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FINAL FINDINGS

Eurostat EDP dialogue visit to Latvia

2-4 December 2019

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EXECUTIVE SUMMARY

Eurostat carried out an Excessive Deficit Procedure (EDP) dialogue visit to Latvia on 2-4 December 2019, accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and from the European Central Bank (ECB). Latvia was represented by the Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF), the Treasury of Latvia and the Bank of Latvia (the Central Bank). Representatives from the Ministry of Economics (MoE), the Ministry of Transport and AS "Latvenergo" also participated during the relevant sessions. (Please see the list of participants in Annex 1).

Eurostat undertook this regular EDP dialogue visit in order to discuss the quality framework for the production of EDP statistics, to review data sources for the EDP data compilation and to discuss and clarify methodological issues and specific government transactions in the light of the implementation of the European System of National and Regional Accounts (ESA 2010) methodology and of the provisions of the new 2019 Manual on Government Deficit and Debt (MGDD). Thirty action points were formulated.

Concerning the institutional responsibilities, the compilation of the annual financial accounts (tables 6 and 7 of the ESA transmission programme) was in 2018 transferred to the Bank of Latvia. Eurostat expects the tables to continue to comply with the ESA 2010 rules, as interpreted by the CSB, in consultation with Eurostat and, in full alignment with Quarterly financial accounts for general government (QFAGG) and the EDP tables, prioritizing government accounts over other data sources (balance of payments and monetary statistics).

A general discussion took place about the ongoing public accounting reform introduced with the Cabinet Regulation nº 87 from 13.02.2018 regarding the accounting arrangements for budgetary authorities. The statistical authorities will inform Eurostat of the implications of the reform with particular attention given to any changes that might have effects on the compilation of data reported for EDP and Government Finance Statistics (GFS) purposes. Eurostat reiterated that it would appreciate if the Latvian authorities would explore more the available accrual data sources and would use them in the compilation of EDP statistics, notably to crosscheck the flows of payables/receivables reported in EDP tables 2. Eurostat asked the Latvian statistical authorities to make an exercise, for the budgetary central government (as defined in public accounts), comparing the profit and loss information, on the one hand, with the budgetary data adjusted for payables and receivables (which is used for EDP compilation), on the other hand, for D.1, P.2, P.51, etc.

Eurostat welcomed the EDP/GFS statistics revision policy in place in Latvia, which includes the revision of the entire time series of annual and quarterly national accounts data from 1995. Regarding human resources and capacity for EDP work, Eurostat took note of CSB's need to reinforce their team due to the mobility of staff in the EDP and GFS area and expressed some concern on the implications to the overall quality of the data Latvia reports.

The Latvian EDP inventory will be updated, taking into account the changes implemented following the new 2019 MGDD edition, using the new Eurostat template and describing in more detail the data sources used for the compilation of GFS/EDP accounts for the core central government unit (the State), reflecting the discussions during the meeting.

Concerning the data reporting under Directive 2011/85/EU, Eurostat invited the Ministry of Finance, in cooperation with the Latvian statistical authorities, to include the non-performing loans of *Reverta* and, possibly, of other non-budgetary government units and, in the meantime, to relabel the published data as only covering budgetary central government.

As a follow-up of the previous EDP visit, Eurostat proposed to close the still open action points and reopen new and updated action points on the issues concerned.

Eurostat invites the Central Bank to amend its sectorization of *Parex/Reverta* in the year 2011/2012, i.e. to move the unit back inside general government, as was previously the case, despite it having a banking license. Eurostat invites the Latvian statistical office to use the Central Bank's expertise on the compilation of stocks of financial assets/liabilities, for the benefit of further improvement of ESA table 27.

On 2 August 2019, Eurostat published a new MGDD (2019 edition), with a flexible implementation for issues of smaller magnitude, which could be tackled by the April 2020 EDP notification. The CSB has informed that the implementation of the provisions of the 2019 MGDD will be carried out by April 2020. By the end of March, Eurostat will receive a detailed note on the status of the implementation of the provisions of the new 2019 MGDD. Eighteen units will be reclassified to the government sector, for the October 2020 EDP notification, along with the benchmark revision.

After a general discussion about the application of the quantitative market/non-market test (50% criterion), Eurostat asked the Latvian statistical authorities to provide the chart of accounts applicable for business accounting, which is used for the quantitative market/non-market test, the capital injection test and the super-dividend test.

Eurostat took note of the letters of complaint/disagreement from *Rīgas satiksme* and from *Tiesu namu aģentūra* on the issue of their sector classification in the general government sector and invited the Latvian statistical authorities to report on any developments.

The classification of railway infrastructure companies is under discussion in the Excessive Deficit Procedure Statistics Working Group (EDPS WG). *Latvijas dzelzceļš* (LDz) is the only public railway infrastructure manager in Latvia and receives payments from transport operators for the use of railway infrastructure according to the Latvian railway law. Eurostat asked the Latvian statistical authorities to re-examine the classification of the railway infrastructure company *Latvijas dzelzceļš* and to compile a new quantitative market/non-market test taking into account several points discussed during the visit.

Following the discussions regarding the rail network development project between the three Baltic States, the Latvian authorities will provide Eurostat with the profit and loss and balance sheet statements of the entity EDzL and the financial statements of the joint venture *RB Rail AS*. The Latvian authorities will verify that the principle of neutrality of the EU flows for general government accounts is ensured for the flows involved in the *Rail Baltica* project. The Latvian statistical authorities and Eurostat will reflect on the appropriate statistical treatment of this intergovernmental joint venture, taking into account the work carried out by the EDPS WG.

As regards the Deposit Guarantee Fund (DGF), Eurostat recalled the recording of the 2011 rescue operation of *AS Latvijas Krājbanka* and questioned if and how the uncollected claims from DGF towards the bank had been recorded in national accounts.

Eurostat remarked that following a change in the MGDD, resolution funds are to be classified in the general government sector. Therefore, the Latvian statistical authorities will classify the

National Resolution Fund, currently associated with the Financial and Capital Markets Commission (FCMC, in S.12), inside general government. Eurostat took note that, as there are no operations undertaken by the National Resolution Fund, the impact for B.9 and debt would be negligible.

Eurostat thanked CSB for the early submission of the annual questionnaire on government controlled units classified outside general government. The Latvian statistical authorities will improve the metadata of the questionnaire on public corporations, as appropriate.

As regards the implementation of the accrual principle for taxes and social contributions, the Latvian statistical authorities will provide a note with the formula on the time adjustment recording for the solidarity tax (for the years 2016-2017) and for the solidarity payment (which started in 2018). In particular, they will confirm whether the amounts collected by government were and remain indeed adjusted by one month and whether the regular transfers to the 2nd and 3rd pillars are correctly reflected. This may have consequences when reporting EDP questionnaire table 5. The Latvian statistical authorities will also send to Eurostat the legal basis supporting the changes from the solidarity tax to the solidarity payment.

Latvia implemented a tax reform in 2018 involving changes to the labour, corporate, and excise taxes, as well as measures to combat the shadow economy. Eurostat asked CSB to clarify how these changes impacted the recording in national accounts and the evolution of tax revenues and its distribution (taxes on income, social contributions and receivables).

Concerning the recording of interest, Eurostat welcomed the efforts of the Latvian authorities to update the table on the recording of interest for S.1311 with data for the period 2012-2018 and highlighted that this table is useful to crosscheck the data in questionnaire table 8.

Concerning the stock of receivables of general government against the EU, Eurostat invited the Latvian statistical authorities to explain why the stock figures have increased significantly in the past 5 years, notably by comparing the patterns of the stock of receivables with that of the flow of EU funding. The statistical authorities will also enquire about the possibility to disentangle the payable to the EU from the receivable from the EU that are currently reported on a net basis.

The participants discussed the guaranteed compensation payments to depositors of the *PNB Banka* by the DGF in 2019 and the recording in national accounts.

Eurostat took note of the progress achieved so far on resolving discrepancies observed in the supplementary table for reporting government interventions to support financial institutions, between B.9 and B.9F and encouraged continuing the efforts towards further alignment. The Latvian statistical authorities can choose to record the 2010 reclassification of *Parex* liabilities inside government either via other changes in volume or via transactions (in both cases D.9 should nonetheless have a counterpart in the financial accounts). Eurostat agreed that the non-performing loans of Parex could continue being recorded in the ESA balance sheets net of provisions, as a practical approach, pending clarification from the EDPS WG. However, changes in the stock of non-performing loans reflecting provisions and reversals should entirely enter the other changes in volume, with no transactions in loans.

The discussion about capital injections in public corporations focused on the negative capital injection in 2016 related with the repayment of a guarantee call by *Liepājas metalurgs* and a capital injection in 2016 by government in the national airline *Air Baltic,* considered at the time as a financial transaction in F.5. For the first issue, Eurostat recommended the Latvian statistical authorities to remove the amounts associated to the repayment of guarantee calls by *Liepājas metalurgs* from the table on capital injections and report the associated amounts in the table on guarantees. Regarding the *Air Baltic* capital injection in 2016, the Latvian authorities will describe the equity evolution of *Air Baltic* through time, including all capital injections, possible equity withdrawals or capital reductions since 2010.

Representatives of *Latvenergo* and of the Ministry of Economics (MoE) were invited to the meeting to discuss and clarify issues related to the financial accounts of *Latvenergo* and to the electricity scheme agreement that allowed the companies receiving support for high efficiency cogeneration to partly waive their right to this support, in return for receiving a one-off compensation. Eurostat asked the Latvian statistical authorities to reflect on the correct recording, in the ESA government accounts, of the transactions regarding the one-off compensation scheme concerning electricity subsidies, which includes a decapitalisation of *Latvenergo*.

Concerning the reporting of guarantees granted by government, the Latvian statistical authorities will update the table on guarantees, requested for the EDP visit, along the lines of the discussion during the meeting and adapt questionnaire table 9.1 consistently.

Following repeated cases of assumption of *Latvijas olimpiskā komiteja's* debt by Government in the past, Eurostat questioned whether that could not be taken as a sign for Government having control over the Olympic Committee. The Latvian statistical authorities will analyse whether government has control, in the meaning of national accounts, over the Olympic Committee, notably in the light of debt assumptions carried out in the past.

Eurostat welcomed the work done by the Latvian statistical authorities on the table on derivatives, noting that the revised table improved and solved some anomalies compared to the previous one. It should be further clarified whether any collateral on cross-currency swaps were actually provided or received by Latvia, in the form of debt securities or via escrow accounts.

The proceeds from the sale of emission permits (ETS) are recorded in Latvian national accounts with a time-adjusted cash approach of 4 months, splitting the revenue between D.29 and D.74. Eurostat tentatively agreed with this approach, pending EDPS WG deliberations. In the sequence of its benchmark revision works, to be completed by September 2020, Latvia will provide a note on their reflections on a possible switch to a D.29 paid by companies to the rest of the world account and a government revenue coded in full as D.74.

As regards the recording in national accounts of the criminal proceeds seized following a decision by the Riga Regional Court in 2019, Eurostat suggested to record an asset F.2 with the counterpart F.8L in general government accounts. Alternatively, no entry in the balance sheet may also be a recording option. Any government revenue should only be recorded in the year when the potential dispute with the Ukraine over the claim is finally settled.

Regarding the residence by investment scheme or other citizenship scheme in Latvia, since the different options to obtain a residence/citizenship permit through the Latvian programs involve a payment to the State budget, Eurostat asked for the annual number of persons concerned and the actual revenue figures related to these schemes recorded in the government accounts since 2010.

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Latvia on 2-4 December 2019.

The delegation of Eurostat was headed by Mr Jukka Jalava, Head of Unit D3 - Excessive deficit procedure (EDP) 2. Eurostat was also represented by Ms Rasa Jurkoniene, Mr Philippe de Rougemont, Ms Henna Laasonen, Mr Levente Szekely and Ms Anabela Nabais Rodrigues (EDP desk officer for Latvia). Representatives of the Directorate-General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated. The Latvian authorities were represented by the Central Statistical Bureau of Latvia (CSB), the Ministry of Finance of Latvia (MoF), the Treasury of Latvia and the Bank of Latvia (the Central Bank). Representatives from the Ministry of Economics (MoE), the Ministry of Transport and AS "*Latvenergo*" also participated during relevant sessions.

The previous Eurostat EDP dialogue visit to Latvia took place on 7-9 June 2017.

Eurostat undertook this regular EDP dialogue visit in order to discuss the quality framework for the production of EDP statistics, to review data sources for the EDP data compilation and to discuss and clarify methodological issues and specific government transactions in the light of the implementation of the European System of National and Regional Accounts (ESA 2010) methodology and of the provisions of the new 2019 Manual on Government Deficit and Debt (MGDD). Thirty action points were formulated.

The visit focused on the new institutional responsibilities for the compilation of the financial accounts and the need to prioritize government accounts over other data sources; the classification of specific units (including the railways infrastructure company - *Latvijas dzelzceļš* and *RB Rail*); the tax reform of 2017 and the impact on EDP compilation procedures and EDP data; the recording by the Deposit Guarantee Fund of guaranteed compensation payments to depositors (from *Latvijas Krājbanka*, ABVL, *PNB Banka*); the recording of the one-off compensation scheme concerning electricity subsidies within the mandatory electricity procurement scheme and the super-dividend test of *Latvenergo*; the recording in national accounts of the revenues from the sale of emission permits (ETS); and the recording of interest expenditure and of financial derivatives.

With regard to procedural arrangements, the *Main Conclusions and Action Points* were promptly sent to Latvia for review. Then, the *Provisional Findings* would be sent to Latvia for review. After this, the *Final Findings* will be sent to Latvia and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the contribution of the Latvian statistical authorities to the smooth organization of the meeting and the very good co-operation and transparency demonstrated during the meeting, as well as the provision of documents prior to the visit.

1. Statistical capacity issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.1.1. Institutional cooperation and EDP processes

Introduction

The Government Finance Section of the Central Statistical Bureau (CSB) is responsible for preparing and submitting the EDP notifications to Eurostat. The EDP tables are compiled by the CSB. The planned data in EDP Table 1 is provided by the Ministry of Finance. CSB prepares the non-financial accounts and the Maastricht debt, both annually and quarterly for all the sectors of general government. Since 2018, the compilation of the annual financial accounts is under the responsibility of the Bank of Latvia.

Discussion and methodological analysis

Eurostat enquired about the organizational structure in the CSB, the cooperation between the institutions involved in EDP statistics and asked for a brief overview of the EDP data production process, focusing on issues of resources and sharing of responsibilities.

CSB amended the information transmitted to Eurostat in November in preparation of the visit according to which there had been no changes in the institutional arrangements since the previous EDP dialogue visit in June 2017 and provided to Eurostat an updated flowchart with the legal background and the data collection, compilation and dissemination process for the EDP notifications.

In terms of the division of responsibilities, the Bank of Latvia is responsible for the compilation of the annual financial accounts – meaning ESA tables 6 and 7 - since 2018.

Regarding the legal background, CSB informed that a public accounting reform was ongoing, introduced with the Cabinet Regulation nº 87 from 13.02.2018 concerning the accounting arrangements for budgetary authorities. Furthermore, the Cabinet Regulation on the arrangements for the production and submission of quarterly accounts to the Treasury (Cabinet Regulation nº 51 from 29.01.2019) had also been revised.

CSB explained that there is however no need for legal changes regarding EDP. Cabinet Regulation nº 756, from 22.12.2015 continues setting the procedures for preparing the EDP notifications, including the identification of the main national authorities involved, their reporting responsibilities and corresponding deadlines. This regulation also prescribes that the CSB should regularly organize working groups and inter-institutional meetings to carry out a comprehensive investigation of methodological issues and data sources, as well as an analysis and assessment of the notification results. CSB is responsible for leading the Latvian EDP working group, where there are representatives from the MoF, the Treasury and the Central Bank.

The Central Financial and Contracting Agency, the Ministry of Defence, the State Social Insurance Agency and the Court of Auditors (CoA) do not regularly participate in the working group, but is present whenever invited.

