting statements and additional reports.

For subsector S1311 the adjustments which should be done in order to reconcile financial transactions reported in EDP T2 and T3 are superdividends, revenue from financial investments and gains / losses from exchange rate fluctuations.

#### **3.6.3 Adjustments for accrued interest D.41**

The adjustment in EDP T2 for accrued interest refers for interest expenditure and also for interest revenue. For additional information see 3.2.3.4.1.

The main reason for difference in the adjustment for accrued interest in EDP T2 and T3 is due to the fact that in asset side interest is recorded together with the instrument, but in T2 shown in line “Difference between interest paid (+) and accrued (EDP D.41) (-)”. Other reason is the fact that data in EDP T2 is non-consolidated, but data recorded in EDP T3 refer to the whole subsector and are consolidated. Interest flows of F.2, F.3, and F.4 are included in the working balance. No adjustments should be done in order to reconcile figures reported in EDP table 2 and table 3 in the adjustment line for accrual D.41.

#### **3.6.4 Other accounts receivable/payable F.8**

The reasons for differences in the figures reported in EDP T2 and T3 in accrual adjustments under other accounts receivable and other accounts payable F.8 are due to capital companies controlled and financed by central and local government and future period expenditures of EU which are included in EDP T3, line “Other accounts receivable/payable F.8”. In EDP T2 these indicators have separate adjustment lines. Accrual adjustments reflected in non-financial accounts are identical to those reported in financial accounts in F.8. Due to privatization

proceeds there are no accrual adjustments relating to financial transactions reflected in financial accounts and in EDP table 3. No adjustments should be done in order to reconcile transactions in F.8 as reported in EDP T2 and T3.

### **3.6.5 Other adjustments/imputations**

*For S.1311 subsector:*

- Dividends paid by reclassified enterprises under F.5;
- Debt assumption: education reform loan from World Bank to local governments repaid by central government under F.4;
- Balance of grants and donations under F.2;
- Losses of derived public persons' deposits due to insolvency of "Krājbanka" F.2;
- Interest receivable under D.41;
- Claims of non-life insurance and earned premiums under F.6.

*For S.1313 subsector:*

- Education reform loan from World Bank to local governments repaid by central government under F.4;
- Revenue from privatization (except shares and other equity) under F.5;
- Correction of Ogre Art School PPP project under F.4;
- Losses of local governments' deposits due to insolvency of "Krājbanka" under F.2;
- Interest receivable under D.41;
- Claims of non-life insurance and earned premiums under F.6.

There are no additional imputations done in financial accounts by statisticians, because they are already reflected in data sources used for compilation of FA.

## **3.7. General comments on data sources**

Comments on data sources are included in other sections of Inventory.

## **3.8. EDP table 4**

### **3.8.1 Trade credits and advances**

The value of the stock of liabilities in trade credits and advances (AF.81L) as reported in the EDP table 4 is based on the consolidated financial accounts compiled for the general government sector – the closing balance sheet. The basic source data for calculation of this item is the same as for compilation of financial accounts and it is already described in 3.2.4, 3.4.4 and 3.5.4 in relation to compilation of EDP T3.

The consistency between the value of the stock of liabilities in trade credits and advances (AF.81L as reported in the EDP table 4) and "net incurrence of other liabilities" reported in EDP T 3 is ensured by the method of compilation of the financial accounts. The source data (in general accounting balance sheets) and the method of calculation is the same for EDP T3 and also for the EDP T4. The item "net incurrence of other liabilities" includes financial transactions on the liability side recorded under F.8, i.e. the net incurrence of liabilities in trade credits and advances is a part of the item reported in EDP T3. In EDP table 4 there are reported stocks of liabilities in trade credits and advances (AF.81L), in EDP T3 there is reported net acquisition (financial transaction in F.81 – liability side) together with another items (F.5 and F.89).

### **3.8.2 Amount outstanding in the government debt from the financing of public undertakings**

Government does not borrow on behalf of public enterprises. Therefore, no records are reported in the EDP Table 4.

## **4. Revision policy used for annual GFS**

This section relates to the revision policy concerning annual non-financial and financial government accounts. It describes the country policy for revisions with and without impact on the deficit (non-financial accounts for general government) and debt (financial accounts for general government).

### **4.1. Existence of a revision policy in your country**

Revision policy related to EDP data and the underlying ESA 2010 government accounts in Latvia is following:

- 1) Current revisions:
  - a) relating to mainly data for t-1 year and also at sometimes relating to previous years (t-2, t-3). The revision is connected with more precisely data for the October EDP notification in comparison with the April EDP notification – especially as to gross fixed capital formation;
  - b) Revisions following on Eurostat recommendations and decisions, for example correction on Latvian Olympic Committee. The revisions are recorded immediately (e.g. during EDP dialog);
  - c) Revisions, which connected with the schedule compilation and publication of national accounts including the Transmission Program. The annual sector national accounts are compiled as preliminary, half-finalized and final.
- 2) “Main” revision, which harmonised some methodological adjustments in all sectors in longer time series (Calculation of EU flows);
- 3) Exceptional revisions: for example: Correction on National Library.

#### **4.1.1 Relating to deficit and non-financial accounts**

Revision that have impact on the deficit (B.9), for example:

- capital injections;
- gross fixed capital formation;
- other account receivable and payable;
- difference in cash and time adjusted cash (VAT, excise tax, electricity tax);
- social contribution;
- difference between interest accrued and paid.

Revision that not have impact on the deficit (B.9), for example:

- correction of transport subsidies.

#### **4.1.2 Relating to debt and financial accounts**

Revision that have impact on the debt or B.9f, for example:

- difference between interest accrued and paid;
- loans;
- shares and other equity.

### **4.2. Reasons for other than ordinary revisions**

Revisions carried out for other than ordinary reasons relate specially to changes in methodology, e.g. changes in: for example – correction of trade emission permits.

### **4.3. Timetable for finalising and revising the accounts**

Timetable for finalising and revising the accounts is the same, because non-financial accounts and financial accounts are compiled in the same time.

Generally, the source data updates are made in October  $t + 1$  (as a rule, source data are not updated in April  $t + 2$  and October  $t + 2$  etc.).

Deficit: the source data of all three sub sectors of government (central and local government, social security funds) are updated for deficit calculation. The main items revised are other accounts payable / receivable and data of capital companies controlled and financed by government in sectors S.1311 and S.1313.

Debt: source data updates concern only central and local government. In terms of instruments, the updates usually concern loans F.4.

## B. Methodological issues

### 5. Sector delimitation – practical aspects

#### 5.1. Sector classification of units

Compiling the General government sector list, criteria, recommended by ESA 2010 and Manual on Government Deficit and Debt issued by the Eurostat are met.

1. Budgetary organisations are automatically classified into general government sector, because they are (their revenue and expenditure) fully linked with the central or local government budgets. They are recognized as non- market units.
2. Decision on business units is made after verification of all economically active units of Statistical Business Register either they belong to non-financial sector S.11, which is market, or general government sector S.13, which is non-market.
3. The list of enterprises related to general government sector is prepared by the CSB by verifying enterprise compliance with the following criteria:
  - 1) whether it has institutional unit features (1st criterion);
  - 2) whether it belongs to the government sector (participation of central and local governments in the enterprise's equity capital exceeds 50%) (2nd criterion);
  - 3) whether it is a government-controlled unit (3rd criterion);
  - 4) whether it is considered an institutional unit of the non-market public sector (4th criterion).
4. It is assumed that theoretically any economically active enterprise recorded in the Statistical Business Register corresponds with the 1st criterion, as any legal unit, which has independent accounting and autonomy in decision making, is considered as an institutional unit.
5. While identifying correspondence with the 2nd criterion, entries of the Statistical Business Register having "10", "20", "82" and "83" as the first two digits of the Typological Classifier of Statistical Units are selected, which means that the state or local governments own 50 % or more of the share capital of the enterprise.
6. While determining correspondence with the 3rd criterion, it is analysed whether the general government secures control over the institutional unit being reviewed in accordance with the indicators set in Paragraphs 2.38 and 20.309 – 20.310 of ESA 2010.
7. When determining to what extent the units selected as a result of the procedure indicated in Paragraph 5 correspond with the 4th criterion, the following analysis is carried out:
  - 7.1. if the main function of a unit is participation in national income and treasure division and it has been assigned a code of the Classification of Economic Activities NACE Rev. 2 starting with "84", the unit is related to the general government sector;
  - 7.2. if the main function of the unit is financial intermediation and it has been assigned a code of the Statistical classification of economic activities NACE Rev. 2 starting with "64", "65" or "66", the unit is classified outside of the general government sector unless special methodological conditions foreseen in the Guidelines for the government deficit and debt are not related to it;
  - 7.3. the belonging of other selected units to the general government sector is determined by analysing the data on financial activity provided in the annual report. Data from reports of the previous five years (n-6 to n-1) are used for the analysis. If the unit's net turnover minus the received general or local government budget assignments has been less than 50% of the unit activity costs (including net interest payments) for at least the previous three years, the unit is related to the general government sector;

7.4. an enterprise is related to the general government sector immediately, starting with the year n, if it is established in the calculation carried out according to the procedure prescribed in Paragraph 7.3 during the reference year n-1 that 50 % of the conditions have come into effect, and the total liabilities at the end of year n-1 indicated in the balance, excluding the equity capital and savings, exceed 0.01 % of the gross domestic product value of the year n-1 in current prices;

7.5. in cases when more than a half of the net turnover of the unit is comprised by remuneration of units of other general government sectors for the services provided, the results obtained according to the procedures indicated in Paragraph 7.3 are not taken into account and the respective unit is related to the general government sector.