CSB meets the contact person(s) at the CoA at least once a year. The audit reports are published on the CoA’s website and CSB follows their work. There is no formal procedure for the CoA to alert CSB on any identified issues ex-ante. CSB only has access to the reports after publication and takes action when necessary. Eurostat suggested that there could be a two-way channel, so that the CoA could also alert CSB for some issues that are relevant for national accounts.

CSB is the entity responsible for the sector delimitation of units and for the definition of the list of entities by subsector of general government for national accounts purposes. This list of entities is published on the website of CSB, together with the lists for other sectors (NPISH, financial sector and corporations classified as households).

Regarding the necessary human resources and capacity for EDP work, CSB feels there should be a reinforcement in staff since, in total, there are eight people working with EDP, but not exclusively, as one person is also working with pensions, and another with IMF statistics.

Eurostat expressed concern that mobility of staff in the EDP and GFS area may create undue pressure and adversely impact the quality of the EDP statistics.

1.1.2. Quality management framework

Introduction

Eurostat asked questions about the quality management and risk assessment in place in CSB and particularly as regards EDP and GFS work.

Discussion and methodological analysis

The Latvian statistical authorities confirmed that there is a CSB quality assurance framework in place. The CSB's quality policy complies with the European Statistics Code of Practice and consists of the CSB's vision, mission, core values and commitment to meet the requirements, to follow good practice and to ensure continuous improvement. Furthermore, management systems of CSB are certified according to the requirements of the ISO 9001:2015 standard "*Quality management systems – Requirements*" and information security management system standard ISO 27001:2013.

1.1.3. Audit and internal control arrangements

Introduction

During the EDP visit in June 2017, the Latvian statistical authorities informed that previously there had been an internal audit service, but that it had been discontinued a few years earlier. Questions were raised on the audits in the GFS/EDP area.

Discussion and methodological analysis

Eurostat enquired whether there have been any recent audits on GFS/EDP, especially in what relates to quality of output and processes. CSB confirmed that there have not been any.

CSB also informed that it occasionally uses reports of the CoA to control the quality of the upstream data used in the EDP statistics compilation. The result of the CoA's audit on the implementation of the State budget and concerning the budgets of local governments is publicly available on its website. In addition, ministries have occasional internal audit exercises, although not on methodological issues. The municipalities are also audited by sworn auditors (external audits). The CoA only audits public accounts.

1.2. <u>Data sources and revision policy, EDP inventory</u>

1.2.1 Structure of the General Government
1.2.2 Availability and use of data sources, revision policy

Introduction

In Latvia, in public accounts, the general government consolidated budget includes the central and the local consolidated budgets. In terms of alignment with national accounts, there is a different sector delimitation for social security funds, as in public accounts the State Social Insurance Agency is included in the central government special (social) budget.

The Treasury is the entity responsible for the state budget financial accounting, which is on an accrual basis for all government units and public corporations (except for taxes). The financial statements in the public accounting system in Latvia are available both on a cash and accrual (business accounting) basis at all levels, including down to the entity level. The balance sheets are produced at the lowest level (unit level) and then consolidated at more aggregated levels for the central and local government (ministries and districts respectively), except for the reclassified units. These statements use the national budget classification (rather than accounting codes) and have a reference to the counterpart sector classification. The GFS data are compiled using the budget (cash) plus the accrual adjustments from an extract of the balance sheet, which has some detail by transactions.

During the previous EDP visit, Eurostat questioned why the available accrual data was not used in the production of national accounts. This information could be used for crosschecking purposes, for example by comparing the cash data adjusted for flows of other accounts receivable/payable (F.8) that are included in ESA table 2 with the accrual source data that can be observed in the financial statements (profit and loss).

According to the revision policy, year (t-4) is in principle finalised. However, if the data is revised for any reason, both GFS and national accounts tables are also revised. For year (t-5), revisions occur only due to methodological changes or to changes in the input/output tables. Conversely, the input/output tables are changed only when significant reclassifications of units take place. CSB clarified that all time series can be changed according to the revision policy.

Discussion and methodological analysis

In connection with data sources, two action points remained open since the latest dialogue visit. One of the action points was about performing a reconciliation between other accounts receivable and payable as reported on the public account balance sheet and the flows reported in the questionnaire tables 4.1/4.2, for a specific unit. CSB chose the State Social Insurance Agency as an example, which in fact represents the entire social security funds subsector. Eurostat asked the CSB to extend the reconciliation exercise to the entire government (or to another subsector) covered by the financial statements. CSB expressed that this exercise would be very difficult to perform due to lack of information on intra-sector consolidation. Even though CSB has access to the Treasury's accounting system, the consolidation is a very complicated process that is done only by the Treasury and not by the CSB. CSB compiles the statistical data for EDP/GFS purposes based on consolidated reports received from the Treasury. Eurostat recalled that this issue had already been discussed since the October 2018 EDP notification.

The Latvian statistical authorities were again encouraged to make a similar reconciliation to what was done for the State Social Insurance Agency, but for a more complex unit, for example, the budgetary central government (as defined in public accounts). To accomplish this, the Latvian statistical authorities could use the available profit and loss data and compare it with the budgetary data adjusted for payables and receivables (used for EDP compilation) for selected items like D.1, P.2, P.51, etc.

CSB informed Eurostat that there is a project under development by the Treasury to implement the new accounting rules introduced by the Cabinet Regulation nº 87/2018. The Latvian statistical authorities explained that, currently, the budgetary execution is recorded on a cash basis and that, in parallel, transactions are also recorded on an accrual basis. The reform envisages an improved accrual accounting system for budgetary institutions, public entities partly financed from the state budget and non-budgetary institutions, with the exception of taxes. The chart of accounts remains virtually identical, but there will be some improvements to the reports available to the statistical authorities. The CSB agreed to update the EDP inventory to reflect the changes in the EDP/GFS data production process due to the accounting reform.

Eurostat also asked whether the Latvian statistical authorities had been involved in the reform. As CSB had not participated in the project, Eurostat expressed concern about any changes that might impact the compilation of data reported for EDP and GFS purposes. It should be ensured that the there are no changes in accrual recording that could result in a break in the time series.

As regards the working balance, the Latvian statistical authorities explained that it should not be confused with budgetary central government institutions. In the Latvian EDP table 2A, the working balance in central government accounts (the first line of the table) corresponds to the central government budget balance voted by the parliament, without the balance of derived public entities, entities not financed from the budget, grants, and donations.

Eurostat also encouraged CSB to update the EDP inventory concerning data sources. Notably to describe: that quarterly accrual data are available and are used for the compilation of B.9 and B.9F; the difference between accrual-based financial statements (i.e. balance sheets and profit and loss accounts) and statistical surveys should be clarified, paying attention to the accuracy of the terminology used; the data source for other central government bodies; etc.).

The Latvian statistical authorities informed that they carried out a benchmark revision in September 2019, incorporating in national accounts results of the work done on the GNI action points and other minor methodological changes. Eurostat praised the EDP/GFS statistics revision policy in place in Latvia. It allows for the already early available final source data to be reopened for routine revisions (reclassifications and methodological adjustments) later on, as necessary. The Latvian statistical authorities explained that they plan to perform the next benchmark revision in September 2020, to incorporate further work on GNI- and EDP-related issues, which they were unable to complete in 2019.

Eurostat enquired on the CSB's capacity to comply with Article 16 of Council Regulation 479/2009 (access to data relevant and necessary to comply with EDP reporting requirements). The CSB confirmed that except obtaining details on transactions classified as state secrets (including on military expenditure), they have access to all relevant data sources, even to the extent that they do not have to perform any estimations that could have significant effects on the figures reported for EDP purposes.

1.2.3. EDP Inventory

Introduction

The current version of the EDP inventory is from June 2017, which replaced the previous one from October 2015.

Discussion and methodological analysis

The CSB clarified that it has no specific policy for updating the EDP inventory. Generally, it has been updated approximately every two years, around the EDP dialogue visits or the updates of the MGDD. CSB plans to update the EDP inventory after the implementation of the new 2019 edition of the MGDD, by the deadline of the October 2020 EDP notification. Eurostat encouraged CSB to update the EDP inventory whenever relevant and to include in the next update the points expressly flagged during this visit. Namely, describing in more detail the data sources used for the compilation of GFS/EDP and covering the points raised, inter alia, in agenda points 4.2.3.4 Deposit Guarantee Fund; 4.4.2. regarding capital injections and super-dividend tests.

Eurostat also mentioned that the EDP inventory template is being revised and a new version would be released to the Member States soon.

CSB informed that it publishes on its website a compact version of the EDP inventory[1] and provides the link to Eurostat's web page, where the EDP inventories of all Member States are published.

Findings and conclusions

Action point 1 - The statistical authorities will inform Eurostat of the implications of the recent accounting reform, due to the entering into force of Regulation nº 87 of the Cabinet of Ministers from 13.02.2018. Particular attention should be given to any changes that might have effects on the compilation of data reported for EDP and GFS purposes.

Deadline: end-September 2020

Action point 2 - The Latvian statistical authorities will make an exercise, for the budgetary central government (as defined in public accounts), comparing the profit and loss information, on one hand, with the budgetary data adjusted for payables and receivables (used for EDP compilation), on the other hand, for D.1, P.2, P.51, etc.

Deadline: end-November 2020

Action point 3 - Eurostat welcomes the EDP/GFS statistics revision policy in place in Latvia. The Latvian statistical authorities are nevertheless encouraged to ensure an adequate resourcing of EDP/GFS work and the capacity to retain the EDP experts, as the lately observed staff turnover could have negative implications on the overall quality of the data Latvia reports.

Deadline: continuous

[1] https://www.csb.gov.lv/en/statistics/statistics-by-theme/economy/government-finance/notification

Action point 4 - The EDP inventory will be updated, taking into account the changes implemented following the new 2019 MGDD edition, using the new Eurostat template and describing in more detail the data sources used for the compilation of GFS/EDP accounts for the core central government unit (the State), reflecting the discussions during the meeting. The Latvian statistical authorities will further clarify the nature of the data source for Other Central Government Bodies and notably specify that the so-called "statistical survey" encompasses companies' financial statements (on an accrual basis). The Latvian statistical authorities will improve the sections on capital injection and super-dividend tests, by describing, in detail, the way they perform these tests.

Deadline: end-September 2020

1.2.4 Compliance with the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

Introduction

In accordance with the requirements of Council Directive 2011/85/EU of 8 November 2011 (Chapter II Article 3.2) on budgetary frameworks of the Member States, the MoF publishes the relevant fiscal data and reconciliation table on their website at http://www.fm.gov.lv/en/s/fiscal_policy/.

Discussion and methodological analysis

The MoF agreed to update on its website a reconciliation table still referring to ESA 95.

Eurostat also enquired on the coverage of the data for non-performing loans of general government, and whether it included information on public corporations classified inside general government, for instance on *Reverta/Parex*. As the CSB informed that the non-performing loans of *Reverta* and other public corporations were not included, Eurostat invited the MoF and Latvian statistical authorities to change the label to "non-performing loans of *budgetary central* government" (instead of *general* government) for now, and, in addition, to try to include the non-performing loans of *Reverta* and of other government units.

Findings and conclusions

Action point 5 - Concerning the data reporting under Directive 2011/85/EU, Eurostat invites the Ministry of Finance in cooperation with the Latvian statistical authorities to include the non-performing loans of *Reverta* and, possibly, of other government units and, in the meantime, relabel the published data as only covering Budgetary Central Government.

Deadline: end-February 2020[2]

2. Follow-up of the previous EDP dialogue visit of 7-9 June 2017

Introduction

[2] On 28.02.2020 CSB informed Eurostat that the *"Ministry of Finance in cooperation with the Latvian statistical authorities will include the non-performing loans of Reverta, will re-label the published data as covering Budgetary Central Government by mid of March"* Action point in progress.

Most action points from the previous EDP 7-9 June 2017 visit were accomplished, except for action points 5 and 27. Action points 9, 14 and 31 have a more continuous nature and are also considered still in progress.

Discussion and methodological analysis

Two pending action points from the previous EDP visit to Latvia are considered still open, – AP 5 and 27. Those were already mentioned in the section 1.2.2 about source data. Although the Latvian authorities have already made a substantial effort, Eurostat considered that it is possible to accomplish the requested exercise.

Furthermore, action points 9, 14 and 34 are considered as open due to their continuous nature. Action point 9 is about regular reporting of part 3 of the supplementary table of government support to financial institutions, which has been done and should be continued. Action point 14 is about CSB informing Eurostat about developments related to the *RB Rail* and *Rail Baltica* project, which is still ongoing. The last one is about the correct evaluation of the assets of *Reverta* in ESA balance sheets and in the supplementary table of government interventions to support financial institutions. There was a lot of progress on this point although it is not yet finalised.

3. Analysis of EDP tables and questionnaire – follow up of the October 2019 EDP reporting

Introduction

The aim of this agenda item was to review the latest notification of EDP data (October 2019). CSB transmitted the EDP notification on time on 30 September 2019. The EDP notification tables were internally consistent, but with inconsistencies with ESA tables 6 and 7

During the notification, CSB revised twice the notification tables (minor correction in F.5 and status of debt in EDP table 1; revision of the GDP for 2018) and the questionnaire relating to the EDP notification tables. Three requests for clarification were exchanged with CSB. All EDP tables were published nationally by CSB on 18 October 2019.

Regarding the revisions between the April 2019 and October 2019 EDP notifications, a decrease in the deficit for 2017 and 2018 was observed, mainly due to updated source data and to the incorporation of updated information on EU funds at the local government level; the decrease in the debt for 2017 was due to a methodological change in the recording of the withdrawal of equity in *Latvenergo*, previously recognised as government borrowing.

Eurostat went through the list of outstanding issues from the October 2019 EDP notification to be followed-up. Eurostat appreciated the effort from the Latvian authorities and the work done, not only for the supplementary table on government support to financial institutions, but also for the table on the recording of derivatives.

Discussion and methodological analysis

During the October 2019 EDP notification, Eurostat noted that QFAGG and EDP were following the ESA recording as defined by Eurostat in relation to *Parex*, while this was not the case in ESA tables 6 and 7.

Eurostat enquired whether the inconsistency between EDP and ESA tables 6 and 7 continued. The Latvian statistical authorities explained that, usually, the differences observed between QFAGG and ESA tables 6/7 are stemming from differences in vintages. However, in the Latvian case, it is also due to the fact that the Bank of Latvia prioritises BoP and MFI statistics and only thereafter refers to QFAGG. Eurostat noted that the national statistical institute is responsible for these ESA transmission programme tables and had merely delegated their compilation to the Bank of Latvia as a trusted party. This arrangement does not change the fact that the rules of ESA 2010, as interpreted by the Commission, are to be enforced. Eurostat stressed the importance of prioritising direct government source data QFAGG. Moreover, if the statistical office has deemed a unit should be sectorised inside government since 2010, then this should apply to the financial accounts as well.

Eurostat finds it inappropriate that the Bank of Latvia is compiling and sending to Eurostat data of ESA tables 6/7 inconsistent with QFAGG. Latvia's Central Bank explained that the inconsistencies in the two sets of data were due to revisions they made in 2018 to data starting in 2004. As the Bank of Latvia has a special compilation programme, they can have a full time series revision to the financial accounts much faster than CSB, for which this work is still in progress. Therefore, the bank made revisions faster and reflected changes that were not yet included in QFAGG. Next year, when CSB will be in a position to have completed the revisions, most inconsistencies of the two datasets will be reduced.

Furthermore, the Bank of Latvia clarified that balance of payment data and QFAGG data for the rest of the world are generally consistent. Some problems, existing for historical time series that are still work in progress, have not yet been included in QFAGG. Government data and MFI data are consistent for current compilation, but there are some inconsistencies due to reclassified units. For these reclassified units, some corrections will be done in the Bank of Latvia system, but some inconsistencies will remain for the defeasance structures (e.g. *Parex* case). Some inconsistencies may also remain for the recording of EU funds as there are some problems with the data source from balance of payments. The balance of payments uses EU flows monthly cash data and the EU flows adjustments from different systems are normally done only quarterly. It is not possible to do manual corrections in the fully automatized IT system of the Bank of Latvia. Hence, no solution has as yet been found for these monthly data.