8. The CSB prepares a list of units corresponding with all criteria, providing information on each unit's: - register identifier (NMK); - full name; - ISC code.

9. The CSB groups the units by the sub-sectors of the general government sector (S.1311, S.1313, S.1314) and shares the information on the CSB website.

10. The CSB carries out a regular analysis of the list until the 20 December of every year.

11. Extraordinary changes may be introduced in the list of enterprises related to the general government sector in the following cases:

11.1. if the enterprise included in the list has been liquidated in the Enterprise Register of the Republic of Latvia;

11.2. new state or local government institutions formed according to the laws and regulations of the Cabinet of Ministers or decisions of local governments are added to the list by implementing regular changes in the list.

### **5.1.1 Criteria used for sector classification of new units**

New central or local government institutions formed with Cabinet Regulation or local government decision are added to the General government list.

For every new unit that is added to the general government sector, an analysis is performed taking into account the criteria described in point 5.1. Statistical Business Register creates a list for each unit indicating:

- register identifier (Taxpayer Identification Number);
- full name;
- legal and actual address;
- registration date;
- liquidation date;
- legal successor identifier (TIN);
- Institutional Sector Classification code;
- Classification of the Administrative territories and Territorial Units code;
- Statistical Classification of Economic Activities in the European Community NACE Rev.2 code.

### **5.1.2 Updating of the register**

The Central Statistical Bureau prepares, disseminates and updates the general government sector list. The list of units controlled and financed by general and local governments is determined by the Central Statistical Bureau on the basis of the Statistical business register and statistical survey data in line with the procedure described in point 5.1.

Statistical Business Register information on established or liquidated budget institutions receive from the State Revenue Service once a month, but Register of Enterprises submits every month information about the established or liquidated enterprises as well as gives details of enterprise ownership changes on a quarterly basis.

*Re-examination of the sector classification is made once a year for all units with central or local government participation in the unit's stock capital equals or exceeds 50%.*

50% test (see point 5.1) consists of analysis based on data provided by units in their annual balance sheets, profit or loss accounts and statistical surveys.

The aim of this analysis is to identify status of unit for applying 50% test, what means that if government-controlled unit producing goods or non-financial services is also mainly financed by government, such unit has to be reclassified to general government sector S.13.

A formula applied is as follows:

$$\frac{\text{Annual operating income from economic activity} - \text{Government budget allocations}}{\text{Total expenditure to cover activity costs}} \times 100 = \dots \%$$

Annual operating income from economic activity is defined as income from the selling of goods or services (either primary or secondary activity) and other income from economic activity invoiced by the enterprise.

Government budget allocations or grants are budgetary funds that are allocated to enterprises, associations and foundations and other institutions according to the procedures specified in regulatory enactments in order to ensure the performance of state or local government functions.

Activity costs include all expenditure to ensure economic activity of the unit (production, sales, administration, personnel, goods and materials, expenses on other economic activity).

If the percentage obtained is 50% and more, the given unit is considered belonging to S.11 and market sector. If that rate is stably (for the last three years) less than 50%, the particular unit is considered belonging to general government sector S.13 and subsequently – non-market sector.

Classification of units into government subsectors or reclassification of public units between corporation and government sectors is made in time when a new test is elaborated on 50% and qualitative criteria; no backward revisions are made.

### **5.1.3 Consistency between different data sources concerning classification of units**

Government accounts are based on administrative data – financial and accounting statements for all government units. The same classification of the unit is used for non-financial and also for financial accounts.

Other data sources are used as additional sources.

The Central Statistical Bureau on its homepage prepares, updates and maintains the General government sector list by subsector used by other authorities (Ministry of Finance, Treasury, Bank of Latvia), which prepare information on the general government sector.



## 5.2. Existence and classification of specific units

The General government sector does not include non-profit institutions and quasi-corporations.

The main infrastructure enterprises outside the government sector:

- State JSC “Latvijas dzelzceļš” (Latvian railway, S.11);
- State JSC “Latvenergo” (Latvian electricity, S.11);
- State JSC “Latvijas gāze” (Latvian gas, S.11);
- “Lattelecom” Ltd (Latvian telecommunications, S.11);
- State JSC “Latvijas pasts” (Latvian post, S.11).

S.1311 includes:

- JSC “Pasažieru vilciens” (Passenger railway, S.1311), providing public transport services;
- State JSC “Latvijas valsts ceļi” (Latvian state roads, S.11);
- JSC “Latvijas autoceļu uzturētājs” (Latvian motorway maintainer S.1311) is responsible for maintaining, constructing and repairing motorways.

Specific units belonging to the government sector:

- JSC “Reverta” (S.1311). The activities of Reverta are focused in three main directions: loan restructuring, legal recovery, and real estate management;
- State JSC “Privatizācijas aģentūra” (Privatisation agency, S.1311) is responsible for ensuring privatisation process of public real estate in line with the Law “On public and local government property privatisation”;
- Ltd “FeLM” (S.1311) whose sole purpose is the claim management against JSC “CFU Liepājas metalurģis”.
- 
- Captive financial institution “Development financial institution Altum” State JSC.

Public universities (S.1311), schools (mainly budget institutions S.1311 and S.1313), public TV (S.1311) and public radio (S.1311) are classified in S.13 sector.

Real estate companies, which manage real estate and provide facilities for the government sector, are included in the central government sub-sector S.1311 by functions:

- „Valsts nekustamie īpašumi” State JSC;
- “Zemkopības ministrijas nekustamie īpašumi” State Ltd;
- “Hipotēku bankas nekustamā īpašuma aģentūra” Ltd;
- “Latvijas universitātes nekustamā īpašuma aģentūra” Ltd;
- “Šampētera nams” State Ltd.

Ports (large - *Liepāja, Rīga and Ventspils*) and smaller (*Engure, Lielupe, Mērsrags, Pāvilosta, Roja, Salacgrīva and Skulte*) are included in sector S.11, Riga International Airport and smaller airports (*Liepāja, Ventspils and Daugavpils*) are classified in sector S.11.

## **6. Time of recording**

This section describes the time of recording for taxes and social contributions, EU flows, military expenditure, interest and other transactions (subsidies, current and capital transfers and financial transactions).

### **6.1. Taxes and social contributions**

#### **6.1.1 Taxes**

The data source used for taxes (value added tax, excise tax, electricity tax, subsidized electricity tax, solidarity tax and personal income tax) is the cash data. The method used is time adjusted cash amounts which are attributed to the period when the activity took place. The State Revenue Service collects the information, which is then published in the Treasury reports. MoF using the data from Treasury reports, calculates the difference of cash and time adjusted cash date and the CSB compiles the data for EDP tables and related questionnaires. No coefficients are used. Reimbursements and refunds are recorded together with the tax, but the final settlement, interest on late payments, fines and penalties for unpaid taxes are recorded in D.75. Each type of payment has a separate account, in which also the interest of the late payment is transferred (interest paid on delayed payment term of taxes or duties). The penalties which are calculated in the result of tax auditing are paid into the separate account together with all taxes, except personal income tax, corporate income tax, social security contributions, property tax, value added tax and penalties of natural resource tax, which are paid into the same account, in which the tax is paid. The calculated penalty is a compulsory payment on the reduction of tax sum payable to the budget or on the increase of the tax sum payable from the budget. Those sums appear in the tax declarations already submitted to the tax administration or in the tax declarations to be submitted to the tax administration in the future. The payments are charged in the result of tax auditing. The final data for the year t becomes available in July of the next year.

In 2012 the tax support measure was implemented in Latvia as a one-time response to economic crisis. Taxpayers had to pay the full tax debt while being forgiven the late payment interest penalties and 90% of audit fines. Tax amnesty can be applied only to the tax penalties and fines of the main tax debt which has arisen till September 1, 2011.

The amnesties of tax penalties and fines are applicable to such taxes as value added tax (D211A), customs duties (D212), excise duties (D214A), tax on property (D29A, D59AB), natural resources tax (D29FA), personal income tax (D51AA), corporate income tax (D51BA) and, actual social contributions (D611, D613). They are recorded together with the tax and correspond only to the actual amounts.

#### **6.1.2 Social contributions**

The data source used for social contributions is the cash data. The method used is time adjusted cash amounts which are attributed to the period when the activity took place. The State Revenue Service collects the information, which is then published in the Treasury reports. MoF using the data from Treasury reports calculates the difference of cash and time adjusted cash date and the CSB compiles the data for EDP tables and related questionnaires. No coefficients are used. Reimbursements and refunds are recorded together with the tax, but

the final settlement, interest on late payments, fines and penalties for unpaid taxes are recorded as D.75. The final data for the year t becomes available in July of the next year.

There have been made improvements in the calculation of the social security contributions in the government finance statistics. Until now, in order to reflect the revenue from the state social security mandatory contributions correctly using the accrual principle and to follow main provisions of ESA, the time-adjustment method – one month – was applied in the calculation of government revenue statistics. However, as a result of an in-depth analysis of tax revenues and, consultations carried out between the Ministry of Finance and DG ECFIN, it was found that the previously used time-adjustment method does not provide correct and to the actual situation suitable reflection of government revenues. Therefore, an improved time-adjustment method for the reflection of state social security mandatory contributions was developed, applying:

- Time lag (1 month) for gross revenue of the social security contributions,
- Time lag (4 months) for the contributions in the state funded pension scheme<sup>1</sup>.

The contributions in the state funded pension scheme in the working balance are reflected as a decrease of the gross revenue.

Calculating the state social security mandatory contributions according to ESA principles, 4 months' time-adjusted contributions in the state funded pension scheme are deducted from the 1 month time-adjusted gross revenue of the security contributions. Adjustments of ESA according to the new methodology that is applied to the cash flow revenues have been recalculated for data starting from 2001 when the state funded pension scheme was introduced in Latvia.

In addition, transactions on changes in accounts payable (liabilities) against the state funded pension scheme in the SSIA<sup>2</sup> budget were added to the general government expenditure in the previously used method, analogous as it is done with other transactions in the general government budget accounts payable (thus ensuring compliance with the accrual principle for unpaid liabilities in the cash flow). These transactions of accounts payable partially (approximately 1.5 – 2 months) reflected a time lag for contributions in the state funded pension scheme. After implementing the new time-adjustment method, the transactions of accounts payable will no more be included in ESA adjustments to working balance, thus also updating historical data starting from 2001.

Taking into account that the Cabinet of Ministers Regulations No. 272/2003 on the activities of the state funded pension scheme foresee that the contributions into the state funded pension scheme's participant's account are registered not earlier than in the first working day of the fourth month that follows after the report month, contributions which are registered in the state funded pension scheme's participant's accounts in January and February of the next year until preparation of annual report of the SSIA<sup>2</sup> (March 1) actually relates to budget revenues received, which are transferred into special budget of state pensions in October and November of the previous year and in annual financial report of the SSIA they are reflected as accrued financial liabilities.

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<sup>1</sup> Contributions in state funded pension scheme are a part of actual contributions made to state pension security, which are determined in the law „On State Social Security”. Information is registered in state funded pension scheme's participant's account, based on information received from the State Revenue Service and information on state mandatory social contributions to the state pension security that is at the disposal of SSIA.

<sup>2</sup> State Social Insurance Agency

The registration of state social security mandatory contributions in the state funded pension scheme's participant's account (at the moment of registration gross income is reduced in the calculation of state budget's cash flow) for January is carried out in the following terms:

<p><b>JANUARY-</b> The month when the employer, the self-employed person or the employee of a micro enterprise gained income (the report month)</p>
<p><b>FEBRUARY-</b> The employer submits the report on the employee's income and contributions of January to the SRS and carries out the payments into the state budget</p>
<p><b>MARCH-</b> The employer submits the employees earned income in January to SRS and corrects the contributions of January's earnings</p>
<p><b>APRIL-</b> The SSIA receives information from the SRS, if:</p> <ul style="list-style-type: none"> <li>– the employer has adjusted or, according to mistakes found, corrected January's revenues and contributions,</li> <li>– the self-employed person has submitted the report,</li> <li>– the micro enterprise has submitted a</li> </ul>
<p><b>MAY-</b> The contributions from income earned in January are registered in the state funded pension scheme's participant's account and are transferred for management to the manager of resources chosen by the participant.</p>

## 6.2. EU flows

### 6.2.1 General questions

The institution responsible for the general management of EU funds in Latvia is the Ministry of Finance of the Republic of Latvia – leading body of the EU funds. Management of the European Union structural funds, i.e., European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF) in Latvia is provided by the Ministry of Finance; whereas, Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) is administrated by the Ministry of Agriculture. Functions of the payment institution are fulfilled by the Treasury that is responsible for making the payments within the framework of the EU fund projects and accounting of these payments. All institutions above are classified into the central government sector (S1311).

The source of data for EU flows is the Treasury (S1311). There are able to collect data on EU flows on central and local government level. Data on date of expenditure are reliable and on time of expenditure basis.

There is information on the final beneficiary (government, non-governmental unit). Information on the recipients of EU structural fund funding is stored in the EU Structural Fund and Cohesion Fund management information system administrated by the Ministry of Finance (2007-2013 planning period) and information management system of Cohesion policy funds administrated by the Central Finance and Contracting Agency (2014-2020 planning period). Lists of EU funding recipients of the EU Structural Fund and Cohesion Fund management information system are supplemented with the corresponding classification. It allows selecting EU funding recipients for the needs of national accounts.

EU Structural Fund and Cohesion Fund management system has data on the funding paid both with and without advance payment sums.

Amounts from the EU are entering the working balance only at central government level. The EU flows which go to the final beneficiaries that are outside government sector are removed from ESA table 2.

The accrual adjustment is done in EDP table 2a (Other accounts receivable) and table 2c (Other accounts payable). We carry out the neutralization on a cash flow basis (net receivables). Revenue from EU would be recorded on accrual basis at the time when funds are actually spent on behalf of EU by local and other government bodies and not at the time when advances are transferred from the state to these bodies. These advances will not be considered as prepayments by government on behalf of EU, but will be rather reflected as other accounts receivable of the state and other account payable of local government and other government bodies (and thus consolidated within government), taking into account the considerable time difference between the transfer of funds and actual expenditure. The related receivable and revenue from EU will be recorded when a claim reflecting the actual expenditure is submitted to the state. The deficit impact of EU projects is equal to the co-financing element and co-financing is recorded at the appropriate moment.

The third resource is recorded in the NA in accordance with ESA 2010 on the line D.76.

To improve reflection of EU funding on the general government deficit, we have additionally carried out in-depth analysis of various data sources. 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 additionally information from Rural Support Service was asked.

Until now the adjustment of EU funds' repayments to the budget was based on information from the MoF EU funds management information system. This system is mainly foreseen for monitoring of the EU project realization, but not for statistical purposes. Therefore, as detailed information from budget reports on EU funds returned to budget became more available, it was determined to use the direct information from budget accounting.

Information on co-financing rates for each EU funds and separately for each programming period are required by MoF, Ministry of Agriculture and Ministry of Environmental Protection and Regional Development.

By closing the planning period 2007–2013, we have made deeper analysis of European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), European Fisheries Fund (EFF) and European Maritime and Fisheries Fund (EMFF). As a result, we have found out that the actual EU co-funding rate has been different from planned and used for calculation of the fund's correction. The use of the planned co-funding rate has led to an impact on the notified deficit in the historical time series

which now differs from the results calculated based on the co-funding rate of actual fund's 2007-2013 execution. The corresponding historical time series were corrected.

### **6.2.2 Cash and Schengen facility:**

In compliance with the Section 30 of the 'Act of Accession' Latvia received the Cash-flow Facility means in 2004, 2005 and 2006. Cash-flow Facility amounts are recorded as revenue of the years when they were received. Schengen Facility means in the EDP tables are reflected in accordance with the Eurostat decision on EU flows.

### **6.2.3 Jeremie/Jessica**

Jeremie initiative in Latvia was launched in 2008, when the government of the Republic of Latvia on June 16 concluded an Agreement with the European Investment Fund (EIF) on introduction of the investment fund of the European Union structural funds. In compliance with the Agreement the government of Latvia in 2008 transferred EUR 91 million to the investment fund. The proportions of government and structural fund funding in the Holding Fund are following – 91.02% ERAF funding and 8.98% State budget funding. The introduction of investment fund of the EU structural funds has been assigned to the Ltd 'Latvian Guarantee Agency' (Latvijas Garantiju aģentūra) that has been classified to the sector S12. Nature of government transfer to the Holding Fund is grant. Final beneficiary from national accounts point of view is Holding Fund.