Latvia's Central Bank argued that they try to take into account all QFAGG transactions, but there are issues as regards stock data (namely valuation of F.5 at market value). Eurostat took note of this and suggested to reflect on whether the Bank of Latvia could use the transactions of the statistical office and the statistical office could take on board the stocks compiled by the Central bank (excluding for the two years that *Parex* is outside government).

Eurostat appreciated the fact that the Bank of Latvia compares the source data, ensuring that there is consistency, and this work is valuable because the QFAGG data is crosschecked for plausibility.

Findings and conclusions

Action point 7 - Eurostat recalls that ESA tables 6 and 7 of the ESA transmission programme, the compilation of which was transferred from the CSB to the Central Bank in 2018, would have to continue to comply with the ESA2010 rules, as interpreted by the CSB, in consultation with Eurostat. Eurostat values the work done by the Central Bank, however in the context of the compilation of ESA tables 6 and 7, Eurostat expects ESA tables 6 and 7 to be fully aligned with QFAGG, prioritizing government accounts over other data sources (balance of payments and monetary accounting). Eurostat furthermore, invites the Bank of Latvia to amend the sectorization of *Parex/Reverta* in the year 2011/2012 (to move back the unit inside general government, despite it having a banking license, as was previously the case). Eurostat invites the statistical authorities to benefit from the Central Bank's expertise on the compilation of stocks of financial assets / liabilities, for the benefit of further improvement of ESA table 27. Eurostat expects to have full alignment of ESA tables 6 and 7 with ESA table 27 and EDP table 3.

Deadline: end-September 2020

4. Methodological issues and recording of specific government transactions

4.1. Implementation of the new MGDD (2019 edition), state of play

Introduction

Eurostat published a new MGDD (2019 edition) on 2 August 2019. The general agreement was that the Member States would have some flexibility to apply the 2019 MGDD, so that, the new MGDD was to be implemented in the October 2019 notification for substantial issues and with significant B.9 impact; and that, for issues of smaller magnitude, the implementation could be tackled by the following EDP notification, meaning April 2020.

In the October 2019 EDP notification, a table was included in the request for clarification asking for the state of implementation of each chapter of the MGDD and what the impact (if any) on government B.9 and debt was. CSB informed that the implementation of the provisions of the 2019 MGDD were to be done by April 2020.

Discussion and methodological analysis

Eurostat went through the answers CSB had provided to Eurostat on the state of play of the implementation of the 2019 MGDD.

As regards part 1, which concerns mainly the concept of institutional unit and government control over the unit, CSB identified that some changes would be implemented in April 2020, but with a limited impact. Eighteen new entities are foreseen to be reclassified in the general government sector, because of the control and 50% criterion.

Regarding rearranged transactions, no changes were expected and CSB did not identify anything to be re-routed either.

For the recording of interest, CSB mentioned that the new provisions will be implemented in April with a marginal impact. CSB still has to investigate whether there are cases of securities following the broad and narrow index, as well as if there are cases of the so called step up interest (interest rate gradually increasing over the period of time).

Eurostat took note that Latvia had neither off-market swaps nor intergovernmental lending operations.

Regarding the reclassification of long-term trade credits on military equipment into loans, CSB confirmed that implementation was foreseen for April 2020, but with limited impact.

Regarding the EU financial instruments, *Altum* (S.13) is the only entity managing EU financial instruments. Eurostat asked about the stock of financial instruments to date and their amounts. CSB confirmed that these were small amounts.

Concerning dividends and super-dividends, there was some exchange already with CSB during the notification and it was highlighted that there might be two companies involving holdings for which a thorough analysis should be done: *Latvenergo* and *Latvijas dzelzceļš* (LDz). Eurostat recalled that the clarification of the MGDD is applicable primarily to holdings but not only. The super-dividend test becomes complicated for a cascade of entities. There could be daughters that receive large dividends, pass them on to the entities above and then the mother distributes to government. In general, the dividend from the daughter to the mother should first be analysed for a super-dividend, and any excess should be treated as financial. Otherwise, the mother may show inflated distributable/entrepreneurial income and, would pass the super-dividend test because of that.

The next point concerned the treatment of transfer of decommissioning costs. Latvia does not have nuclear plants, except Salaspils nuclear reactor, but does have some areas that were polluted in the past. CSB explained that it took several years and several phases to do the clean-up work and that some more efforts might be needed. Eurostat recalled that the MGDD rule primarily concerns the transfer of assets to government, which takes over the future costs of the decommissioning of such assets (as the decommissioning liabilities are not recognised in national accounts as a reserve-provision item, they are to be recorded as other accounts payable).

Regarding income contingent loans, Eurostat took note that they do not exist in Latvia.

Eurostat questioned whether there is a need to revise government debt concerning the treatment of capitalised interest on deposit instruments. CSB answered that this is still to be checked.

Findings and conclusions

Action point 8 – The Latvian statistical authorities will provide Eurostat with a detailed note on the status of the implementation of the provisions of the new 2019 MGDD.

Deadline: end-March 2020[3]

4.2. <u>Delimitation of general government, application of market/ non-market rule and the qualitative criteria in national accounts</u>

4.2.1. Changes in sector classification since the latest EDP dialogue visit

Introduction

Prior to the mission, CSB provided to Eurostat an update of annex 1 of the EDP inventory with the list of units belonging to the general government sector for Latvia. The changes in the list were reviewed during the mission.

[3] On 31.03.2020 CSB provided to Eurostat together with the April 2020 EDP notification, a summary table of the implementation of the new 2019 MGDD. Eurostat considers that the action point is in progress of accomplishment and that more detail should be provided, namely which analysis was made for the implementation of the different provisions of the new MGDD and a short explanation on what was done and its impact on government B.9 and debt.

Discussion and methodological analysis

There were some changes to the sector classification since the previous EDP dialogue visit, but they were mostly related to budgetary institutions. Due to the implementation of the provisions of the new 2019 MGDD, 18 units are planned to be reclassified to the government sector, but CSB will only proceed with the reclassifications for the October 2020 EDP notification. For the April 2020 EDP notification, at least *Rīgas Satiksme* will be reclassified inside the government sector.

The procedure for revising the list of general government units was shortly discussed. CSB explained that they have a special section responsible for maintaining the statistical business register and that this section updates the list of entities published on their website every quarter by excluding liquidated units and adding new units. The decision on the sector classification of units is taken jointly by the national accounts section, the government finance section and the business register section of the CSB. The procedure is described in CSB's quality documentation.

The list of units for S.13 and S.12 are updated twice per year. S.15 used to be updated only once per year but now it was set to be updated at least twice a year. The data source for S.15 are the annual statements of the non-profit institutions. There are three annual data deliveries to the statistical office, but if the first delivery is already complete (notably contains the annual statement), then the latter deliveries are identical.

4.2.1.1 Government bodies included in EDP table 2

Introduction

As referred to in the EDP inventory, other central government units include: 1) Capital companies controlled and financed by central government (B.9 of units reclassified from S.11 to S.1311); and 2) Derived public entities and entities not financed from budget that are not included in the WB of central government voted by the parliament but that are included in the consolidated general government, as for instance, the universities.

Discussion and methodological analysis

CSB confirmed that all public hospitals and universities are classified inside general government in Latvia.

According to the questionnaire on the sector classification of hospitals in national accounts from November 2018, Latvia had at that time 46 publicly owned hospitals and 28 private for-profit hospitals. All public hospitals are classified in the government sector, 15 in the central government and 31 in the local government sector. Private hospitals are classified in S.11.

Regarding the derived public entities and entities not financed from the budget, CSB confirmed that this adjustment line in EDP table 2A refers to a true B.9 and there are no further adjustments related to those entities elsewhere in the table. They are budgetary institutions and the reporting data is compiled by the Treasury, but the difference is that the parliament only votes the consolidated budget, which is the information in the starting line of EDP table 2A - the working balance, and from which they are excluded.

4.2.2. Practical implementation of the market/non-market test, qualitative and quantitative criteria

Introduction

The application of the market/non-market test and the formula used for the 50% criterion was discussed during the previous EDP dialogue visit on 7-9 June 2017. The 50% criterion is calculated based on data provided by units in their annual profit and loss accounts reported in the statistical surveys.

The source data for the information on subsidies is a statistical survey, the same that is used for the calculations of GDP. This survey is only used for purposes of the 50% criterion not for EDP and GFS compilation, mainly because it is data aggregated by the Treasury at the level of ministries and it is not available at unit level.

Discussion and methodological analysis

Regarding the statistical survey used for the analysis of subsidies, CSB explained that it is not a separate ad-hoc survey but is part of the annual survey on structural business statistics (SBS). SBS is one survey consisting of two parts: one is a single form, more detailed and sent just to select big companies; and, the second part is the tax declaration for the State Revenue Service. However, the two parts are merged. Information from the State Revenue Service is received at three different points in time during the calendar year: the first lot in June, the next one in August and the last one in November. For some companies, information is collected from the internet because it is not available from the State Revenue Service.

Eurostat questioned whether it is possible to distinguish the subsidies on products from those on production with this data. CSB clarified that they recognise subsidies on products only for agriculture, and that all the other subsidies are considered as subsidies on production.

Furthermore, Eurostat enquired on the formula used for the 50% criterion and on the chart of accounts codes corresponding to the items used for the calculation.

Eurostat asked about the particular case of transport companies, where not all subsidies are deemed subsidies on production, but some as a social benefit. Based on additional information received from each company, CSB identifies government payments to compensate the reduction in tariffs, which are then classified as social transfers/social benefits and remain included in sales.

CSB indicated that losses on trade receivables are excluded from the 50% criterion through the denominator, by adding to the costs side. The reason is that as the losses are only included within other costs, as there is no separate entry for them.

Findings and conclusions

Action point 9 - The Latvian statistical authorities will provide to Eurostat the chart of accounts applicable for business accounting, that is used for the compilation purposes of the 50% criterion, the capital injection test and the super-dividend test.

Deadline: end-January 2020 [4]

4.2.3. Sector classification of specific units (*Rīgas satiksme* (Riga transport company); *Latvijas dzelzceļš* (Railway company))

4.2.3.1. *Rīgas satiksme*

Introduction

Eurostat has published on its website the advice letter to Latvia on the sector classification of *Rīgas satiksme* (19 November 2019). The company does not seem to be working under market circumstances and with a sufficient market behaviour. Thus, Eurostat supported the CSB's sector classification proposal of *Rīgas satiksme* in S.13.

Rīgas satiksme is a municipal limited liability transportation and infrastructure company in Riga. The costs of the company are only marginally covered by transportation ticket sales and parking fees collected from the public. The company has so far been considered a public market producer as the considerable amount of subsidies it receives from the Riga municipality and the State budget to compensate for passengers receiving fare discounts are currently predominantly recorded as D.63 – social transfers in kind and are booked within sales for the purpose of the 50% criterion.

Discussion and methodological analysis

CSB informed having received a letter from *Rīgas satiksme* questioning the decision of their inclusion in the general government sector, opining that they are market producers.

CSB informed having also received a letter from *Tiesu namu aģentūra*, asking CSB to comply with a national court judgement which ruled that they were not to be included in the general government list of entities. TNA is an entity created to mainly host and manage buildings used by the judiciary and is judged to be a sort of 'ancillary unit' or 'artificial subsidiary', the State being its predominant client. Eurostat provided an advice letter in 2018 prescribing to classify TNA within general government, consistently with the classification followed in other Member States for similar units. CSB is reflecting on the way forward and on the answer to send to TNA. This is not just a mere statistical classification decision. Based on the decision, completely different reporting obligations apply to companies that are included in the list and to those that are not.

Findings and conclusions

Action point 10 - Eurostat takes note that *Tiesu namu aģentūra* is classified in general government following the Eurostat advice published in 2018. The statistical authorities informed Eurostat about the receipt of a letter of disagreement from *Tiesu namu aģentūra*. Eurostat took note of this and invited the statistical authorities to report on any development.

Deadline: on-going

4.2.3.2. *Latvijas dzelzceļš (LDz)*

[4] On 31.01.2020 CSB provided to Eurostat an excel file with 3 sheets, with the Chart of accounts used respectively for the 50% criterion, the capital injection test and the super-dividend test. Action point completed.

Introduction

Prior to the EDP visit, CSB sent to Eurostat a note on the sector classification of *Latvijas dzelzceļš* (LDz), the public railway infrastructure manager in Latvia classified in S.11, and the *Pasažieru vilciens* (PV), a public transport service provider that carries passengers in the whole territory of Latvia by rail classified in S.13.
According to the Latvian railway law, LDz is the only public railway infrastructure manager in Latvia and the only one receiving payments from transport operators for the use of railway infrastructure. On average, only 16 % of LDz revenue (for the period 2015-2018) is related to payments from government (i.e. received from the *Pasažieru vilciens*). PV is the only railway company receiving an infrastructure cost compensation (i.e. the Public Service Obligations (PSOs)) from the State budget.

Discussion and methodological analysis

Eurostat recalled that the classification of railway infrastructure companies and transport operators is being reviewed and under discussion in the EDPS WG. In a search for harmonisation across the Member States, Eurostat made in the past an internal stocktaking exercise and informed the Latvian authorities that the situation in Europe is that half of the countries have classified their public transport passengers' inside the government sector and half outside. Public railway infrastructure companies are classified inside government in most countries.

Eurostat considers that, the situation in Latvia seems to be balanced, but that it remained to be confirmed which assumptions are being used in the 50% criterion. Eurostat enquired whether the infrastructure/investment grants are correctly recorded; whether the consumption of fixed capital is appropriately measured; notably, whether CSB is netting investment grants or whether the assets are recorded at their historical costs or have been subject to some write-offs in the past? In addition, it would be important to analyse whether the 50% criterion would have the same result if using a coefficient for infrastructure to estimate the amortization. Eurostat suggested that, similarly to what is done by some minority of MSs, Latvia could consider using a grossing-up coefficient for amortisation (with a value between 1.2 and 2.0). Eurostat recalled as well that, in line with the MGDD and ESA §20.30 and §20.31, the output produced for the own use of an entity should be excluded from the 50% criterion. Construction in progress should be amortised immediately. Eurostat stressed that neither the purchase of electricity power nor the sale of traction energy should be included in the test, as this is a trading activity, so that P.2 is zero and P.1 would only include the margin. At the moment, it could well be that the electricity distribution could be increasing the raw material costs as well as sales, pushing the 50% criterion upward, and for that, it would be advisable to re-run the 50% criterion of the infrastructure company excluding the electricity purchases and resales, keeping only the margin within sales. Furthermore, the payments by the government for the Public Service Obligations (PSOs) ensured by *Pasažieru vilciens*, are indirectly collected by LDz through the fees received from the passenger operator as an infrastructure cost compensation. These or part of it can be perceived as an indirect subsidy from government and should therefore potentially be excluded from the 50% criterion.

In order to analyse the correct classification of LDz, Eurostat asked the Latvian authorities to re-examine the 50% criterion including the hypotheses discussed in the meeting. The results from the analysis of these several aspects will provide a clearer picture to discuss and argument on the classification of the company.

Findings and conclusions

Action point 11 - The Latvian statistical authorities will re-examine the classification of the railway infrastructure company *Latvijas dzelzceļš* and will compile a new 50% criterion taking into account the following: 1) consider replacing the flows related to purchase and sale of electricity, currently included in the cost and sale figures, respectively, with a margin approach; 2) consider using a grossing-up coefficient, as is done by some MSs (having a value between 1.2 and 2.0); 3) consider amortizing construction-in-progress, in application of ESA 2010 (in contrast with business accounts); 4) consider excluding the fees collected from the passenger operator, potentially perceived as indirect subsidy from government; and 5) ensure that investment grants are not netted from the amortization used for the test. Eurostat noted that the consolidated financial statement of the *Latvijas dzelzceļš* group nets investment grant revenue from amortization and requested the Latvian statistical authorities to check whether, in the 50% test calculation, investment grants are netted or not and, also whether the assets are recorded at their historical costs or have been subject to some write-offs in the past?