On April 15, 2015, "Latvian Guarantee Agency" (LGA), „Latvian Development Financial Institution Altum" and "Rural Development Fund" (LAF) united in a single body – JSC „Development Finance Institution Altum”, which takes over all rights and obligations of ALTUM, LGA un LAF and continues to realize all previous state support programmes of ALTUM, LGA and LAF.

### **6.2.4 Market Regulatory Agencies**

In Latvia intervention measures are implemented and supervised by the Rural Support Service: it purchases products from merchants at certain intervention price and supervises storage of products in private warehouses. Rural Support Service is responsible for common implementation of the state support and EU support policy in the country, as well as it monitors compliance with the regulatory enactments in agricultural field and fulfils other functions related to agriculture and rural support policy.

Rural Support Service is a direct-administration institution governed by the Ministry of Agriculture and therefore it is classified into the sector S.1311.

Stock of product is stored in enterprises belonging to the sector S.11 and therefore it is allocated to the balance of these companies.

## **6.3. Military expenditure**

### **6.3.1 Types of contracts**

Military equipment expenditure is compiled using data from Ministry of Defence which are included in the summary reports of the Treasury in the central government level.

No manufacturing unit, which products military equipment, is classified in the General Government sector. Sales agreed in advance with industrial suppliers with government pre-financing. Long-term lease agreements for military expenditures are not used.

Trade credits are commonly used for military procurement. Payment after delivery usually is 50-80%. Payment after delivery usually is completed within 120 days, however, in some cases we agree on longer payment schedule.

NSPA (NATO Support Agency, former NAMSA) for ammunition purchasing, as well as services of Random Brokerage for purchasing construction and equipment for “*Lielvārde*” airfield reconstruction and Sea Surveillance System implementation are used.

Fixed price contracts and fixed price with economical price adjustment contracts are usually used. For second hand equipment purchases government-to-government contracts are used.

### **6.3.2 Borderline cases**

Procurements of goods for military or civilian use are classified according to the list of military goods provided in the article 296 of the Treaty establishing the European Community, which provides specific exceptions to the application of the principles of the Treaty to certain procurements. Use of the exception in procurement is approved by the Government on case by case basis.

### **6.3.3 Recording in national accounts**

The available information on the payments has been recorded in the national accounts in compliance with the ESA 2010 methodology and the Manual on government deficit and debt, i.e.

Deliveries of military equipment have been recorded as intermediate consumption in the production of defence services, at the time when the economic ownership of the military good occurs, when the military equipment is delivered.

## 6.4. Interest

### 6.4.1 Interest expenditure

**Table x Availability and basis of data on interest**

Instrument	S.1311		S.1312		S.1313		S.1314	
	State	OCGB	Main unit	OSGB	Main unit	OLGB	Main unit	OSSB
Deposits (AF.2)	C/A	A	M	M	C/A	A	C/A	M
Securities other than shares (AF.3)	C/A	A	M	M	C/A	A	C/A	M
Loans (AF.4)	C/A	A	M	M	C/A	A	C/A	M
Other accounts receivable (AF.8)	M	M	M	M	M	M	M	M

*Cash/accrual, M (not applicable) or L (not available)*

Data sources on interest expenditure are used:

- Report “Information for the calculation of the general Government Deficit and debt” from Treasury;
- “Official report of the Treasury on General Government Consolidated Budget Execution, December, current year n-1”, Central government consolidated budget execution and local government budget execution are reported in the aggregated report “General Government Consolidated Budget Execution”;
- Annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia

The data is based on cash and on accrual principle.

The data on instrument by instrument basis is available to the NSI.

We have information on interest in State/Local government and Social security funds subsector.

The principle of recording accrued interest under instrument is being followed for all instruments.

The amounts for accrual adjustment on interest are the same in EDP table 2A and 3B.

### 6.4.2 Interest Revenue

Sources data on interest revenue are the same as for interest expenditure.

### 6.4.3 Consolidation

Consolidation of interest revenue and expenditure (D.41) is applied for all government subsectors (S.1311, S.1313 and S.1314). The consolidation is carried out on each subsector level and also on the general government sector level. Report “Information for the calculation of the general Government Deficit and debt” from Treasury is used for consolidation.

Consolidation does not have impact on B.9.

### 6.4.4 Recording of discounts and premiums on government securities

Amortization of the premiums and discounts related to the issue of securities enter the Working balance of EDP table 2. They are recorded in WB on cash basis and neutralised in the line Difference between interests paid (+) and accrued (EDP D.41) (-) in EDP Table 2.



JSC “REVERTA” (included in the central government sector in 2010) had issued securities, but they have negligible impact.

Premiums and discounts are spread over the life of the instrument on accrual basis.

Premiums are treated as negative expenditure in national accounts.

Information on new discounts and premiums is obtained from Treasury.

Discount / premium are both calculated and accounted separately in the securities transaction data. All the amortized debt is repaid (the security is redeemed) the full amount (nominal value).

## **6.5. Time of recording of other transactions**

All transactions of budgetary organisations except taxes are based on cash. Accrual adjustments have been made for other receivables / payables, so accrual non-financial flows are consistent with F.8 recorded in financial accounts. Due to privatization proceeds there are no accrual adjustments relating to financial transactions reflected in financial accounts and in EDP table 3. Accrual data coming from financial statements are used for capital companies controlled and financed by government and these data are in line with ESA 2010 rules. It is followed if all receivables, as booked in public accounts, are finally cashed.

Payables (and so expenditure) always have been booked in public accounts, so all payables are taken into account. Public accounts are audited in this respect. We are not aware of accumulated arrears / payables of government.

Subsidies are recorded when the transaction or the event (production, sale, import, etc.) which gives rise to the subsidy occurs. Data source for subsidies is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data. The subsidies are paid according to possibilities of the Budget.

Current transfers within general government are recorded at the time the regulations in force stipulate they are to be made, but capital transfers in cash are recorded when the payment is due to be made whereas capital transfers in kind are recorded when the ownership of the asset is transferred or the liability cancelled by the creditor. Data source for current and capital transfers is cash information from Treasury reports. Records of current and capital transfers depend on kind of these transfers. In most cases cash is equal to accrual.

Gross fixed capital formation is recorded when the legal ownership of the fixed assets is transferred to the institutional unit that intends to use them in production. Data source for budgetary institutions for calculation gross fixed capital formation for April notification is cash information from monthly (January-December) Treasury reports, but for reclassified enterprises to government sector quarterly balance sheet data are used.

Data source for October notification for central and local government budgetary institutions is “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia”- Form 5 “Report on Changes of Intangible Investments and Fixed Assets” includes annual balance sheet data for budgetary institutions. Data source for reclassified enterprises to government sector annual balance sheet data are used. The difference (+/-) between budget cash flow data and balance sheet data is included in intermediate consumption P.2.

Dividends are recorded at the time they are due to be paid as determined by the corporation. Data source for dividends is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data. For more detailed information see 7.4.

Social benefits other than social transfers in cash are recorded when the claims on the benefits are established, but social benefits in kind are recorded at the time the services are provided. Data source for social benefits is cash information from Treasury reports. No accrual adjustments have been made. Cash data have been treated as accrual data.

Data source used for taxes (value added tax, excise tax, electricity tax and personal income tax) and for social contributions is cash data. Method used is time adjusted cash amounts which are attributed to the period when the activity takes place. For more detailed information see 6.1.1. and 6.1.2.

## **7. Specific government transactions**

### **7.1. Guarantees, debt assumptions**

#### **7.1.1 Guarantees on borrowing**

##### *7.1.1.1 New guarantees provided*

##### ***Recording in public accounts***

Central and local government provide standardized and one-off guarantees. There are guarantees on borrowings (public corporations, other) and on assets (deposit, student loans, other). Central government provides standardised guarantees for project investment, study and students lending, as well as guarantees for agriculture and rural development loan guarantee program for years 2007–2013, but one-off guarantees – for public corporations. Local governments provide standardized guarantees for loans of legal and natural persons, but one-off guarantees – for public corporations. Central government guarantees are planned in annual budget law, and according to normative acts in effect, only Minister of Finance has right to provide guarantees on behalf of the State, which imposes liabilities to the State's means.

Order of issuance and supervision of the guarantees by central government is determined by Regulations of the Cabinet of ministers Nr. 391 of July 8, 2014 “Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State shall be Included in the Draft Annual State Budget Law, and the Procedure for the Issuance and Supervision of the Guarantees”.

These Regulations prescribe:

- 1) the procedure by which ministries and other central State authorities include requests for the guarantees to be issued on behalf of the State in a draft annual State budget law;
- 2) the procedure by which the Minister for Finance shall issue guarantees on behalf of State in accordance with the guarantee amount prescribed by the annual State budget law;
- 3) the procedure by which implementation of a project and fulfilment of the guarantee liabilities shall be supervised.