Deadline: end-May 2020[5]

4.2.3.3. *Rail Baltica*[6] - "*Eiropas dzelzceļa līnijas*" (EDL) and "*RB Rail*"

Introduction

Latvia, Estonia and Lithuania have engaged in a co-project called "*Rail Baltica*", which is a railway infrastructure development project with the goal to link Finland, the Baltic States and Poland with a European standard gauge rail line. The project will cost altogether approximately 5.8 bnEUR, with Latvia investing 1.9 bnEUR (which is an initial assessment; it is anticipated that the exact costs will be higher). However, the major part of the project is to be covered by EU financing.

Eiropas dzelzceļa līnijas SIA in Latvia, *Rail Baltic Estonia OU* in Estonia, *Rail Baltica statyba UAB* and *Lietuvos geležinkeliai JSC* in Lithuania are the national implementing bodies. All construction carried out by the implementing bodies is done under the supervision of *RB Rail AS* and is based on common procurement principles, rules and contract templates.

In the 2015 EDP visit, Eurostat confirmed the classification of the holding company *Eiropas dzelzceļa līnijas* in general government (as a reclassified entity, not as a budget institution) and the joint venture *RB Rail* in the non-financial corporations sector of Latvia as a foreign-controlled non-financial corporation (S.11003).

Prior to the EDP visit, CSB sent to Eurostat a note on the developments of the cross-border *Rail Baltica* project, which in Latvia is in the design phase, with a planned completion by end of 2022.

Discussion and methodological analysis

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[5] Action point ongoing.

[6] http://www.railbaltica.org/

A representative from the Ministry of Transports, which acts as project manager of *Rail Baltica* national research project, participated in the meeting to present the status of project for the Latvian part.

It was explained that in Latvia the cross-border project is in the design phase. The main line design works are currently ongoing for 130 km of *Rail Baltica* route (out of total 265 km) in the central part of Latvia including the Riga Central Station Node and the Railway Station in Riga International Airport RIX. A total of three design contracts and one design & building contract have been signed. Tenders for design works of the remaining main line sections up to the Estonian border and up to the Lithuanian border have been launched in July 2019.

The total *Rail Baltica* project CAPEX for the three Baltic states is 5.8 bnEUR, and the part of Latvia is only 1.9 bnEUR. The available funding from CEF[7] and the national budget for the implementation of *Rail Baltica* project activities in Latvia amounts to 303 mEUR up to now.[8]

In the implementing decisions, the completion of the *Rail Baltica* line is foreseen for 2026. The construction is subject to available financing and Latvia is applying for financing. According to CEF signed contracts, 81% of the committed funds for Latvia is for construction, 10% for design works, 5% for land acquisition and 1% for studies. Latvia is ready to apply for and absorb CEF funding still under the existing Multiannual Financial Framework (MFF) in order to complete design works, including for the construction of Salaspils Intermodal Logistics Terminal and Infrastructure Maintenance Facilities as well to proceed with construction works of both Railway Stations and beyond. The funding available under the next MFF would thus be utilised for construction works (approximately 1.3 bnEUR).

In each of the three countries, a national company (the national implementing body) had to be created to have share capital in the *Rail Baltic* joint venture company. As the EU finances a large part of the expenditure, Eurostat asked for clarification on the flows between those several entities, in particular regarding the management of EU funds. The representative of the Ministry of Transport explained that the beneficiaries of the grants are the national entities, as well as that the final responsibility lies with each country, not with the joint venture. The 824 mEUR of available funding from CEF corresponds to only as yet committed funds, for which the contracts have been signed. The project is still in the design phase, so the expenditure might increase in the following years. EDL records the EU financing as a transfer revenue from EU funds and an expenditure transfer. The expenditure is executed both by the Ministry of Transport and by EDL too, but for a smaller part. There is another operational expenditure part in the form of a government injection into the capital of EDL, which is then used by EDL as an injection in the capital of the joint venture; in national accounts these amounts are reclassified as D.9 expenditure (around 0.68 mEUR a year).

Eurostat asked the Latvian authorities to verify that the rule of EU flows neutralization is adhered to and to certify that the EU financing is correctly recorded in the payables or in the receivables, according to the situation.

[7] Connecting Europe Facility - The Connecting Europe Facility (CEF) is a key EU funding instrument to promote growth, jobs and competitiveness through targeted infrastructure investment at European level.

[8] The three Baltic states and *RB Rail AS* have received three grants designed under the CEF for the construction of the *Rail Baltica* railway, having signed Grant Agreements by July 2018 to a total value of 824 mEUR (Estonia 235 mEUR; Latvia 303 mEUR; and Lithuania 286 mEUR).

Eurostat informed the Latvian authorities that, for the time being, there is a global issue on how multi-country joint ventures are to be recorded. ESA paragraph 20.318 established the principle that the unit is to be split/apportioned across participating countries. Nevertheless, there are some statistical challenges to be solved and at the next EDPS WG there will be a short communication on the different recording practices of joint ventures in Member States and a reflection on the issue. Therefore, Eurostat would like to see the financial statements of the joint venture *RB Rail AS*. In the meantime, the future treatment in national accounts of flows and stocks of *RB Rail* are for the moment pending progress of the EDPS WG discussion.

Findings and conclusions

Action point 12 - The Latvian statistical authorities will provide Eurostat with the profit and loss statements and balance sheets of the entity *Eiropas dzelzceļa līnijas SIA*. They will verify that the principle of neutrality of the EU flows for general government accounts is ensured for the flows involved in the *Rail Baltica* project. The Latvian statistical authorities will also send to Eurostat the financial statements of the joint venture *RB Rail AS*. The Latvian statistical authorities and Eurostat will reflect on the appropriate statistical treatment of this intergovernmental joint venture, taking into account the work carried out by the EDPS WG.

Deadline: end-February 2020[9]

4.2.3.4. Deposit Guarantee Fund

Introduction

The Deposit Guarantee Fund (DGF) was reclassified inside S.13 from 2001 onwards in the October 2017 EDP notification, included in table 2A in the *Other Central Government bodies*. Contributions were already recorded as taxes rerouted to government.

The DGF does not act autonomously and is managed by the financial supervisor "Financial and Capital Market Commission" - FCMC (classified within the financial auxiliaries (S.126) sub-sector). According to the law, the FCMC shall ensure the accumulation of funds with the DGF, the management of the DGF and the payment of guaranteed compensation, as well as exercise the creditor rights to make claims against deposit takers in the amount of the guaranteed compensation already paid.

Discussion and methodological analysis

Eurostat recalled the recording treatment of the 2011 rescue operation of *AS Latvijas Krājbanka* and questioned whether the uncollected DGF claims (arising from guaranteed deposits) towards the bank had been recorded in national accounts, by when and by which amount.

In the annual financial reports of DGF, published on internet, it is stated that DGF paid at inception a total of 471 mEUR of guaranteed deposits to the clients of *AS Latvijas Krājbanka*. Some of the amount was recuperated by DGF, another part was considered uncollected claims. In the annual financial reports, it can also be observed that DGF established

[9] On 28.02.2020 - CSB confirmed that the principle of neutrality of the EU flows for general government accounts is ensured for the flows involved in the *Rail Baltica* project. CSB provided the links to the annual report of the *Eiropas dzelzceļa līnijas*: http://www.railbaltica.org/wp-content/uploads/2019/04/RB_Rail_Annual_report_2019.pdf; And the link to the annual report of the joint venture *RB Rail AS*: http://edzl.lv/assets/upload/Dokumenti/EDZL%20gada%20p%C4%81rskats-2018_2.pdf. The action point is in progress.

provisions for irrecoverable amounts on disbursed guaranteed claims, already in 2013 for an amount of 230 million. In the meantime, at the end of 2018, the reported stock of uncollected claims related to *AS Latvijas Krājbanka* recorded in national accounts was around 46 MEUR. Given that there was already in 2013 a good estimate of the expected loss for uncollected claims by the DGF (the provision recorded in the annual financial report of DGF seemed to be the right figure), Eurostat expected that the accounts of the entity would record a capital transfer at that time for that amount.

Prior to the EDP visit, CSB had clarified that, regarding the insolvency of *AS Latvijas Krājbanka* in 2011, they had recorded the claim of the DGF towards the bank, in EDP and GFS tables.
In the case of *ABVL Banka*, CSB confirmed that for all the guaranteed payments made to depositors were recovered by the DGF, as the Bank had enough assets to repay.

Latvia's National Resolution Fund (NRF) is at the moment classified in S.12, outside general government. Eurostat remarked that following the change in the MGDD, resolution funds are to be classified in the general government sector.

CSB explained that, in the Latvian case, the National resolution unit is organised within the Financial and Capital Markets Commission, an entity classified in S.126. Eurostat noted that, independently of how the entity is organised nationally, whether it is by the Central bank or some other entity, it is still to be considered a government unit. This was clarified in the 2019 MGDD. The Latvian statistical authorities explained that for the time being NRF is an empty shell, there was no resolution operation. The issue is therefore purely academic and the impact for B.9 and debt will be negligible. Nevertheless, the EDP inventory is to be updated accordingly.

Findings and conclusions

Action point 13 - Eurostat pointed at the provisions observable in the Deposit Guarantee Fund (DGF) financial statement reports referring to the irrecoverable claims (213 mEUR at the end of 2018) relating to the 2011 operation concerning AS *Latvijas Krājbanka*, while at the same time the Latvian statistical authorities are reporting a much lower stock of claims in the ESA balance sheets (46 mEUR). The Latvian statistical authorities will provide the recording of DGF in national accounts for the period 2010-2018 and will confirm when and how the irrecoverable amounts relating to AS *Latvijas Krājbanka* are recognized there. The Latvian statistical authorities will provide a table on the operations undertaken by the DGF, by intervention, clarifying how each intervention was recorded in Latvian national accounts at inception, specifying the recoveries, the write-offs made and the associated provisions (and provision reversals) booked by DGF in its accounts. They will also explain the reasons for the reversal of the provision of 14 mEUR and for the way it is presented in the financial statements of 2018.

Deadline: end-January 2020[10]

[10] On 31.01.2020 CSB provided to Eurostat an excel file with the recording in national accounts of the Deposit Guarantee Fund from 2010-2018 with notes on some of the events.
On 10.02.2020 Eurostat answered: "The first part of the action point is answered as you have provided us with the recording of the Deposit Guarantee Fund in national accounts for the period 2010-2018 and have explained the recordings related with AS *Latvijas Krājbanka*. Nevertheless, there is still a second part of the request that was not answered: "(…) The Latvian statistical authorities will provide a table on the operations undertaken by the DGF, by intervention, clarifying how each intervention was recorded in Latvian national accounts at inception, specifying the recoveries, the write-offs made and the associated provisions (and provision reversals) booked by DGF in its accounts.(…)". The action point is ongoing.

Action point 14 - Following the change in the MGDD, the Latvian statistical authorities will classify the National Resolution Fund, currently associated with the Financial and Capital Markets Commission (FCMC, in S.12), inside general government. Eurostat took note that, as there are no operations undertaken by the National Resolution Fund, the impact for B.9 and debt will not be significant.
Deadline: end-March 2020[11]

4.2.4. Government controlled entities classified outside the general government sector

Introduction

Eurostat thanked CSB for the early submission of the annual questionnaire on government controlled units classified outside general government.

Discussion and methodological analysis

During the meeting, Eurostat observed that the list of entities no longer includes units classified in NACE O84 (public administration and defence; compulsory social security), which are indeed to be classified inside the general government sector. There was some discussion of the few NACE P85 (education) units that were still included in the questionnaire, and CSB said they would verify whether the units are correctly classified.

No major issues were pointed out, but Eurostat made a remark that the metadata part of the questionnaire table was lacking information on the accounting concepts and the accounting items used for calculation of the indicators. In the future, also the metadata should be filled in.

Action point 6 - The Latvian statistical authorities will improve the metadata of the questionnaire on public corporations as appropriate.

Deadline: end-December 2019[12]

4.3. Implementation of the accrual principle

4.3.1. Taxes and social contributions

Introduction

Eurostat thanked CSB for submitting before the visit: 1) a table with the annual time adjustment of taxes and social contributions by type of tax and by sub sector for 2015-2019Q2 for: VAT; personal income tax; social security contributions; excise tax; electricity tax;

[11] In an e-mail from 02.04.2020, CSB confirmed that the National Resolution Fund (NRF), which is a department of the FCMC, was reclassified in the government sector, and included in the GFS as a financial transaction, without an impact on B.9. CSB informed that is not able to calculate the provision of a service from FCMC to Government provided by the FCMC dedicated division to the government. Action point is completed.

[12] On 31.01.2020 CSB provided to Eurostat a table with a list of four S.11 companies (NACE 85) which they analysed in detail and according to the rules, one will be reclassified to S.13 [*'RTU INŽENIERZINĀTŅU VIDUSSKOLA' SIA* will be included in S.13 in April 2020 (S.13 for retrospective years from 2014)].
On 10.02.2020 Eurostat answered: "The request at AP 6 is referring to an improvement of the metadata of the questionnaire on public corporations, in the sense that you would provide descriptive information on the data you are reporting on the table. For instance, it would be valuable if you explain in the questionnaire, which accounting concept and/or which accounting items have been used for the calculation of the indicators in the table, in particular: liabilities (col 6 and 7), the operating profit/loss or net lending/borrowing (col 8) and the market/non-market test (col 11-13).
Eurostat considers that this AP is not closed and you should attempt to improve the metadata of the questionnaire. You do not need to formally report again the questionnaire reported in December 2019. You can provide the improvements to us and you will include them in the next reporting of the questionnaire by December 2020." The action point is ongoing.

subsidised electricity tax; and solidarity tax; 2) an update of the table sent for the EDP October 2018 notification with monthly cash tax data for the period 2018, by main tax categories; and also 3) a note describing the Latvian tax reform of 2017/2018 and the impacts on government deficit of those regulatory tax changes.

Starting 2018, Latvia implemented a tax reform involving changes to the labour, corporate, and excise taxes, as well as measures to combat the shadow economy.

A one month time-adjusted cash method is applied to all main tax categories (VAT, PIT, excise tax, electricity tax) and to social contributions. For the subsidized electricity tax, there is a two months adjustment.

Discussion and methodological analysis

As part of the tax reform, the solidarity tax was transformed. Eurostat asked CSB to clarify how these changes impacted the recording in national accounts and the evolution of fiscal revenues and its distribution (taxes on income, social contributions, and accruals receivables).

The solidarity tax has been in place since 1 January 2016 and is applicable on the income that exceeds the maximum income subject to mandatory social security contributions. The solidarity tax is not considered a social contribution but a tax on households, but the cash payment concerning the solidarity tax and the social contributions was taking place exactly at the same moment. In 2016, the cap above which no social contributions were due (and consequently no social rights were earned) was on income exceeding 48,600 EUR per year. In 2018, this amount increased to 55,000 EUR per year and to 62,800 EUR in 2020. Therefore, above the 55,000 EUR the amount is not social insurance anymore but solidarity tax. The solidarity tax is calculated by applying the same rate as the contribution rate for compulsory social insurance, which in 2016 and 2017 was 34.09% of the gross salary, out of which 23.59 pp was paid by the employer and 10.50 pp by the employee.

In 2018 the solidarity tax applied at a 35.09% rate for income exceeding 55,000 EUR per year and was allocated as follows[13]:

- 1 percentage point for healthcare funding (health insurance) - *Social security contributions (Central government basic budget)* (D.611 and D.613);
- 6 percentage points into the accounts of the socially insured persons - participants of the funded pension scheme (not included in D.2, D.91, D.5 and D.61);
- 4 percentage points into the private pension fund pension plan (not included in D.2, D.91, D.5 and D.61) – third pension pillar;
- 13.59 percentage points into the State pension special budget revenue *Social security contributions (Central government special budget)* (D.611 and D.613);
- 10.5 percentage points into the personal income tax allocation account - Personal income tax (*Central government basic budget and Local government basic budget* (D.51)).