Guarantees issued on behalf of the State for study loans and student loans shall be included in the draft annual State budget law, issued and supervised in accordance with Chapter VII of these Regulations.

In the time limit prescribed in the regulatory enactment regarding the development and submission of a draft annual State budget law (a package of draft budget laws) and the medium-term macroeconomic development and fiscal policy framework, the Ministry of Finance shall determine the maximum permissible limit for the guarantees to be issued on behalf of the State and inform the line ministries thereof. The line ministries shall publish information regarding the possibilities to apply for the receipt of guarantees and the time limits for applying on their Internet home pages.

A loan recipient shall pay the risk interest rate of the guarantee up to five percent per year of the loan balance for the issued guaranty (finances received from the credit institution but not repaid). The amount of the risk interest rate of the guarantee shall be determined by the Minister for Finance following evaluation of the documents necessary for issuing the guarantee, taking the following criteria into account:

1. security for the guarantee;
2. legal status;
3. the liabilities;
4. earning ability;
5. the liquidity;
6. the risk of the project;
7. the credit history.

The loan recipient shall pay a service charge for servicing the guaranteed loan in accordance with the pricelist of chargeable services of the Treasury determined in regulatory enactments. Treasury is involved in the process of issuance of State guarantees ensuring risk assessment of projects submitted, determination of risk mark-ups, providing suggestions on loan agreement projects, as well as organizing issuance process of State guarantees. After the issuance of State guarantees, the Treasury lists liabilities that arouse in the result of State guarantees, as well as publishes information on the total guaranteed debt on a regular basis.

The minimum guaranteed loan amount for implementation of the projects of aid for commercial activity shall be EURO 2 845 743. The minimum guaranteed loan amount for implementation of State investment projects shall not be determined.

A guarantee included in an annual State budget law may be issued for the loan principal, payments of interest and demurrage for delayed payments, not exceeding the amount prescribed in the annual State budget law, but in the case of a project of aid for commercial activity a guarantee may only be issued for the loan principal or in accordance with a European Commission decision.

The maximum time limit for repayment of the guaranteed loans shall be 30 years, starting from the day a loan agreement was entered into.

Order of issuance and supervision of the guarantees by local government is determined by Regulations of the Cabinet of ministers Nr. 196 of March 25, 2008 “Regulations regarding Local Government Borrowings and Guarantees”. These Regulations prescribe the procedures, by which local governments may make borrowings and issue guarantees. Each local government has separate Regulations of the Cabinet of ministers, which regulate issuance of guarantees in local governments’ public corporations and study and student lending.

Guarantees provided by a government are recorded in its accounting system. According to the accounting system, contingent assets and liabilities (including guarantees) are recorded out of the balance sheets.

Information on central and local government guarantees is made public. Monthly information on guarantees issued by the central government in English is available in the home page of the Treasury: <http://www.kase.gov.lv/l/monthly-reports-on-guarantees/299> Details on loan and lender, amount granted (original currency and EURO), debt at the beginning of the period, transactions during period (disbursed amount, principal paid, currency exposure, other changes and interest paid), debt at the end of the period (original currency and EURO) and undisbursed amount at the end of the period are published.

Annual information on local government guarantees on 31<sup>st</sup> of December, year n-2 in Latvian is available on the home page of the Treasury as supplementary information of the “Annual Report of the Republic of Latvia on the Implementation of the State Budget and Local Government Budgets” [http://www.kase.gov.lv/?object\\_id=9015](http://www.kase.gov.lv/?object_id=9015) (year 2015)

List of local government guarantees by ESA sectors and currencies is available.

There are no any cases of debt assumption at inception.

### ***Recording in national accounts***

Concerning central and local government guarantees for statisticians details on loan and lender, amount granted (original currency and EURO), debt at the beginning of the period, transactions during period (disbursed amount, principal paid, currency exposure, other changes and interest paid), debt at the end of the period (original currency and EURO) and undisbursed amount at the end of the period are available. Guarantees provided are treated as contingent liabilities, i.e. they are not recorded in the national accounts. There are no cases of debt assumption at inception in national accounts except the case of the Latvian Olympic Committee (see part 7.1.1.2).

#### ***7.1.1.2 Treatment of guarantees called***

### ***Recording in public accounts***

Guarantee calls are recorded in public accounts as claims. Recoverability of claims are regularly assessed in public accounts and reflected via provisions. If a claim was recorded, there is no related debt cancellations recorded in public accounts.

Till now an assumption of the outstanding amount of debt in public accounts concerning guarantees have been recorded in the case of Latvian Olympic Committee (LOC) and JSC “*Liepājas Metalurģis*”.

Analysing the Annual Reports on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, it was found that the central government budget expenditure positions Subsidies for physical culture and sports (2004 – 2006), Subsidies for physical culture and sports (2007 – 2008) and Central and local government budget subsidies to associations and foundations (2009 – 2010) include subsidies to the LOC for repayment of government guaranteed loans. The above-mentioned subsidies were included in the government expenditure (D.3) in accordance with the annual subsidy payments. At the same time there were issued government guarantees for the LOC loans. Investigating the above-mentioned issue, it was found that through subsidies the government has repaid the guaranteed loan on behalf of the LOC, which in the national accounts has already been treated as annual government expenditure D.3. In the result, analysing the situation in accordance with MGDD section regarding guarantees (paragraph VII.4.2.2.) all government guarantees to the LOC should be treated as capital transfer expenditure of government (D.9) at the moment of issue, as the government already at the moment of guarantee issuance simultaneously plans budget subsidies for repayment of the LOC guaranteed loans.

Repeated guarantee calls: assumption of the outstanding debt by government are recorded as capital transfer expenditure (D.99) (-) and F.4 Liabilities (+). The repayments by government are recorded as financial transactions when government has assumed the whole debt (after repeated calls) – financial transaction (repayment of debt) F.2 (-) and F.4 liabilities (-).

### ***Recording in national accounts***

In general, guarantee calls are always recorded as capital transfer expenditure (D.99) and its repayments as a financial transaction (F.42) in compliance with a timetable for repayments.

#### ***7.1.1.3 Treatment of repayments related to guarantees called***

### ***Recording in public accounts***

Both guarantees calls and repayments by the original debtor related to guarantees called are very rare and are recorded in public accounts as financial transactions.

### ***Recording in national accounts***

In general, repayments by the original debtor are very rare and are recorded in national accounts as revenue (D.99).

In the end of 2014 Government of Latvia acknowledged the irrevocable liability to settle the put option with EBRD, stemming from the sale of Latvia's share in Citadele bank. The put option envisaged a liability for the Government to cover any shortfall between the market value of EBRD share in Citadele bank and EBRD's financial investment into it. Although the payment (cash settlement) was made in 2015, the liability (expenditure) had accrued as of 2014 in the form of a capital transfer (D.9) due to be paid since the call of guarantee. The settlement of EBRD put option liability (expenditure for the purpose of Loss or Profit Statement) is also incorporated into the financial statements (public accounts) of Privatisation Agency (S.13 unit) for year 2014.

#### ***7.1.1.4 Treatment of write-offs by government in public accounts of government assets that arose from calls, if any***

Till now there are no write-offs by government in public accounts of government assets that have arisen from guarantee calls.

#### ***7.1.1.5 Data sources***

Individual data on stocks of guarantees and related flows are available both for central and local government so it is possible to identify guarantee calls if such arise. The flows related to guarantee calls and repayments from origin debtors are recorded as financial transactions in public accounts and are not included in WB.

### **7.1.2 Guarantees on assets**

For treatment of guarantees on assets (deposit, student loans, other) in public and national accounts see 7.1.1.

## **7.2. Claims, debt cancellations and debt write-offs**

### **7.2.1 New lending**

The Treasury, according to the authorization of minister of finance, carries out issuance and servicing of the state budget loans. Amount of the state loans is determined each year in the annual state budget law. The Treasury issues state loans to local governments, executors of the state special budget, capital societies where share of central or local government in equity capital separately or in total exceeds 50 percent, and to capital societies consisting of several local governments where share of local governments in equity capital in total exceeds 65 percent, as well as to those scientific institutes and institutions of higher education which have status of derived public person, and to other recipients of state loans if that is determined in annual state budget law.

Loans issued by the central government mostly are long-term, and the largest amount is comprised by loans issued to local governments mostly for the implementation of EU projects. Aim of loans issued to non-financial merchants usually is implementation of EU projects for improving systems of water management and heat supply.

The Treasury and the CSB have direct data on all transactions on lending and on the related repayments; the data on new lending could be reported if necessary.

Integrated data on stocks and transactions in F.4 is available for all GG units including central and local government level.

Data by unit and by category of transaction/instrument are available for statisticians. Data are available from balance sheets and more detailed data are available from supplementary data source – budget reporting system „ePārskati” of the Treasury (separately data on loans repayments and loans granted).

Recoverability of the loans from the Treasury is considered regularly.