Solidarity tax payments (in 2016 and 2017 named solidarity tax) were included in the State special budget along with the mandatory State social security contributions. Afterwards, on the basis of information provided by the State Revenue Service, the State Social Security Agency, taking into account the maximum amount of the object of the mandatory State social

[13] Amendments were made to the Law on Solidarity tax and as of January 2019, the solidarity tax rate is 25.50 % from the amount that exceeds 62,800 euros per year.

security contributions, calculates the part of surplus of the mandatory State social security contributions (solidarity tax) for each person to be transferred into the State basic budget.

In accordance with the Solidarity Tax Law, The State Social Insurance Agency shall transfer the tax that has actually been paid for the period from January to March 2018 by 15 June 2018. The revenue from the solidarity tax goes first into the overall revenue of the special budget, from where it is transferred to the Solidarity Tax Account with a three-month shift. Therefore, in national accounts, the respective three-month shift forms a positive correction of the solidarity tax, as well as a negative correction of the social tax for an identical sum. The negative correction of the social tax in 2016 may be explained by the implementation of the solidarity tax in 2016, as well as by the increase in the share to be directed to the 2nd pension pillar (from 5 to 6 percentage points).
Eurostat asked CSB to confirm whether, in national accounts, the solidarity payment revenue continues to have a one-month time adjustment or if eventually, there was a shift to a time adjustment of 3 months. The Latvian statistical authorities will provide a note with the formula of the time adjustment recording for the solidarity tax (for the years 2016-2017) and for the solidarity payment (which started in 2018).

Eurostat wanted the Latvian authorities to confirm whether the reforms were neutral from a statistical point of view or not, i.e., have influenced the cash flow of 2018 or have affected the time-adjusted cash of one month.

Regarding the social contribution figures in questionnaire table 5, Eurostat questioned the systematic decline of the stock of receivables on social contributions AF.89 – other accounts receivable/payable, excluding trade credits and advances. CSB explained that there were changes, not on the rates, but on the proportion of payment from the second pillar contributions. In 2015, it increased from 4% to 5% and, in 2016, from 5% to 6%.

Eurostat thought that, this would in principle not explain the pattern of receivables in itself. Indeed, Eurostat remarked that if social security collected the contributions and later paid amounts to the 2nd pillar, a payable should have been recorded (a liability). Eurostat enquired on the recording of these payables in the balance sheet and the recording in the financial accounts, and if this could explain the decline of assets in questionnaire table 5 (for instance, if the increase in the liabilities are netted on the asset side).

Within the scope of the tax reform, the corporate income tax will increase in 2018 from 15% to 20%, with a 0% rate applied to undistributed profit. Furthermore, most of the corporate income tax (CIT) deductions (e.g. accelerated depreciation) will be removed and, with the new regime, the tax advance payments will be discontinued. Eurostat enquired on the statistical implication of these changes.

Findings and conclusions

Action point 15 - The Latvian statistical authorities will provide a note with a formula (discussed in the meeting) on the time adjustment recording for the solidarity tax (for the years 2016-2017) and for the solidarity payment (which started in 2018). In particular, they will confirm whether the amounts collected by government were and remain indeed adjusted by one month and whether the regular transfers to the 2nd and 3rd pillars were correctly reflected. This may bear consequences for reporting in EDP questionnaire table 5. The Latvian statistical authorities will also send to Eurostat the legal basis supporting the changes from the solidarity tax to the solidarity payment.

Deadline: end-January 2020[14]

Action point 16 - The Latvian statistical authorities will explain the declining pattern in the stock of fiscal claims in social contributions, as reported in EDP questionnaire table 5. The Latvian statistical authorities will notably enquire on how the third party liabilities relating to social contributions transferrable to 2nd pillar and 3rd pillar were reported, and, in particular, whether they were possibly netted within the fiscal claim related to social contributions. Eurostat recalls that the stock of fiscal claims (AF.8) should reflect January cash proceeds when one-month time adjustment is applied, and the F.8 adjustment should be recorded accordingly.

Deadline: end-March 2020[15]

Action point 17 - The Latvian statistical authorities will clarify the statistical implications of the fiscal reform with respect to the termination of advances on corporate income tax. This may have resulted in reducing the tax revenue for the years 2018 and 2019.

Deadline: end-January 2020[16]

4.3.2. Interest and consolidation of interest

Introduction

Eurostat thanked the Latvian authorities for having updated the table on the recording of interest for S.1311 with data for the period 2012-2018.

Discussion and methodological analysis

In the course of the meeting, the table on the recording of interest was reviewed against the EDP tables' information. During the October 2019 EDP notification, there were already some exchanges on the recording in line 12b for 2018, regarding amortization discount (-), which was showing a positive value. In the updated version of the table, this amount was revised for 2015 from 3.9 mEUR to -1.8 mEUR, a correction of -5.8 mEUR. Aside from that lines 3 and 4 were modified offsetting amounts between 20 and 43 million each year on both sides, except for the year 2015.

Eurostat enquired whether the table showed the amounts of bonds before or after swap. Eurostat explained that the second part of the table implies that the amounts be reported before swap, since it is linked with D.41, whereas the first part of the table would be after swap, since it records the Maastricht debt at the nominal value. In this sense, Eurostat recognised that the table needed to be amended.
In line 2 of the table on revaluation (+/-) and other changes in volume of the stock of coupons, a revaluation effect was to be expected due to dollar bonds.

In line 15 – discounts (-)/premium (+) repurchased, the amount (24.5 mEUR) is the same as in EDP table 3B. However, in these tables those two amounts should generally not be the same. While in EDP table 3B this amount is the difference between the face value and the cash, in

[14] On 31.01.2020 CSB provided to Eurostat the note with the "description of social security contributions and solidarity tax payment 2016 and 2017" containing the explanations and the formulas used to calculate their tax cash adjustment. CSB also sent the link to the regulations of the Cab of Ministers nº 272 of 27 May and the Solidarity Tax Law. Action point accomplished.

[15] Deadline postpone for September 2020 due to the pandemic situation.

[16] On 31.01.2020 CSB provided to Eurostat a brief note on the new Corporate Income Tax (CIT) reform and explanations on advance payments. Those were not clear to Eurostat and a request for clarification was sent to Latvia on 10.02.2020. No answer was received yet.

the interest table, line 15 refers to the existing discount or premium not yet amortized at time of repurchase. In fact, while the stock of coupons is easy to measure, the stock of the discounts/premiums cannot be observed on the spot. There needs to exist a data system that uses an average price method. Eurostat thus questioned how the stock of premiums and discounts was compiled in the Treasury system and whether the amount included in line 7 – stock of discounts (+)/premiums (-), is observable in the data system or whether it has to be calculated manually. When there is a buy-back of bonds, the premium should not enter in D.41 at the time of the buy back, since it is a holding gain.

Regarding the coupon bought back in 2015, the 24.5 mEUR is a premium coupon buy-back that includes only the first of the two components: (a pure premium and a coupon bought back. Indeed, in EDP table 2A, the gains / losses from early redemption of debt in 2015 was reported to be 27.9 mEUR, representing the cash paid out, including for the accrued coupon, meaning the so-called dirty price[17] (premium plus accrued coupon). In this sense, it seems that a pure premium paid is recorded in the interest table and in the EDP table 3B.

The Latvian authorities suggested that Eurostat should provide more instructions and guidelines for compiling this complex table. Eurostat agreed with this and mentioned that the table is for the time still being tested, taking enough time to cover all possible aspects.

Findings and conclusions

Action point 18 - Eurostat welcomes the efforts made by the Latvian statistical authorities to compile the interest table and invites them to amend it along the lines discussed in the meeting. The Latvian statistical authorities will notably: a) verify the content of the line "discounts(-)/premium (+) repurchased" (item 15) for 2015, which should not be the same as the similar line in EDP table 3B; b) report coupons repurchased (item 6) perhaps based on the information of EDP table 2A; c) verify the line "coupons sold" (item 5), taking into account the revaluation related to dollar bonds (item 2); d) verify the appropriateness of the measurement of the "stocks of coupons" (item 1), as well as, the "stock of discounts (+)/ premiums (-)" (item 7), and inform Eurostat on their progress.

Deadline: end-March 2020[18]

4.3.3. EU flows

Introduction

Eurostat thanked CSB for having provided the requested table on the recording of EU flows.

In terms of accounting, the inflows are recorded at the Treasury and outflows at the level of the spending ministries, and revenue from EU is recognised at the time the ministries spend the funds.

Discussion and methodological analysis

Already in previous EDP notifications, Eurostat had enquired why there were no payables related to EU flows. CSB argued not having detailed information to split EU flows by type (advance payments, reimbursement of expenditure, expenditure made on behalf of the EU and

[17] A dirty price is a bond pricing quote that refers to the cost of the bond including any accrued interest based on the coupon rate.

[18] Deadline postponed to September 2020 due to the pandemic situation.

expenditure financed from advance payments), although all EU flows are managed by central government (the Treasury and *ALTUM* for EU financial instruments).

Eurostat clarified that an EU flow advance payment is the pre-financing payment that usually occurs when the program period starts after the operational programs are established and which should in principle be recorded as a government payable against the EU[19]. Eurostat therefore presumes that in the Latvian tables, the advances of the EU are netted in the receivables. Eurostat asked CSB to confirm this and to work on a reporting arrangement with its stakeholders that allows to have detailed information for splitting EU flows by type and for presenting information not netted. This information is useful for crosschecking the overall quality of the reported data.

Eurostat presumes that CSB records an F.8 receivable for the difference between the EU finance expenditure and the cash received from the EU. Consequently, when there is an EU advance, there is an F.8 asset, because it is not separated as a payable from the other receivables (netted inside receivables).

Eurostat recalled a question from the ESA table 27 (QFAGG) and ESA table 25 reports concerning a large increase in EU flows (D.92_D.99 revenue) in the second quarter of 2018, not followed by a co-movement of P.51g. At the time, the answer given was that "*P.51G was provided mainly from EU funds*", which could have two meanings. One is that investment is only financed by EU funds, and consequently, investment would fluctuate like D.9 revenue from the EU. The other is that, in that quarter, the investment was mainly financed by EU funds and the national part of investment collapsed; what remained strong was EU financing, visible as an increase in D.9 revenue but a decrease in the gross fixed capital formation. CSB clarified that it meant the latter.

In questionnaire table 6, the stock of receivables of general government against EU increases significantly throughout the past 5 years. Eurostat asked about this trend and asked CSB to explain why there is this continuous increase in booked revenues that are not being paid. Eurostat expects that this accumulation of receivables is not due to claims that are not accepted as eligible for the EU grant, because if a claim is not accepted, then it should be deducted from the EU revenue. CSB was asked to clarify whether the observed increase in stock is due to business expansion, or, if it is due to significant portfolio of claims not accepted by the EU, which would imply an incorrect recording.

Findings and conclusions

Action point 19 - Eurostat invites the Latvian statistical authorities to explain why the stock of EU receivables is increasing significantly in the past 5 years, notably by comparing the patterns of the stock of receivable with that of the flow of EU funding. They will verify, in particular, that the stock of EU receivable in EDP questionnaire table 6 does not include significant stocks of ineligible claims. The statistical authorities will also enquire about the possibility to disentangle the payable to the EU from the receivable from the EU that are currently reported net.

[19] https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/how-get-funding/grant-agreement-and-payment_en
"Payment of the grant
Grants are usually paid out in several instalments over the duration of the project. Once you have signed the grant agreement, you will receive a pre-financing payment which may be followed by one or more interim payments. You will receive final payment on completion of the project. Interim and final payments are made subject to project deliverables. It is important to report on the progress of your project in accordance with the reporting calendar set out in the grant agreement."

Deadline: end-March 2020[20]

4.3.4. Gross Fixed Capital Formation

Introduction

The data source for gross fixed capital formation is cash information from Treasury reports. No accrual adjustments are made. Cash data are treated as accrual data.

Discussion and methodological analysis

The Latvian statistical authorities confirmed that no changes have been made to the recording of GFCF.

4.3.5. Military expenditure

Introduction

Cabinet Regulation nº 756 from December 2015 introduced a requirement for the exchange of detailed military expenditure data between the CSB and the Ministry of Defence. Accordingly, EDP questionnaire tables 7 on military equipment expenditure are filled in with the information regarding special military equipment received from the Ministry of Defence. Information on military cash expenditure is received only from the Treasury.

During the April 2019 EDP notification, CSB provided detailed clarification on the increase in the deliveries of military equipment (due to the receiving of mobile radars, dive-underwater positioning systems, means of communication, equipment, ammunition). In terms of advances, the increase was due to the purchases of helicopters, supporting equipment for underwater operations and ammunition recognition equipment.

Discussion and methodological analysis

Eurostat enquired whether F.81 recordings related with military expenditure could entail long-term contracts and liabilities and assets, in which case the amounts should be moved to F.4, following the 2019 MGDD.

Eurostat asked CSB to invert the sign of the negative amount on line 12 of questionnaire table 7.2, for the year 2018.

CSB clarified that the total military expenditure data in the Treasury are the same as the information received from the Ministry of Defence, but the Treasury data is not detailed enough to fill in the questionnaire tables 7 with. Nevertheless, the Treasury checks and aggregates the amounts included in the detailed information from the Ministry of Defence. Since COFOG data is compiled using the Treasury data, based on the use of these two different sources of information, it is not possible to reconcile exactly the information on P.51 from COFOG with the deliveries from questionnaire tables 7. Eurostat confirmed that COFOG has a broader scope; the figures are a bit different and it is likely due to the fact that the COFOG category 0201 is broader in scope than the deliveries of military equipment in questionnaire tables 7.

[20] Deadline postponed for September 2020 due to the pandemic situation.

4.3.6. Recording of other flows of receivables and payables

Eurostat welcomed the fact that the Latvian authorities provide information on flows of payables and receivables detailed by subsectors.

4.4. Recording of specific government transactions

4.4.1. Government interventions to support financial institutions

Prior to the EDP visit, the Latvian authorities had been asked to provide a note on current and foreseen government operations relating to the financial crisis and the accounting consequences for government, to which they answered that there were no current or foreseen government operations relating to the financial crisis.

4.4.1.1. PNB Banka

Introduction

PNB Banka (which was founded in 1992 and which operated under the name of *Norvik Banka* until November 2018) was the sixth-largest bank in Latvia, with total assets of 550 mEUR. *PNB Banka* has been in breach of capital requirements since the end of 2017. Given that the bank consistently failed to implement remediation measures requested by national authorities, the ECB took over direct supervision on 4 April 2019, at the request of the Latvian FCMC. After repeated interventions and inspections by the ECB, the bank still failed to provide evidence that it would be able to replenish its capital under the foreseen timeline. This prompted the ECB to assess it as a bank that was *failing or likely to fail*, under the Single Resolution Mechanism Regulation[21] and informed the Single Resolution Board. The Board determined that resolution action was not necessary in the public interest. Eligible deposits in *PNB Banka* are protected up to 100,000 EUR under Latvia's DGF. Depositors can contact the FCMC, which is the administrator of the DGF.

Prior to the visit, the CSB sent a note to Eurostat on the guaranteed compensation payments to depositors of *PNB Banka* by the DGF and their recording in national accounts.

The organisation of the guaranteed compensation payments to the depositors of *PNB Banka* were entrusted to *Citadele Banka* on behalf of the DGF. The guaranteed reimbursement process started on 22 August 2019. Compensation to the depositors is paid out from the DGF's own funds. By the date of the dialogue visit around 279 mEUR were reported to have been paid out, with a remaining amount of 55 mEUR. The CSB informed that these transactions would be recorded in national accounts after receiving the 2019Q3 financial statements of DGF.

Discussion and methodological analysis

The CSB informed that it recorded in the quarterly financial accounts of the government sector, for the DGF, an increase of claims against *PNB Banka* and, correspondingly, a DGF's liability against the bank's clients, in addition to cash outflows. Eurostat recalled that the payments to the depositors of the bank may be recorded as a financial transaction only if there

[21] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

is a reasonable expectation that the amounts are going to be recovered. Accordingly, Eurostat advised the CSB to perform a recoverability assessment.