It is a rare occurrence when granted loans are recorded as a transfer (expenditure) in national accounts instead of financial transaction.

### **7.2.2 Debt cancellations**

Till now there is no debt cancellation cases recorded in public accounts.

### **7.2.3 Repayments of claims**

Repayment of claims is recorded as financial transaction under F.2 and F.4. There were no cases yet when receipts from repayments of claims have previously been cancelled, as well as repayments in kind are recorded. But if such cases occur, receipts from repayments of claims which have previously been cancelled would be recorded as revenue under the D.99, but repayments in kind – as reduction of F4 and expenditure in P51.

### **7.2.4 Debt write-offs**

Debt write-offs which are booked in public accounts are recorded as other changes in volume assets in national accounts. Write offs are recorded in public accounts when the creditor unilaterally has recognized that the claim will not be possible to collect due to the bankruptcy of the debtor. Write-off of the debt due to insolvency of the debtor is not complete cancellation of the debt. To ensure possibility of collection in case property status of the debtors change, this debt must be indicated in below-line account within 5 years since the moment it was written-off. Debts that count in balances of ministries and departments, as well as in balances of execution institutions of local governments and their structural units, and those that are recognized as hopeless are written-off with allowance of head of these institutions. In public accounts a claim could be cancelled (and not written-off) when there is a bilateral agreement between a creditor and a debtor to cancel outstanding liability, incurred by the debtor to the creditor. In public accounts a claim could be cancelled (and not written-off) when there is a bilateral agreement between a creditor and a debtor to cancel outstanding liability, incurred by the debtor to the creditor.

Information on debt write-offs is obtained from the Treasury according to Cabinet Regulation No 756 of 22 December 2015 „Procedures for preparing Notification of General Government Deficit and Debt” for all governments units at the level of central and local government. Till now there were no cases when debt write-offs are recorded in national accounts (via other changes in volume account), which have not followed public accounts recordings.

### **7.2.5 Sale of claims**

At the disposal of CSB there is no information on regular cases of sale of claims except Reverta's sold claim on supermarket «Универмар Москва» and associated enterprises on 09.02.2012. regaining 39.8 MEUR.

## **7.3. Capital injections in public corporations**

Information on capital injections (in cash and in kind) is obtained from “Report on changes of investment in shares and other equity” (quarterly information, retrieved from the Treasury information system of state and local government budget, used for April notification) and “Reports on changes of government participation in associated and related capital companies” (yearly information, submitted by the Treasury according to Cabinet Regulation No 756 of 22 December 2015 „Procedures for preparing the Notification of General Government Deficit and Debt”, used for October notification).

Individual data on capital injections in public corporations at central and local government level is available. Split by ESA sector allows excluding those public corporations which are controlled and financed by central and local government. Capital injections in kind can be identified whether they are in non-financial or financial assets.

NSI applies capital injection test to all capital injection cases gathered from quarterly and yearly information, profit / losses of previous year as well as accumulated losses (if such are recognized) of the public corporations are taken into account in applying capital injection test. There are no capital injections into quasi-corporations.

## **7.4. Dividends**

Information on dividends received by the government (central and local) is obtained on cash basis from Treasury reports.

Payment of dividends is regulated by “Law on governance of capital shares of a public person and capital companies” and the subsequent Cabinet Regulations No 806 of 22 December 2015 “Procedure by which State companies and public private companies having State as a shareholder estimate and determine the profit share payable as dividends and make payments to the State budget for the use of State capital”.

The regulations stipulate:

- 1) the procedure by which state companies and public private companies having state as shareholder (hereinafter together referred to as the companies) shall estimate and determine the profit share payable as dividends;
- 2) the actions of the shareholders of the state capital when using the right of the participant (shareholder) to decide on the profit share payable as dividends;
- 3) the procedure by which payments for the use of the State capital are made and transferred to the State budget, as well as the amount thereof.

The regulations are aimed at ensuring that the share of the company profit payable as dividends is estimated and determined in line with the principles of good corporate governance, thus contributing to the higher return from the state capital invested by the state or managed by the company and achievement of the overall strategic objectives of the company.

The minimum estimated profit share to be paid as dividends and the profit share to be paid as dividends is 50 % of the net profit of the company, unless otherwise stated in the medium-term strategy of the company.



When developing the strategy provided for under the Law on governance of capital shares of a public person and capital companies, the company supplements it with a suggestion regarding the profit share to be paid as dividends (in money terms and as a percentage of the estimated net profit for the whole term of the strategy, but not more than for seven years). Based on a reasoned proposal from the state shareholder, the Cabinet with a Cabinet Order may allow company in its strategy to determine a profit share to be paid as dividends (as a percentage of the estimated net profit) differing from that stipulated by the regulations.

A holder of state capital shares in a capital company shall be: 1) a ministry or other state administration institution appointed as the holder of state capital shares by the Cabinet; 2) the institution, which alienates or privatizes state capital shares in accordance with this Law or the Law on privatisation of state and local government property objects.

A holder of capital shares of a derived public person in a capital company shall be: 1) a derived public person to which such capital shares belong; 2) a state administration institution, appointed as the holder of capital shares of a derived public person by the Cabinet according to request of the highest decision-making body of the derived public person.

Detailed information on dividends in breakdown by payer (public corporations, where the state is the holder of the capital shares) is obtained from MoF.

About public corporations, where local government is the holder of capital shares, such information is not available.

The information on individual payers makes possible to determine superdividends.

Superdividend test is carried out by the CSB before April notification and is applied to all cases and all public corporations, where state is the holder of the capital shares. Data sources for super dividend test are detailed information on dividends in breakdown by payer received from MoF and the additional information on economic results - operating profit (after tax) of the public corporations obtained from CSB statistical survey 1 – finances.

Test on superdividends on local government level has not been carried out because needed information is not available.

Government does not receive interim dividends.

## 7.5. Privatization

State Joint Stock Company “Privatisation Agency” – valsts akciju sabiedrība “Privatizācijas aģentūra” is classified in General Government sector S13.

Revenue from sale of real estate goes through the working balance. We can separate privatization and sale of shares at state/local government level. We record transactions in F.5 due to privatisation on an accrual basis.

## 7.6. Public Private Partnerships

Latvia has some PPPs:

2006.07.28 PPP Project „Renovation of Ogre Art School”. The agreement was terminated on 29.06.2010 after „*JS&J Ūdensmeistars*” Ltd declared insolvency on 08.03.2010.

25.06.2009 concluded project agreement between Mārupe Parish Council, Ķekava Parish Council, Ogre County Council, Tukums City Council and general partnership “ACANA” for construction and management of four kindergartens (in 16.12.2010. Ogre County Council

decided not to build new kindergartens). The government has not granted any guarantees for these projects.

Both projects are local government projects.

As from 1 June 2009 the supervisory authority of PPP is the Ministry of Finance.

The subordinated institution of the Ministry of Finance – the Central Finance and Contracting Agency (CFCA) is determined as a monitoring institution mentioned in the PPP Law.

The Ministry of Economics can be involved in evaluation of the financial and economic calculations in case it is needed (according to EUROSTAT).

Public procurement procedure of a PPP project is supervised by the subordinated institution of the Ministry of Finance – the Procurement Monitoring Bureau.

Closed PPP contract are registered by the Register of Enterprises which is subordinated institution of the Ministry of Justice.

As well as the Cabinet, line ministries, regional governments and other subjects mentioned in the PPP Law Article 1, Paragraph 15 are involved in PPP realization.

According to the Public–Private Partnerships Law (hereinafter – PPP Law), with PPP understand co-operation between the public and private sector, which simultaneously meets the following criteria:

- the co-operation is between one or more public partners and one or more private partners set forth in the public-private partnerships procedures;
- the co-operation is carried out in order to ensure public needs in performing construction works or rendering services;
- it is a long-term co-operation that lasts up to 30 years and in the cases set forth in this Law even longer;
- a public and a private partner pool and use the resources available thereto (property, financial resources, knowledge, experience, etc.);
- a public partner and a private partner share the responsibility and risks.

According to the PPP Law the decision on realization the project shall be taken after appraising the project's financial and economic calculations and the potential influence on the amount of State budget long-term liabilities and the government debt.

- There are two types of PPP in Latvia – contractual and institutionalised. In either case PPP Procurement agreement, which is assigned according to the Public Procurement Law, or Concession agreement, which is assigned according to the PPP Law, may be closed.
- Closed PPP agreements are registered in the PPP agreements Register which is maintained by the Register of Enterprises. The mentioned Register is a set of electronic information which batches together entries on PPP agreements (including information on amendments or termination of PPP agreement).

PPP and concession concepts are stipulated in the Law on Public-Private Partnerships. In line with Regulation No 756 of 22 December 2015 "Procedures for preparing the Notification of General Government Deficit and Debt", the MoF provides the CSB with the assumptions included in the financial and economic calculations and the risk allocation between the public and the private partner in the PPP agreements from projects existing in year n-1 and with the financial data of the PPP projects still to be implemented."