Eurostat also enquired whether the Latvian statistical authorities knew if the PNB case was falling under the European Bank Recovery and Resolution Directive (BRRD)[22], if the resolution authority was involved, and if there already was information about the plans for the bank, whether it will continue to exist or if it will be liquidated. The CSB agreed to ask the DGF and inform Eurostat in due course.

Findings and conclusions

CSB will perform a recoverability assessment of the DGF claim on *PNB Banka*.

Action point 20 - The Latvian statistical authorities should investigate: a) whether the insolvency proceedings of *PNB Banka* fall under the Bank Recovery and Resolution Directive and, if so, what the expected future involvement of the national resolution bodies would be; b) whether *PNB Banka* is being liquidated or not; c) the amounts the DGF paid in 2019 to PNB's depositors and the amounts still payable as at year-end 2018; d) whether the DGF had sufficient funds to cover all its payment obligations.

Deadline: initial assessment by end-March 2020; final report by end-September 2020[23]

4.4.1.2. Review of the Supplementary table for reporting government interventions to support financial institutions

Introduction

The supplementary table intends to show a complete picture of the actual and potential impacts on government deficit and debt due to government interventions to support financial institutions facing difficulties. This table attempts to link the B.9 impact of the financial crisis and its net asset impact.

Discussion and methodological analysis

Eurostat highly appreciated the work done and the level of detail provided by the Latvian statistical authorities in the supplementary table for reporting government interventions to support financial institutions. It nevertheless encouraged them to continue improving the table in order to further reduce the existing B.9-B.9F discrepancy.

During the meeting, Eurostat and the Latvian statistical authorities briefly reviewed the table and discussed the reasons for this discrepancy. One of the possible causes may be the reclassification of *Parex* in 2010 and the way this reclassification was recorded (as transaction or other change in volume). The other possible cause for the overall discrepancy may originate from using as primary data source the balance sheet figures of *Reverta/Parex* for transactions and for assets (e.g. provisions of *Parex* that are classified as transactions in loans, with no counterpart in cash, may create an imbalance). Eurostat noted that irrespective of the

[22] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

[23] Not answered yet.

causes, consistency and coherence between quarterly and annual financial accounts needs to be eventually ensured. This way, other potential issues may also be revealed.

For the time being, Eurostat agreed that the non-performing loans of *Parex* could continue being recorded net of provisions, as a practical approach, pending clarification from the EDPS WG.

Eurostat noted that the non-performing loans (NPL) of *Parex* were currently recorded net of provisions in the ESA balance sheet. Eurostat noted that some countries follow a valuation of NPL purchased by government or located in government defeasance structures using the transfer price rather than the face value, a solution that Eurostat tends to favour, as this avoids excessively distorting the net worth of government. This issue was under discussion in the EDPS WG. In Latvia, the valuation in NPL also changes upon changes in provision, which was rather debatable. However, Eurostat agreed to this recording for the time being, as a practical approach, pending clarification from the EDPS WG. Nonetheless, changes in the stock of non-performing loans reflecting provisions and reversals should entirely enter the other changes in volume, with no transactions in loans (as seems currently (partly) the case, contributing to the overall discrepancy).

Findings and conclusions

Action point 21 – Eurostat highly appreciated the work done and the level of detail provided by the Latvian statistical authorities in the supplementary table for reporting government interventions to support financial institutions. Eurostat took note of the progress achieved so far on resolving discrepancies observed in the table between B.9 and B.9F and encourages continuing the efforts for further alignment. It has been noted that the Latvian statistical authorities can choose whether to record the 2010 reclassification of *Parex* liabilities inside government either via other changes in volume or via transactions (in both cases D.9 should have a counterpart in the financial accounts). Eurostat agreed that the non-performing loans of Parex could continue being recorded net of provisions, as a practical approach, pending clarification from the EDPS WG. However, change in the stock of non-performing loans reflecting provisions and reversals should entirely enter the other changes in volume, with no transactions in loans (as seems currently (partly) the case, contributing to the overall discrepancy).

Deadline: end-March 2020[24]

4.4.2. Capital injections in public corporations

Introduction

Prior to the visit, the CSB provided a list of the capital injections performed by Government in 2015-2018 by individual companies and their treatment in national accounts. The file includes capital injections and capital transfers to public corporations classified outside government.

The capital injection test does not consider the profit and loss since the creation of the company, but the recent losses until a period of profit is reached. A capital transfer is to be recorded in the year of the injection whenever the company is expected to make losses or, whenever it covers accumulated net losses over several years (net of capital transfers recorded in the past) up to the accumulated amount of net losses.

[24] Deadline postponed for September 2020 due to the pandemic situation.

Discussion and methodological analysis

Eurostat recommended the CSB to include in the EDP inventory a detailed description on how it performs the capital injection test. The description should also include a bridge from the chart of accounts of the Treasury's accounting system (the reports used by the CSB) or the financial statements of the entity from business accounting (if these are used) to each individual economic transaction used in the test. The same update should be made for the descriptions of the 50% criterion and the super-dividend test.

In the received list of capital injections performed by government there are several companies that repeatedly received capital injections. At Eurostat's request, the CSB clarified that in some of these local government enterprises there are some European projects going on at the same time and in different regions and cities, for heating, water, etc., and if those companies are working with profit and they pass the capital injection test, the injections are recorded as equity.

Eurostat pointed out that in 2016 a negative capital injection was recorded. As this amount corresponds to the repayment of a guarantee call (by *Liepājas metalurgs*, a private entity), Eurostat recommended to remove this amount from the table on capital injections and to report it instead in the table on guarantees. Eurostat reminded that repayment of money to government by public corporations (negative capital injections) should be super-dividend tested. If, however, the repayment is made by a private company, as is the case for *Liepājas metalurgs*, the super-dividend test is not applicable.

In 2016, the national airline *Air Baltic* benefited from a capital injection in a total of 132 mEUR, partly contributed by a private investor (52 mEUR) and partly by the Latvian Government (80 mEUR). This capital injection in *Air Baltic* by the government was recorded as a financial transaction (equity, F.5), with no impact on government deficit/surplus. In the years before this injection, the company had been profitable and the apportioned past losses to the government had been fully covered by capital transfers[25]. Based on the business plan of *Air Baltic* (the future expected results of the company) the capital injection was recognised as a financial transaction. However, Eurostat recalled that this decision was conditional on the government earning sufficient returns on this injection (its investment), mostly in the form of dividends, interest or value appreciation, like private investors would.

During the meeting, the participants discussed the financial performance of *Air Baltic* compared with the expected results included in the business plan at that time, focusing the analysis on the past profits (3.7 mEUR in 2017 and 5.4 mEUR in 2018) and on the equity evolution of the company since 2010. Eurostat wondered if the net assets of Air Baltic had not been negative at some time, including at time of injection. It was agreed that the CSB would provide information on the equity evolution of *Air Baltic* through time, including all capital injections, possible equity withdrawals or capital reductions since 2010.

Findings and conclusions

[25] Since 2010, there had been several capital injections in *Air Baltic*, recorded as capital transfers (D.9) in the government accounts for a total amount of 149 mEUR. In 2016, the accumulated losses of *Air Baltic* since 2010 amounted to 165 mEUR and the apportioned losses accruing to government amounted to 111 mEUR.

Action point 22 - The Latvian statistical authorities will remove the amounts associated to the repayment of guarantee calls by *Liepājas metalurgs* from the table on capital injections and report the associated amounts in the table on guarantees.

Deadline: end-March 2020[26]

Action point 23 - The Latvian statistical authorities will clarify the circumstances of the *AS Air Baltic* capital injection in 2016, describing, in particular, the equity evolution of *Air Baltic* through time, including all capital injections, possible equity withdrawals or capital reductions since 2010.

Deadline: end-February 2020[27]

4.4.3. Dividends, super dividends

Introduction

The CSB provided a table with the dividends paid by companies to Government 2015-2018, their associated profits and on that basis the calculations for the super-dividend test for the companies paying the largest dividends in 2018, in which *Latvenergo* is included and comes in first place. No super-dividends were recorded in 2015 and 2017.

4.4.3.1. *Latvenergo*

Introduction

Latvenergo is a state-owned electric utility company in Latvia. The company generates about 70% of the country's electricity. *Latvenergo* Group is one of the leading energy suppliers and leader in green energy generation in the Baltics.

Enerģijas publiskais tirgotājs AS (EPT) is a subsidiary of *Latvenergo* and it performs the functions of public electricity trader in Latvia, implementing the mandatory procurement of electrical energy in accordance with the Latvian Electricity Market Law. In national accounts, EPT is classified in the general government sector.

The renewable energy support system is mainly based on subsidies to producers paid by EPT. This takes the form of a feed-in tariff that requires EPT to buy electricity generated by renewable energy producers at a tariff which includes a pre-determined premium (determined by law) above or additional to the actual market price for electricity. Electricity bought as part of mandatory procurement is paid at tariffs set by the state.

EPT is compensated for the premiums paid to the producers via a fee, so-called mandatory procurement public service obligation fee (MP PSO), paid by electricity end-users in proportion to their electricity consumption. In order to keep the MP PSO fee stable, EPT also receives a government grant. Furthermore, the government, in its quality of shareholder, has received dividends from *Latvenergo*, which is itself receiver of renewable energy support.

<u>New energy procurement scheme</u>

[26] Accomplished for the EDP April 2020 notification. CSB moved the amounts associated to the repayment of guarantee calls by *Liepājas metalurgs* from the table on capital injections to the table on guarantees.

[27] On 28.02.2020 CSB provided to Eurostat an excel table with the equity of *Air Baltic* from 2010-2018, the profit/loss for each year, the accumulated loss brought forward and the capital injections received in each year and correspondent recording in national accounts. CSB provided also a detailed table with the transactions in *Air Baltic* since 2010. On 12.03.2020, in the pre-notification e-mail Eurostat thanked for the sending of the detailed table with the transactions in *Air Baltic*, noted to CSB that the capitalization of 2016 starts from negative net equity (which would generally imply a D.9 recording) and questioned how many new shares were created in 2015 and 2016 and how many shares existed before. Action point is under evaluation.

In 2017, in order to decrease costs, namely for households, the government established a new energy procurement scheme which targeted a reduction of the subsidy to the renewable energy producers to around 75%. The government of Latvia established a mechanism that allowed companies that received support for high efficiency cogeneration in the form of guaranteed payments for installed electric capacity to partly waive their right of support, receiving a one-off discounted compensation in return. The financing of this mechanism and of the lump sum payment would be made through an equity withdrawal from the government owned *Latvenergo*.

The support for the renewable energy companies will end in 2028. The present value of the subsidies to be solely paid to *Latvenergo* until that time is around 450 mEUR (equal to the intended lump sum payment).

As was reported in the consolidated annual report of *Latvenergo*[28]: *"in October 2017, Latvenergo applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants CHPP[29]-1 and CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo CHPPs by paying out a one-off compensation in the amount of 454.4 mEUR, financed by the capital release of Latvenergo. The compensation was divided into two parts: EUR 140 million were to be recognized as other income in the profit and loss statement of Latvenergo in 2017, while 314.4 mEUR were to be recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period on 23 September 2028. On 26 September 2018, the Cabinet of Ministers decided to extend additional compensation in 2018 in the amount of 51.7 mEUR, by reducing the remaining part of the compensation proportionally to this amount until the end of the support period. In 2018, 81.0 mEUR were recognized as other income of Latvenergo (in 2017: 140 mEUR)."*

The annual report further mentions that "*following the order No. 685 of the Cabinet of Ministers of the Republic of Latvia accepted on 21 November 2017, a trilateral agreement was concluded on 28 November 2017 between Republic of Latvia (represented by Ministry of Economics), the Parent Company and its subsidiary Enerģijas publiskais tirgotājs AS (public trader) on settlement of the one–off compensation on the decrease of the guaranteed support for the installed electrical capacity in cogeneration power plants Riga CHPP-1 and CHPP-2. Accordingly to the agreement, public trader has recognised receivable from state for one-off compensation in the amount of EUR 454.4 million thousand as the one–off settlement for Latvenergo AS. On 29 November 2017 public trader and the Parent Company has concluded agreement on loan issue to ensure the financing of compensation. On 26 March 2018 the Parent Company settled its liability towards Ministry of Economics for the capital release by netting of the balance with the respective grant receivable from the state in accordance with the trilateral agreement. In accordance with the provisions of the same agreement, the Parent Company netted balances with Enerģijas publiskais tirgotājs AS on the same date."*

Prior to the dialogue visit, Eurostat questioned whether the 140 mEUR lump sum payment (recorded in national accounts as D.9 and impacting the 2017 B.9) would, in its economic substance, be different from the 314 mEUR subsidy on production spread over 10 years, starting in 2018. The additional part of the grant that became unconditional in 2018 (52

[28] https://latvenergo.lv/storage/app/media/investoriem/en/2018/01_Latvenergo%2012M%202018_ENG.pdf

[29] CHPP - combined heat and power plant.

mEUR), further might underline the artificial nature of the split. Several additional questions were also raised.

At Eurostat's request, the Latvian statistical authorities invited representatives of *Latvenergo* and of the MoE to discuss and further clarify, the new energy procurement scheme, the one-off compensation to *Latvenergo*, the trilateral settlement agreement, as well as the appropriate recording of these operations in Latvian national accounts.

Discussion and methodological analysis

There was a discussion on the economic purpose and nature of the new energy procurement scheme and the causes that led *Latvenergo* to opt for a one-off compensation. Apparently, the main aim of the new scheme was to reduce costs for households, while the main reason for *Latvenergo* to choose the one-off compensation was based on business considerations and to reduce risk of losses in case the scheme being cancelled.

Eurostat asked whether the new electricity scheme was open to other energy producers and whether *Latvenergo* was the only company to accept a one-off compensation. It was clarified that Latvenergo was so far the only company (from a group of 4, which provide electrical capacity) accepting to partly waive their right of support, in return for receiving a one-off compensation. In the design phase of the scheme the Ministry of Economics asked all producers having CHPPs, but none of the others felt that the economic risk of scheme cancellation was high enough to make the trade-off. As only *Latvenergo* as the largest receiver of support opted for the scheme, the Ministry ended up imposing certain plant capacity threshold (minimum 100 MW per plant) which took into account producers' willingness to participate in compensation scheme, but also effectively excluded 3 other market participants from it. *Latvenergo* further explained that as the debate on high energy bills was still on-going, according to their information some of the other companies asked the Ministry to reduce the restrictions.

In summary, although the scheme's main aim was to reduce the price of energy for consumers (which materialised in a 1 EUR/MW reduction of the tariff per end-consumer), the State actually at this point of time became its major beneficiary (savings of 68 mEUR per year)[30], as there was no further need for it to subsidize EPT.

Eurostat asked *Latvenergo* whether there have in fact been any cash flows among the participants of the trilateral settlement agreement. *Latvenergo* confirmed that there were no cash flows, only the trilateral settlement claims were recorded in the financial statements of the parties. *Latvenergo* further explained that EPT, as its subsidiary, participates in the *Latvenergo* group cash pooling and therefore it has neither a separate cash management system, nor a separate bank account.

Latvenergo's dividend to Government

Eurostat thanked the Latvian statistical authorities for the table containing the super-dividend test of *Latvenergo*. Some of the specific steps of the calculation were discussed. CSB clarified that the starting figure for the calculation was the consolidated operating profit of the *Latvenergo* group. Eurostat noted that at a later stage it may be necessary to revisit the table to further improve some of the calculation steps. Eurostat noted that the one-off compensation

[30] 75 mEUR of reduction in subsidies minus 7 mEUR from reduced payments by end-consumers.

scheme was making compiling the super-dividend test much more difficult, notably via altering the amortisation amounts to considerably lower amounts (assets being written off, as offset of the one-off compensation, in *Latvenergo* own accounts). Annex 2 provides detailed information on the discussion on *Latvenergo's* dividends.

Findings and conclusions

Action point 24 – The Latvian statistical authorities will reflect on the correct recording, in the ESA government accounts, of the transactions regarding the one-off compensation scheme concerning electricity subsidies, which includes a decapitalisation of *Latvenergo*. Eurostat noted that the recording currently applied may not reflect the economic reality. Eurostat invites the Latvian statistical authorities to reflect on the opportunity to request an advice on this issue. This would also involve the appropriate treatment of the application of the super-dividend test.

Deadline: end-February 2020[31]

4.4.4. Government guarantees and guarantee calls

Introduction

The Latvian statistical authorities provided prior to the meeting a one-off table on guarantees, listing the outstanding government guarantees, new guarantees provided, guarantee calls and repayments by individual company and guaranteed debt assumed by general government for the period 2015-2018.

Discussion and methodological analysis

Eurostat questioned the coverage of the table. CSB clarified that the table corresponds to central government and local government guarantees.

In the absence of instructions, the dynamic of the table was not fully understood by CSB. It was concluded that CSB would have to revise the table as the amounts included in the column 'repayments' included companies' repayments of guaranteed loans to the creditors rather than the payback from companies to government on those payments (after cash had been paid out by government on guarantee calls), as it should. These explained the problems in reconciling EDP questionnaire tables 9 with this annex table on guarantees. Eurostat took note that there are no calls on guarantees.

Findings and conclusions

Action point 25 - The Latvian statistical authorities will update the one-off table on guarantees, requested for the EDP visit, along the lines of the discussion during the meeting

[31] On 28.02.2020 CSB answered to Eurostat: "The CSB has reassessed the transactions regarding the one-off compensation scheme concerning electricity subsidies, which includes decapitalisation of *Latvenergo*. The purpose of our assessment is to ensure the correct statistical recording of the transactions, based on the economic substance and ESA rules.
Based on the nature of transactions (ie. compensation/support to *Latvenergo*), acknowledging that the amount of compensation is deemed to be reliable, noting that essentially majority of risks and rewards with respect to assets under consideration directly and indirectly have been transferred to the government in the year of conclusion of agreement, we consider that the whole amount of the lump-sum payment should be recognised as government expenditure (D.99) at inception.
Taking into account aforementioned changes to the recording of one-off compensation scheme we are in the process of adjusting application of super-dividend test for *Latvenergo* and of course EDP tables themselves." The action point is under evaluation.

and adapt questionnaire table 9.1 consistently (by reporting the amounts of table 9.2 column 7 in table 9.1 item 10).

Deadline: end-March 2020[32]

4.4.5. Debt assumptions, government claims, debt cancellations and debt write-offs

Introduction

The CSB provided a list of debt assumptions, debt cancellations and debt write-offs for 2015-2018 by title and amount for both central and local government.

Discussion and methodological analysis

The amounts of debt assumptions and debt write-offs are small.

Following repeated cases of assumption of *Latvijas Olimpiskā Komiteja's* debt by Government in the past, Eurostat questioned whether this could not be taken as a sign as of government having control over the Olympic Committee. Currently the Olympic Committee is classified as a non-profit institution in national accounts. Exposure to risk should also be considered in the criteria for analysing control over an entity as by reference to ESA paragraph 20.15 e). Eurostat referred to a similar case in Italy concerning sports federations (where the Olympic Committee is recorded in government).

Findings and conclusions

Action point 26 - The Latvian statistical authorities will analyse whether government has control, in the meaning of national accounts, over the Olympic Committee, notably in the light of debt assumptions carried out in the past.

Deadline: end-March 2020[33]

4.4.6. Public Private Partnerships (PPPs), concessions and Energy Performance Contracts (EPC)

Introduction

Prior to the mission, CSB provided a note to Eurostat on the ongoing PPP projects, all of which are included in the EDP questionnaire table 11.

The Latvian authorities provided information on the further developments in the implementation of the PPP project "Ķekava bypass". The procurement process was launched in December 2018 and the assessment of the five applications was concluded by May 2019. Four eligible candidates had been invited to submit initial tenders. Of those, two tenders consisting of a technical part and a financial part were received within the deadline (August 2019). Both candidates were invited to the open negotiations and to submit their best and final offers by March 2020. The announcement of the winner is planned for the second quarter of 2020 and the signing of the PPP contract for the third quarter of 2020.

As regards concession contracts, CSB informed that the information was requested from the Register of Enterprises of the Republic of Latvia, but not yet received.

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[32] Accomplished during the EDP April 2020 notification clarification.

[33] Deadline postponed to September 2020 due to the pandemic situation.

Discussion and methodological analysis

The *Ķekava PPP* project was analysed in the past and, based on the available information at the time, the conclusion was that it would be considered an off-balance sheet gross fixed capital formation. Eurostat asked CSB to continue following the development of the project and possible new versions of the contracts, in order to be able to comment on their statistical treatment. CSB confirmed to being attentive and requesting information on the project every year.

Energy Performance Contracts (EPC)

Introduction
Prior to the mission CSB provided a note to Eurostat on the current and future operations regarding energy performance contracts (EPC).

EPC contracts have not been used much in Latvia until now. The recording of the liabilities resulting from EPC contracts is not clear from the public sector accounts (on/off balance sheet). Moreover, the Budget Law in Latvia sets limitations to municipalities and does not allow them to enter into contracts that result in liabilities over a period of more than 5 years, thus preventing the off-balance sheet treatment of the liabilities. The MoE and MoF have started discussions to adapt the legislation accordingly.

Discussion and methodological analysis

A representative of the MoE was present in the meeting and explained that, in cooperation with the Ministry of Justice, the MoE is starting to develop the contract for the future EPC projects, aiming to have a model contract by April 2020. The question of having an EPC's database / public sector registration and of who will maintain it is still under discussion. For the moment, there are issues to be solved with the Budget Law and the accounting system. The use of EU funds is foreseen in the future, but Latvia needs to find more private financing to the public sector, as EU funds will not be enough.

Latvia has a programme on efficiency in public buildings, however, no EPC as yet. The projects for the next EPC programme period are not yet ready, but Latvia, following the EU Commission recommendations on energy service compliance, intends to start some EPC projects. Latvia informed that it is also using the support from JASPERS (Joint Assistance to Support Projects in European Regions), which is also used in other countries for EPC's.

4.4.7. Financial derivatives

Introduction

Prior to the EDP visit, CSB provided to Eurostat an update of the table on the recording of derivatives of Central government sent for the October notification. This is a voluntary table, which is helpful for cross-checking data on financial derivatives in the EDP notification tables and ESA table 27.

Discussion and methodological analysis

Eurostat welcomed the work done by the Latvian statistical authorities regarding the table on derivatives, noting that the revised table improved and solved some anomalies compared with the previous one.

Nevertheless, the table on derivatives presents now some differences with EDP tables 3, which needed to be adapted accordingly. CSB confirmed that small changes to EDP tables 3A, 3B and ESA tables 6, 7 and 27 would be done for the next EDP notification so to align the data.

In what concerns interest rate swaps (IRS) (in Euro), CSB informed that those were contracted in 2011, 2012, 2013, following a debt cash management strategy to increase average maturity. At that time, Latvia was approaching the predetermined lower level target for the duration of its debt. Due to market constraints, instead of issuing longer bonds, it was only feasible to continue issuing medium term bonds and contracting IRS (pay fix and receive floating). When interest rates are lower than expected, these IRS swaps are "losers" because Latvia pays fix and receives less than anticipated on those swaps. Therefore, but not necessarily always, a swap which pays more than it receives is often a liability. Eurostat observed that Latvia pays more than it receives on their interest of swaps.

Regarding cross-currency swaps, CSB informed those had been issued in 2012. At that time, the dollar market was much cheaper than the euro market and more liquid, but the State wanted to be exposed to euro risk. Eurostat asked for the notional amounts to be also filled in in the table, in block 2. Eurostat mentioned that, as a simple rule, one possibility would be to report the value of the debt hedged as the notional value of the hedging swaps. Latvia confirmed that the cross-currency swaps are all assets for Latvia.

In Latvia, the debt in foreign currency is fully hedged. A hedged dollar debt in 2015 and a bigger one in 2017 are recorded in the derivatives table. The appreciation of the dollar led to a significant build-up of derivative assets (at the end of 2015, Latvia had a net asset of around 310 mEUR), which were later partly liquidated through revaluations, partly reduced through unwinding of swaps in 2015-2017. In 2015, cancellation of swaps took place due to an early redemption of USD bonds (bond repurchase at premium in the market). In 2017, Latvia reimbursed USD bonds that had reached maturity and accordingly the maturity of the corresponding derivatives attached to these bonds also expired.

Eurostat questioned if Latvia has entered in collateralised swaps (i.e. posting or receiving collateral), and how these were recorded. Symmetric collateralised swaps were observed in some other Member States, bearing in mind the implied credit risk of the transaction (risk that becomes meaningful when the swap becomes a liability). Latvia will investigate the issue but mentioned that those were old swaps and likely they do not have any cash collateral. Eurostat remarked that, in some Member States, the collateral can take the form of an escrow account or the collateral can be posted in the form if debt securities and not in cash. Eurostat remarked that it may be that some countries have a symmetric collateral agreement, although often collateral arrangements contracted by governments were asymmetric: if the swap is a liability, no collateral is posted but, if the swap is an asset a collateral is provided. This depended on the credit risk of the issuing sovereign.

In 2015, block 1 of the table, under swaps, the market value of transactions shows a flow of -32 mEUR, corresponding to a redemption of a liability, which apparently did not exist anymore by the end of 2015. CSB explained that the transaction reflects the early unwinding of a swap upon a buy-back of a Latvian bond. Eurostat inquired on the recording on the liability side (and not on the asset side) and invited CSB to verify if by the end of 2014 there had been a stock of liabilities. It could be the case that the amount comes from an unwinding of a swap, and reflects the liquidation of a derivative which is an asset (hence a sale of an asset for -26.5).

Eurostat invited the Latvian authorities to provide their internally available table with more detailed information on financial derivatives, and additionally also including information on the stream of interest payments in the table.

In block 1 of the table, the stock of cross-currency swaps was 309 mEUR in 2015. However, in block 5,356 mEUR is recorded. The CSB indicated that 356 mEUR is the difference between the face value before and after hedge, which is not exactly the same as the market value of the swap.

Eurostat invited CSB to provide in block 5 of the table, related with hedging of debt, the missing information on the figures for interest before hedge and interest after hedge. CSB confirmed that the interest on dollar bonds recorded in D.41 are before swap, i.e., the impact on B.9 is before hedge.

In block 5 of the table, line 49 should show interest before swap (interest in ESA expenditure) and line 51 should show the working balance. Line 43 is the swap effect on the valuation of the Maastricht debt, and not the market value of the swap. Line 43 in block 5 differs from information in block 1, because in block 1 we have the total market value of the swap, while in bloc 5 we have only the foreign exchange part.

Line 22 of the table in block 5 is the dollar bond, at face value, converted at the exchange rate at the end of the year. Line 22 as now filled in by Latvia is not correct because it is not the hedged part. Some countries use the nominal value of the dollar bond and deduct the market value of the swap, which is also not fully correct because the market value of the swap contains two components: an exchange rate component and an interest rate component. The difference between lines 21 (Total face value (after hedge)) and 22 (Memo total face value before hedge) should contain only part of the swap. But, in the Latvian table, the difference is now the same as in line 43 (total market value of the instrument of hedge), which implies that line 43 is not the market value of the swap, but only the swap effect on the valuation of the Maastricht debt. The market value of the swap is different, higher or lower, as there is also an interest effect. This explains the difference between block 1, which contains the total market value of swap and block 5. Eurostat will also reflect on changing the title of the line from "total market value" to "part of the market value of the instrument that hedges".

Latvia confirmed that it has not issued nor purchased options, or swaptions[34], nor does it enter into novation[35] or restructuring of swaps.

Findings and conclusions

Action point 27 – Eurostat welcomes the work done by the Latvian statistical authorities regarding the table on derivatives and asks them to carry out the limited adaptations, discussed in the meeting. In addition, the Latvian authorities will clarify whether any

[34] A swaption is an option to enter an interest rate swap at some future date.
[35] A valid existing contract is substituted with a replacement contract, with the mutual agreement from all concerned parties.

collateral on cross-currency swaps was provided or received by Latvia, in the form of debt securities or via escrow accounts.

Deadline: end-March 2020[36]

4.4.8. Emission trading permits (ETS)

Introduction

Revenues from the sale of ETS are recorded in Latvia's national accounts using a time-adjusted cash approach of 4 months. Proceeds of permits generated from January to April (4 months) of a particular year are recognised in the same year, whereas revenues generated in May – December are recognised in the following year. This approach is based on the fact that, the permits purchased until the end of April can be used immediately, whereas, if purchased after the end of April, they may at the earliest be used in the following year.

The allocation of the ETS auctioning proceeds is recorded in the central government account (S.1311), splitting between D.29 (for residents) and D.74 (for non-residents, i.e. from the auctions abroad), on the basis of information from the Environment and energy statistics section of CSB.

Changing the recording from D.74 to D.29, would be consistent with what is recorded by the other MSs, but would create inconsistencies with Latvian BoP.

Discussion and methodological analysis

The European Commission is responsible for approving national governments' bids for carbon dioxide allocations as part of the EU's drive to curb emissions under the Kyoto Protocol. Some years ago, Latvia legally challenged the European Commission decision and filed a lawsuit over its 2008-2012 carbon dioxide emissions quota. The European Court of Justice overruled the decision by the European Commission and Latvia was in 2018 allocated an extra annual emissions quota of 3.43 million tonnes.

In November 2018, those permits were sold off in one go in an extraordinary auction abroad in the EEX platform (Germany), held on the secondary market (60.7 mEUR). According to the current Latvian time-adjusted cash recording, those proceeds are to be recorded only in 2019 and as D.74.

Eurostat remarked that recording the ETS proceeds as D.74 is a Latvian particularity and is not how the recording should be done and how the other European MSs do. Nevertheless, this approach has its merits as it is partly implementing the EU tax approach proposed by Eurostat, as a way to eliminate many anomalies occurring with the current guidance: recognising a tax from corporations to the rest of the world and a transfer back to government from the rest of the world. The two amounts are not necessarily the same allowing to tackle the problem of net export or import of permits. This recording could be a way to have a more reasonable GNI and a tax burden for corporations, and at the same time the correct figure of the revenue for government. This issue was presented in the latest EDPS WG, nonetheless, for the time being nothing was as yet agreed.

[36] Deadline postponed to September 2020 due to the pandemic situation.

Although the sale of permits abroad should not be recorded as D.7 on a cash basis, Eurostat tentatively considers the Latvian recording as an intermediate step to a potentially better recording. Hence, it accepts this recording as a temporary solution.

The current approach could create a potential anomaly as the D.74 could exceed the total amount of permits, generating a negative D.29. That was not yet observed in Latvia, hence the current recording can be maintained for the time being. B.9 is not impacted.

Taking in consideration that Latvia will complete their benchmark revision by end-September 2020, Eurostat asked the Latvian statistical authorities to reflect for that exercise on the recording of the emission permits and on switching to a D.29 paid by companies to the Rest of the World and a government revenue coded in full as D.74.

Regarding the extraordinary auction of permits by the end of 2018, Eurostat remarked that Latvia can probably not record the time adjusted cash in 2019 for the full amount, since in 2019 the amounts of permits sold, exceed the permits surrendered. The cash or time-adjusted cash is a proxy of the so-called FIFO method, according to which Government revenue should be kept within the limit of the amounts of permits surrendered, meaning that more permits cannot be recorded as revenue than the number of permits actually surrendered. Consequently, because of the extraordinary large sale due to the one-off operation, the time adjusted cash exceeds the FIFO method, and the recording in 2019 of all the cash from that one-off operation would not be appropriate. A part will probably remain in F.8 and the amount will be amortized later in 2020 and 2021.

Eurostat will nonetheless reflect on the potential implication of the fact that this large one-off operation follows a court decision. But in that case, the revenue would have to be recorded in 2018.