## **7.7. Financial derivatives**

### **7.7.1 Types of derivatives used**

Central government uses following types of derivatives: interest rate swaps, currency swaps and FOREX swaps.

Local government units (only Riga Council) use interest rate swaps.

Other central government bodies (JSC REVERTA, State JSC “*Valsts nekustamie īpašumi*”, Captive financial institution “Development financial institution Altum” State JSC) use currency swaps.

Social security funds do not use financial derivatives.

### **7.7.2 Data sources**

The basic data sources for swaps and FRA for S.1311 are:

- 1) Report “Information for the calculation of the general government budget deficit and debt” (Treasury);
- 2) “Annual Report on Central Government Budget Execution and on Local Government Budgets of the Republic of Latvia, year n-1, Ministry of Finance”) and all inclusive balance sheets (loan statement, shares and other equity statement, etc.);
- 3) Annual survey "1-FAP" "Financial Assets and Liabilities" and the quarterly survey "2-FAP" "Financial Assets and Liabilities" from Central Statistical Bureau of Latvia.

Complementary data sources used for the purpose of special ESA 2010 adjustments (e.g. accrual adjustments, recording of specific government transactions, etc.):

- 1) Detailed information on swap transactions (Treasury).

The data sources for derivatives used in local government are information included in the annual reports.

NSI receives accrual data. Swap related flows (interest flows) are recorded on an accrual basis. Derivatives related flows in national accounts are reported on both sides.

### **7.7.3 Recording**

There have been no occurrences of off-market interest rate swaps (IRS) over the period 2000-till now.

Information on accrual basis on streams of interest payments from swaps and FRAs is available. The swap and FRA interest related flows are recorded on a net basis.

Threshold for swap operations is not applied.

## **7.8. Payments for the use of roads**

The charge in Latvia enters into force on 1st July 2014. According to the Law on Road User Charges the purpose of the road user charge is the facilitation of the maintenance and development of the main state roads, as well as of the use of more environmentally friendly vehicles in Latvia.

The charge is paid for the use of the sections of the main state roads in Latvia (except for crossing them, including on roundabouts) by trucks (goods vehicles) and their combinations having the gross vehicle weight exceeding 3500 kilograms and which are intended or are used for the carriage of goods by road.

## 7.9. Emission permits

Climate Change Financial Instrument (CCFI) started operating in Latvia in 2009 after signing the first international emissions trading agreements for the sale of Assigned Amount Units (AAU). Altogether by the end of 2011 more than five agreements for the sale of AAU were concluded. Within the framework of these transactions more than 21 million AAU were sold, thus acquiring EUR200 million.

EU ETS is specific economic instrument helping to encourage and at the same time to support largest Europe's and Latvia's GHG emitters in taking measures to reduce emissions. System participants – operators – receive part of EUAs free of charge, whereas other EUAs necessary for the fulfilment of the obligations may be purchased by operators as follows:

- 1) by participating in a secondary market and buying EUAs from other market participants, e.g., other operators, brokers, bourses etc.;
- 2) by participating in a primary market and buying EUAs in auctions organised by countries.

The EUAs auctioned by Latvia may be purchased by any natural/ legal person that in the register of Latvia or other country has an appropriate account. Latvia cannot trace the transactions of auctioned EUAs. Income from the auctioning of EUA is transferred to the account of the Treasury directly after the end of the auction.

Operator may use the purchased EUAs to fulfil its obligations in any year or may not use them at all. The EUAs surrendered by Latvia's operators may not be the EUAs sold by Latvia – they may be both EUAs allocated free of charge or EUAs sold by other countries. Income from sale of greenhouse gas emission units is recorded in the central government account (S1311) as acquisitions less disposals of non-financial non-produced assets (K2) and is included in EDP table 2a. Income from the sale of EUAs is recorded in the central government account (S1311) as other taxes on production (D.29) and is included in EDP table 2a. Revenues from the sale of EUAs generated in January – April (4 months) of a particular year should be recognised (accounted) in the same particular year, whereas revenues from the sale of EUAs generated in May – December (8 months) of a particular year should be recognised (accounted) in the following year. Exception – situations when EUAs of other trading periods are sold.

## 7.10. Sale and leaseback operations

There are no sale and lease back operations.

## 7.11. Securitisation

There are no securitisation operations.

## 7.12. UMTS licenses

Auction of UMTS licenses was launched in 2002.

Income from UMTS licenses (mln euro)

	2002	2003	2004	2005
Income from UMTS licenses (mln euro)	11.350	1.608	1.611	11.160

Income from UMTS licenses is recorded in the central government account (S1311) as acquisitions less disposals of non-financial non-produced assets (NP2) and is included in EDP table 2a.

Auctions of mobile phone licences was launched in 2012 and 2013.

Proceeds from auction in 2012 were 3.374 MEUR, in 2013 – 4.974 MEUR.

According to MGDD methodology revenue from recent sales is excluded from central government accounts for years 2012-2014 and the proceeds from sales of licences are recorded as AF.8. The proceeds from sales are to be recorded as government revenue at the time when the purchasers of a licences can start using the spectrums.

### **7.13. Transactions with the Central Bank**

According to the article 18<sup>1</sup> of the Law "On the Bank of Latvia" within 15 days following the approval of the annual report by the Council of the Bank of Latvia, the Bank of Latvia shall transfer to a state general budget account indicated by the Treasury:

- 1) the payment for the usage of state capital (D4R) in the amount of 50 percent of the total profit earned during the reporting year;
- 2) a part of its profit earned during the reporting year, which shall be calculated by applying the tax rate established for residents by the Law "On Corporate Income Tax" (15 percent of total profit).

### **7.14. Lump sum pension payments**

The state funded defined contribution pension scheme (2<sup>nd</sup> pillar) is operating since July 2001. It covers socially insured persons. This scheme is organised by State, but managed by investment management companies. The State Funded Pension Law provides that participants of the 2<sup>nd</sup> pillar pension scheme upon reaching the statutory retirement age or later, has two options for spending pension capital:

- 1) adding accrued funded pension capital (through the lump sum payment) to the notional pension capital, registered at the 1<sup>st</sup> pillar NDC PAYG pension scheme in the State social insurance pension budget;
- 2) acquiring life insurance policy.

According to the State Funded Pension Law the state funded pension is part of the state old age pension.

Participation in the state funded pension scheme is compulsory for those persons, who had not reached the age of 30 on the 1 July of 2001, when the scheme started operation. Persons, who were of age 30 to 49 years (including) in that time, can participate in this scheme voluntarily. As a result, first lump sum payments to the State social insurance budget occurred lately, and gradually these amounts will increase significantly.

Up to 2013 person`s accumulated 2<sup>nd</sup> pillar pension capital has been transferred solely to the state social insurance pension budget (to the 1<sup>st</sup> pillar pension scheme). About 2% of the 2<sup>nd</sup> pillar participants, who retired in 2014, chose the life insurance option.

The 2<sup>nd</sup> pillar funded pension capital is forming from the investment of the part of the mandatory social insurance contributions: In general, 20 per cent of person`s wage (income) is earmarked for social insurance old age pensions. Part of this money (till 2013 – 2%, in 2013

and 2014 – 4%, in 2015 – 5% and from 2016 – 6% of wage) is transferred to the 2<sup>nd</sup> pillar pension scheme for investment, while the rest amount of contributions remains at the 1<sup>st</sup> pillar NDC PAYG pension scheme. *If person chooses an option to add the accrued funded 2<sup>nd</sup> pillar pension capital to the 1<sup>st</sup> pillar non-funded pension capital upon retirement, then the accrued 2<sup>nd</sup> pillar capital as a lump sum is transferred to the State social insurance budget, where it is spent for pension payments in accordance to the PAYG principles. The respective amount of each person's accrued 2<sup>nd</sup> pillar pension capital is registered in his/her notional pension account, increasing amount of the 1<sup>st</sup> pillar notional pension capital and at the same time increasing future pension liabilities of the 1<sup>st</sup> pillar pension scheme.*

Part of the 2<sup>nd</sup> pillar lump sum payments covers an increase in the 1<sup>st</sup> pillar pension expenditures of current year, caused by transferring accrued 2<sup>nd</sup> pillar pension rights to the 1<sup>st</sup> pillar, while the rest of the money is maintained for respective pension payments in future years. This residual is accrued and recorded under F.8. The data source: State social insurance budget.

## 7.15. Pension schemes

### Definition of pensions

There is no concrete definition of pension as such under Latvian legislation. Pension can be defined as a fixed amount, other than wages, paid at regular intervals to a person or to the person's surviving dependents in consideration of past services, age, merit, disability or injury.

### Classification of pension schemes

Pension provision in Latvia can be classified as follows:

- 1) The **public pension system**, which is compulsory and covers all individuals who participate in the State social insurance system. The public pension system can be subdivided into:
  - **Old age (retirement) pension system**, which, under the public pension system, consists of two pillars:
    - The notional defined contribution pension scheme (NDC PAYG) as a 1<sup>st</sup> pillar of retirement pension system. It is a social security pension scheme. Due to certain guarantees incorporated into the NDC pension scheme, this scheme is classified as a defined benefit (DB) pension scheme in national accounts.* Upon the choice of retiree scheme allows to retire earlier (up to two years), or to postpone retirement. It is possible to receive full amount of wage and pension, if person has retired reaching statutory retirement age, or later. Person, who chooses early retirement, receives only part of the granted pension amount till reaching the statutory retirement age. In such a case pension shall not be paid out during employment (till reaching the statutory retirement age). There are several groups of persons who have right to retire even earlier than two years before the statutory retirement age, if necessary conditions are satisfied. For example, politically repressed persons, workers in hazardous and unhealthy circumstances, persons with some specific health conditions, participants in the liquidation of the consequences of the Chernobyl nuclear power station accident, persons who have cared for five or more children, or a disabled child etc. 1<sup>st</sup> pillar pension scheme covers also persons who had retired according to the old law DB PAYG pension scheme (persons retired before 1996), providing as well service pensions for certain professions (as seafaring, railway transport, aviation, etc.). Special (merit) pensions are also included in

the old age pension scheme. Taking all these aspects into account, *the 1<sup>st</sup> pillar pension scheme in a certain extent covers also features of anticipated old age pensions, partial pensions, early retirement pensions due to reduced capacity to work and early retirement pensions for labour market reasons.* Pensions are financed by the State social insurance budget, or, for some categories, from the State general budget. These pensions are included in D.621;

*-The State mandatory funded defined contribution (DC) pension scheme, as a 2<sup>nd</sup> pillar of the retirement pension system,* where part of the state mandatory social insurance contributions is invested by private asset managers. This scheme is classified in S.129. It is possible upon retirement to add accrued funded pension capital to the 1<sup>st</sup> pillar notional pension capital and therefore to receive higher pension from the 1<sup>st</sup> pillar, or to acquire life assurance policy (so called life pension);

- **Survivors` DB PAYG social security pension scheme.** Survivors` pensions are financed by the State social insurance budget. Children and other family members of deceased person have right to survivor`s pension, if they do not have capacity to work and if they were his/her dependents. Survivor`s pension shall be granted without reference to the cause of death of provider, except work injury or occupational disease (in that case survivor`s pension shall be granted under the scheme of the state social insurance against work injury and occupational disease). These pensions are included in D.621;
- **Disability DB PAYG social security pension scheme.** Disability pensions are financed by the State social insurance budget. Pension can be granted till statutory retirement age, if person`s disability has been approved, except cases where disability is the result of work injury or occupational disease (in that case, since January 1997, regular social insurance compensation shall be granted under the scheme of social insurance against work injury and occupational disease). By reaching the statutory retirement age disability pension is replaced by old age pension (1<sup>st</sup> pillar pension scheme). Disability pension shall be granted depending on the level of the loss of ability to work. The same financial resources cover also pensions, granted to participants in the liquidation of the consequences of the Chernobyl nuclear power station accident and their family members, if incapacity is related with Chernobyl accident, as well as compensation for damage, caused by work injury or occupational disease, which took place before the new scheme of social insurance against work injury and occupational disease came into force (before January 1997). These pensions are included in D.621;

*In January 1997, the insurance against work injury and occupational disease has been introduced as a part of the State social insurance system. Insurance compensations (indemnities) and survivor`s benefits, provided by this scheme, are similar by content to disability and survivor`s pensions. Every employer must pay mandatory contributions to protect employed persons against work injury and occupational disease. A socially insured person is **entitled to receive regular insurance compensation** if he/she, due to an accident at work or an occupational disease, has lost the ability to work. **If a person has died due to an accident at work or an occupational disease, his or her family members are entitled to receive a survivor`s benefit.** Though, according to the national legislation such insurance compensations and respective survivor`s benefits are not registered as the part of the pensions` framework. Such benefits are included in D.621.*

- 2) **Unfunded DB service pension schemes for employees of certain institutions of the Government sector** (so as for procurators, policemen, employees in the sphere of culture, etc.). These pensions are financed by the state general budget;
- 3) **Private funded DC pension schemes as a 3<sup>rd</sup> pillar of the retirement pension system**, which can be subdivided into:
  - **Private funded pension schemes** administered by autonomous open or closed pension funds. Open pension funds provide persons` pension insurance directly and through the intermediation of their employers, where employers make contributions in favour of participants. Closed private pension funds are organized by employers as employer retirement schemes. Participants are employees of the employer – organizer of the closed private pension fund.
  - **Private pension insurance, administered by life insurance companies**, providing individual insurance policies.

### **Classification of social insurance pension schemes**

*Pension schemes covered by the public pension system, service pension schemes of the Government sector and private funded pension schemes (in case if employers make contributions in favour of participants) are classified as social insurance pension schemes according to the ESA rules. Social insurance pension schemes are based on contributions. Public pension system covers also periods, regarded as equal to the periods of employment (periods when person is on parental or sick leave, receives unemployment benefit, or is disabled and unemployed etc.). Those periods for respective persons are covered by contributions (transfers) from the State general budget, or by transfers from special sub-budgets within State social insurance special budget (for instance, contribution amounts are transferred from the Employment special budget to the Special budget for old age pension during period, when person is unemployed).*

### **Definition of social security pension schemes**

According to the Law on Social Security the basic principles of the operation of the social security system in Latvia, which can be attributed directly to social security pension schemes, are the prohibition of differential treatment, solidarity and social insurance.

Social security pension schemes are all schemes under the state social insurance, which cover large sections of the community and where general government takes over the responsibility for pension provision. *The 1<sup>st</sup> pillar retirement pension scheme, pension scheme for survivors and disability pension scheme is attributed to the social security pension schemes. All these schemes are unfunded, defined benefit and financed on pay-as-you-go (PAYG) basis. Social security pension schemes are considered as compulsory. However voluntary participation is also allowed for persons who for some reasons are not subjects to the state compulsory social insurance. As described above, scheme of insurance against work injury and occupational disease is also included in social security.*

*The state mandatory funded DC pension scheme (2<sup>nd</sup> pillar), which is imposed by government and which operation is based on investment of part of the state social insurance contributions for retirement, is not considered as the social security pension scheme because the investment result (or risk) is fully on participant. Although, according to the national legislation, the state funded pension is part of the state old age pension. The management of the 2<sup>nd</sup> pillar assets is provided by investment management companies and each participant of the scheme has the*



right to select and to change both the manager of his or her funded pension capital, and the investment plan.

It is easy to distinguish between social security pension schemes and other social security benefits, as well as between social security pension schemes and other social insurance pension schemes in statistics in Latvia.

### **Classification of institutional units supporting pension schemes; borderline cases**

- The State social insurance agency (social security fund S.1314) supports social security pension schemes and service pension schemes for employees of certain institutions of the Government sector. It also provides administration of the 2<sup>nd</sup> pillar pension scheme;
- Pension funds (S.129) support 2<sup>nd</sup> pillar pension scheme (during pension capital accumulation stage) and private pension funds` provisions of the 3<sup>rd</sup> pillar pension scheme;
- Insurance corporations (S.128) support life insurance provisions of the 3<sup>rd</sup> pillar pension scheme and 2<sup>nd</sup> pillar pension scheme (during stage of payment of life annuities, if retiree chooses such option);

#### **Borderline case:**

The 2<sup>nd</sup> pillar pension scheme can be hold as the borderline case due to its following features:

- scheme is imposed and controlled by the Government;
- scheme is mandatory for persons, covered by the state social insurance (all employed population, including persons, whose absence from employment is regarded as equal to the periods of insurance);
- according to the legislation, state funded pension is part of the state old age pension;
- pension capital of the 2<sup>nd</sup> pillar funds is based on part of contributions for State pension insurance;
- scheme is organized by the Government through the State Social Insurance Agency and managed by private asset managers, which have an agreement with State Social Insurance Agency and are licensed by Financial and Capital Market Commission;
- the investment result (risk) is fully on participant;
- 2<sup>nd</sup> pillar pension as such does not exist under the 2<sup>nd</sup> pillar pension scheme, as 2<sup>nd</sup> pillar only accrues pension capital and does not manage pension payments. Person`s accrued 2<sup>nd</sup> pillar pension capital at retirement, by his/her choice is transferred to the 1<sup>st</sup> pillar, or to life insurance company. It can be paid out only in the form of part of the 1<sup>st</sup> pillar pension, or in the form of life annuity.