Findings and conclusions

Action point 28 – Eurostat took note of the recording of emission permits, using a time-adjusted cash approach of 4 months, splitting the revenue between D.29 and D.74 on the basis of calculations of the Environment and energy statistics section of CSB. Eurostat tentatively agreed with this approach, pending EDPS WG deliberations. The Latvian statistical authorities will provide a note on their reflections on recording for the benchmark revision of 2020, an adaptation to switch to a D.29 paid by companies to the Rest of the World and a government revenue coded in full as D.74. Eurostat recalls that cash or time-adjusted cash is a proxy of the so-called FIFO method, which would generally prevent recording the entire amount as time-adjusted in 2019, given the large one-off operation carried out in 2018. Eurostat will nonetheless reflect on the potential implication of the fact that this large one-off operation follows a court decision.

Deadline: end-May 2020[37]

4.4.9. Recording of the criminal proceeds arrested by the Riga Regional Court

Introduction

[37] Action point is ongoing.

In 2019, the Riga Regional Court issued a decision to seize 29 mEUR considered as proceeds from crime and ruled that this arrested amount should be integrated in the State budget.

Back in 2016, criminal proceedings were launched over the legalization of criminally acquired funds in large amounts. The money in question is linked to Ukrainian officials and has been frozen in non-resident accounts at the AS *Reģionālā investīciju banka* after the Ukrainian Prosecutor General's Office sought legal assistance from Latvia.

Discussion and methodological analysis

The ruling of the regional court cannot domestically be further appealed, however the question about returning the illegal assets to Ukraine is also being dealt with on an intergovernmental level.

At this stage, as the assets might still be claimed by Ukraine and thus its ownership is not established with full certainty, Eurostat advised Latvia, that perhaps it is more appropriate to recognize in national accounts F.8 liabilities of government, as a counterpart to F.2, instead of D.759R fines (in accordance with ESA §6.10) while the dispute is not completely solved. Alternatively, no entry in the ESA balance sheet may be another recording choice.

Findings and conclusions

Action point 29 - As regards the recording in national accounts of the criminal proceeds sequestrated following a decision by the Riga Regional Court in 2019, Eurostat suggests reflecting an asset F.2 with the counterpart F.8L in general government accounts. Alternatively, no entry in the balance sheet may be a recording choice. A government revenue will be recorded when the potential dispute with Ukraine over the claim is finally settled, if any.

Deadline: end-March 2020[38]

4.4.10. Others: Mobile phone licenses (UMTS/LTE), privatization, sale and leaseback operations, securitisation, decommissioning costs of reactors and of nuclear waste management, etc.

Introduction

Prior to the mission, CSB provided a note to Eurostat on the current and future operations on mobile phone licenses (UMTS/LTE); decommissioning of reactors and of nuclear waste management; sale and leaseback operations; income contingent loans; signed and foreseen since the previous EDP mission and the treatment foreseen/implemented in government accounts.

- **Mobile phone licenses (UMTS/LTE)**

The sale of UMTS licenses are recorded in line with the Eurostat guidance from March, and the revision of the relevant MGDD chapter. Following these rules, the nature of licenses was reassessed and the revenues were reclassified as rent (D.45 Rent) together with recognition of a liability (AF.89). As a result, revenue from UMTS sales is excluded from central government accounts and spread over the period for which a license is granted.

[38] Deadline postpone for September 2020 due to the pandemic situation.

- Decommissioning of reactors and of nuclear waste management

As was mentioned in section 4.1 of these Findings on the state of play of the implementation of the new MGDD (2019 edition), Latvia does not have nuclear plants but does have some polluted areas from the past, which took several years and several phases to clean-up and that might require further clean-up efforts.

There are currently, two "clean-up" projects in Latvia:
- The recovery of goudron ponds in *Inčukalns*. The project aims at the elimination of the polluting source and the rehabilitation of the land. Phase I of this project ran from 2013-2015 and cost 27.6 mEUR, including 70% EU financing; Phase II of the project has been ongoing since 2015 and is estimated to end in 2021. It will cost 29.3 mEUR, including 85% EU financing.
- The *Salaspils* research reactor project relates to the preparation works for a reactor dismantling, decommissioning and waste management. It is planned to have a total cost of 5.5 mEUR and to be completed in 2020.

- Sale and leaseback operations

No operations exist nor are expected to occur in the near future.

- Income contingent loans

There are no income contingent loans.

4.5. Important issues for year 2019 relevant for the April 2020 EDP Notification

Prior to the mission CSB provided a note to Eurostat on Adopted measures for the 2020 budget. No large government transactions were foreseen for 2020.

5. Other issues (planned future operations, transmission of GFS data etc…)

5.1. ESA 2010 Transmission Programme

5.2. Any other business

- Residence by investment scheme

Introduction
In 2010, Latvia introduced its first residence-by-investment scheme, which has been later modified. The scheme offers several investment options, in all of which there is an amount to be paid to the State budget. In the Latvian national accounts, these revenues and transactions are recorded as P.131.

Discussion and methodological analysis

The popularity of the residency-by-investment and citizenship-by-investment schemes has increased in recent years in Europe. Eurostat explained that more information on the features of the existing schemes in the Member States is needed to form a full picture of the reasoning behind the current recording practises and to be able to work on harmonisation. Several recording options are nowadays in use, including P.11 and P.131 output, D.59 and D.91 taxes, and D.759 and D.99 transfers. The issue will possibly be discussed in one of the upcoming TF GFS or EDPS WG meetings.

Regarding the Latvian scheme(s), Eurostat noted being aware that the popularity of the Latvian scheme decreased after it was modified and that the total revenues are relatively small nowadays. Nevertheless, Eurostat stated that more information is needed on the amounts per applicant that have been recorded in the general government accounts during the existence of the scheme(s). Eurostat also asked whether the beneficiaries in Latvia enjoy some advantages over other citizens/residents. Furthermore, in case of a refusal or a later cancellation of the residence permit, Eurostat asked if the money is kept by the State or returned to the applicant in some cases.

Findings and conclusions

Action point 30 – The Latvian statistical authorities will provide the annual amounts recorded in the general government accounts regarding citizenship-by-investment and/or residency-by-investment schemes starting from 2010, and the annual number of persons affected. The Latvian statistical authorities will also provide answers to the following questions: 1) are the beneficiaries enjoying some advantages compared to other citizens/residents? 2) are the applicants given any money back if their permit is refused or later cancelled?

Deadline: end-February 2020[39]

[39] On 28.02.2020 CSB provided to Eurostat tables with information from the Treasury on the Contributions of Foreigners to the State Basic Budget Programme 33.00.00 “Economic Development Programme” from 2014 to 2018; Information from the Office of Citizenship and Migration Affairs the Number of temporary residence permits by years from 2010 to 2018; and, from the Ministry of Economics on the number of refunds and the amounts refunded in 2017-2018.
"The amendments to the Immigration Law, which stipulated that before receiving temporary residence permit a foreigner had to make a payment into the State Budget came into force on September 2014. The payment made by a foreigner is transferred into the State basic budget expense account opened for the State basic budget programme "Economic Development Programme" in the Treasury and accounted as other own revenue of the institution. The relevant State budget programme is administered by the Ministry of Economics.
1) Investors receiving temporary residence permits have no advantages compared to other citizens/residents.
2) It is payment and shall not be repaid, except the cases referred to in Cabinet regulations (Clauses 73.1 73.2 73.3 73.4 of the Regulation No. 564). In fact, the payment was reimbursed only if the overpayment was made or the payment was made incorrectly.
The action point is under evaluation.

EDP dialogue visit to Latvia,

2-4 December 2019

Starting on 2 December 2019, 10:00

Agenda

(1) Statistical capacity issues

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

1.1.1. Institutional cooperation and EDP processes

1.1.2. Quality management framework

1.1.3. Audit and internal control arrangements

1.2. Data sources and revision policy, EDP inventory

(2) Follow-up of the previous EDP dialogue visit of 7-9 June 2017

(3) Analysis of EDP tables and questionnaire – follow up of the October 2019 EDP reporting

(4) Methodological issues and recording of specific government transactions

4.1. Implementation of the new MGDD (2019 edition), state of play

4.2. Delimitation of general government, application of market/ non-market rule and the qualitative criteria in national accounts

4.2.1. Changes in sector classification since the latest EDP dialogue visit

4.2.2. Practical implementation of the market/non-market test, qualitative and quantitative criteria

4.2.3. Sector classification of specific units

4.2.3.1. *Rīgas Satiksme* (Riga Transport Company)

4.2.3.2. *Latvijas Dzelzceļš* (LDZ) (Railway Company)

4.2.3.3. *Rail Baltica* - "*Eiropas dzelzceļa līnijas*" (EDL) and "*RB Rail*"

4.2.3.4. Deposit Guarantee Fund

4.2.4. Government controlled entities classified outside the general government sector

4.3. Implementation of the accrual principle

4.3.1. Taxes and social contributions

4.3.2. Interest and consolidation of interest

4.3.3. EU flows

4.3.4. Gross Fixed Capital Formation

4.3.5. Military expenditure

4.3.6. Recording of other flows of receivables and payables

4.4. Recording of specific government transactions

4.4.1. Government interventions to support financial institutions

4.4.1.1. PNB Banka

4.4.1.2. Review of the supplementary table for reporting government interventions to support financial institutions

4.4.2. Capital injections in public corporations

4.4.3. Dividends, super dividends

4.4.3.1. *Latvenergo*

4.4.4. Government guarantees and guarantee calls

4.4.5. Debt assumptions, government claims, debt cancellations and debt write-offs

4.4.6. Public Private Partnerships (PPPs), concessions and Energy Performance Contracts (EPC)

4.4.7. Financial derivatives

4.4.8. Emission trading permits (ETS)

4.4.9. Recording of the criminal proceeds arrested by the Riga Regional Court

4.4.10. Others: Mobile phone licenses (UMTS/LTE), privatization, sale and leaseback operations, securitisation, decommissioning costs of reactors and of nuclear waste management, etc.

4.5. Important issues for year 2019 relevant for the April 2020 EDP Notification

(5) Other issues (planned future operations, transmission of GFS data etc…)

5.1. ESA 2010 Transmission Programme

5.2. Any other business

- Residence by investment scheme

Annex 1

EUROSTAT EDP DIALOGUE VISIT TO LATVIA
2-4 DECEMBER 2019

LIST OF PARTICIPANTS

	Name	**Organization**	**Department and Position**
1.	Mr Intars Abražuns	CSB	Macroeconomics Statistics Department, Director
2.	Ms Vija Veidemane	CSB	Macroeconomics Statistics Department, Government Finance Section, Head
3.	Ms Liene Rimonte	CSB	Macroeconomics Statistics Department, Government Finance Section, Deputy Head
4.	Ms Sandra Kadiķe	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
5.	Ms Leona Lisa	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
6.	Ms Sorenta Ziemiņa	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
7.	Ms Julija Borisova	CSB	Macroeconomics Statistics Department, Government Finance Section, Senior Officer
8.	Mr Edgars Vītols	Ministry of Finance	Economic Analysis Department, Senior Expert of Economic Analysis and Forecasting Division
9.	Mr Mārtiņš Trautmanis	Ministry of Finance	Fiscal Policy Department, Deputy Head of Fiscal Policy Division
10.	Ms Irēna Emīlia Švilpe	Ministry of Finance	Fiscal Policy Department, Senior Expert of Fiscal Policy Division
11.	Ms Līga Gasūne	Ministry of Finance	Tax Analysis Department, Senior Expert of Revenue Analysis and Forecasting Division
12.	Ms Silvija Lansmane	The Treasury	Reports Department, Senior Expert
13.	Ms Ilona Aizezera-Tola	Bank of Latvia	Statistics department, Chief Financial Statistician of Statistics Development Division
14.	Ms Ilze Vītola	Bank of Latvia	Statistics department, Chief Financial Statistician of Statistics Development Division
15.	Mr Valdis Masaļskis	Bank of Latvia	Statistics department, Senior Financial Statistician of Statistics

			Development Division
16.	Ms Evelīna Matisone	Ministry of Economics	Division of Energy Financial Instruments, Head
17.	Ms Vita Boroduļina	Ministry of Economics	Division of Energy Financial Instruments, Senior Expert
18.	Mr Dzintars Kauliņš	Ministry of Economics	Deputy State Secretary on Energy Policy Issues
19.	Mr Andrejs Apaņuks	Ministry of Economics	Department of Sustainable Energy Policy, Director
20.	Mr Guntars Balčūns	AS Latvenergo	Member of the management Board, Chief Financial Officer
21.	Mr Imants Iesalnieks	AS Latvenergo	Bussiness Planning and Control, Director
22.	Mr Kristaps Ločmelis	AS Latvenergo	Regulatory Affairs, Head
23.	Ms Inese Andersone	Ministry of Transport	*Rail Baltica* project unit, Project coordinator
24.	Mr Jukka Jalava	Eurostat	Unit D-3: Excessive deficit procedure (EDP)2, Head of Unit
25.	Mr Rasa Jurkoniene	Eurostat	Unit D-1: Excessive deficit procedure and methodology, Head of Unit
26.	Mr Philippe de Rougemont	Eurostat	Unit D-1: Excessive deficit procedure and methodology
27.	Ms Henna Laasonen	Eurostat	Unit D-3: Excessive deficit procedure (EDP)2
28.	Mr Levente Szekely	Eurostat	Unit D-3: Excessive deficit procedure (EDP)2
29.	Ms Anabela Nabais Rodrigues	Eurostat	Unit D-3: Excessive deficit procedure (EDP)2, EDP desk officer for Latvia
30.	Ms Linda Kezbere	ECB	DG-S/Macroeconomic Statistics, Economist-Statistician
31.	Mr Janis Malzubris	DG ECFIN	DDG2 Unit E.2, Economic analyst desk officer for Latvia

Annex 2

Latvenergo’s super-dividend test (continuation of item 4.4.3.1. *Latvenergo*)

The profit to consider for the super-dividend test is the operating or the distributable profitable or entrepreneurial income, not the overall business profit. The operating profit adjustment for net financing cost is 148 mEUR in 2016, 224 mEUR in 2017 and 90 mEUR in 2018.

However, in 2017, it contains the 140 mEUR of an exceptional one-off payment by government described in the findings. These are classified as a D.9 transaction and should in principle be excluded from the profit definition. In addition, in 2018 the Cabinet of Ministers approved an extension of these 140 mEUR, by additional unconditional compensation of 51.7 mEUR, which should also be excluded. Therefore, the adjusted operating income is 148 mEUR in 2016, 84 mEUR in 2017, and 39 mEUR in 2018. As a result, while the 2017 dividend (to relate to the 2016 profit) seems to be within the super-dividend test, the 2018 dividends seem far above the distributable income (156 mEUR against 84 mEUR). Part of *Latvenergo*’s dividend to government from 2017, paid in 2018, does not pass the super-dividend test and 72 mEUR should not be considered as government revenue.

However, the fall in profit from 2016 to 2017 is in particular due to an impairment charge to equipment to the amount of 116.799 mEUR which is included in Statement of Profit or Loss under the expenditure position “Depreciation, amortization and impairment of intangible assets and property, plant and equipment”. Under discussion is the treatment of the impairment on fixed assets (117 mEUR) in the super-dividend test and whether this amount should not be removed from the costs, thus increasing the distributable income of the year.

In the latest EDP notifications, Eurostat agreed the exclusion adjustment of the impairment, therefore the adjusted operating income for year 2017 was finally 201 mEUR (calculated as 224 – (140 – 117)). As a result, there was no super-dividend for 2017 because the exceptional one-off payment and the impairment charge smooth/cancel each other. Eurostat noted that this is done also in the Annual Report of *Latvenergo* for 2017 where revenue and expenditure are recognized according to IFRS.

Under analysis is whether either the impairment should not have been adjusted or, if it is to stay removed from the distributable profit of the year, then the amortization cost must be reinstated in future years as a proxy of consumption of fixed capital.

In support of the exclusion approach, Eurostat understands that the one-off revenue recorded is directly linked to the one-off impairment. At the time *Latvenergo* entered into contract with the EPT and the Government to partly waive their right of support, in return for receiving a one-off compensation, it had to revalue assets that benefit from the mandatory electricity procurement scheme. Since future income streams from the scheme on those assets were reduced, *Latvenergo* had to recognize an impairment of 117 mEUR.