

# Transversal GNI reservation Treatment of non-resident VAT traders

## Reservation Requirements

Non-resident VAT traders (NR-VATT) are defined as entities registered for VAT in a Member State but lacking a physical presence there, i.e. having no employees, no premises, and no production activities. Legally domiciled in another EU or non-EU country, their activities are often confined to trading by physically moving goods to, from, or within the Member State or non-EU country of VAT registration. These goods may be stored by renting storage services from resident units or handed over to a contractor for processing. The establishment of such units is often driven by the requirements of the EU VAT legislation for separate VAT registration for enterprises intending to conduct business in another Member State. NR-VATT do not meet ESA 2010 criteria for the institutional unit and should therefore be considered as non-resident in the country, where they are only registered for VAT.

Member States should ensure that the NR-VATT are correctly treated in their GNI estimates. In order to ensure such a correct treatment, the Member States should further investigate the existence of NR-VATT and, where necessary, make relevant statistical adjustments to the GNI data, in line with the key recommendations of the Balance of Payments Working Group and of the GNI Expert Group, as approved by the Directors of Macroeconomic Statistics (DMES/2024/12-06, annex 1). This work should be carried out respecting the country-specific circumstances and is expected to be, as much as possible, undertaken in close liaison with experts from different departments and agencies involved in identifying NR-VATT (recommendation 3).

With regard to the identification of NR-VATT, the Member States should:

- identify active NR-VATT in their economies, investigate their activities and set up a process to regularly review whether significant changes have occurred in this respect (recommendation 1);
- carry out in this process an examination of all possible data sources available at the national level (including VAT ID / Economic Operator Registration and Identification (EORI) number, VAT statements, statistical surveys, administrative data sources or business registers and any other related information from the relevant stakeholders (recommendation 2)).

With regard to the treatment of transactions of NR-VATT, the Member States should:

- exclude from the GNI compilation those transactions recorded in the international trade in goods statistics (ITGS) that do not involve a change of economic ownership between a resident unit and a non-resident unit (in this case NR-VATT); equally, transactions between two NR-VATT units should be excluded (recommendation 4);
- conduct a thorough analysis of NR-VATT activities to avoid the exclusion of a given transaction twice (recommendation 5): once, for cross-border flows

involving NR-VATT and again for other type of global production arrangements (e.g. processing, merchandising, factoryless goods production);

- treat the sales by resident entities to NR-VATT as exports and the purchases by resident entities from NR-VATT as imports (recommendation 6);

- thoroughly investigate possible data sources for identifying transactions between NR-VATT and resident entities; this includes administrative sources such as VAT returns, the VAT Information Exchange System (VIES) summary reports and the business register. Additional sources might include VAT-chained client listings, direct reporting by enterprises, financial statements, PRODCOM statistics, and manufacturing services data. NACE information of the resident seller can be used to better distinguish between goods and services transactions; potentially customs data with the Nature of Transaction codes or using import and export values as proxy could be employed (recommendation 7);

- cover all significant transactions of (resident) VAT traders established by resident enterprises abroad (recommendation 9).

Member States should report on the results of the required actions giving explicit information on the aspects listed above.

The transversal reservation is applicable from 2018 onwards.

## Work Undertaken to Resolve the Reservation

### 1. Cooperation

To solve the Transversal reservation II on the Treatment of non-resident VAT traders hereinafter – NR-VATT) work has been undertaken in close cooperation between Balance of Payments (here in after – BoP) compilers (Latvijas Banka) and National Accounts (hereinafter – NA) and Foreign Trade Statistics compilers (Central Statistical Bureau of Latvia – CSB). Regularly scheduled meetings were organised to deal with various issues related to Transversal reservation II.

The Rest of the World accounts compiled by the CSB is based on the BoP statistics compiled by Latvijas Banka. As BoP is a direct data source for RoW without any changes, results of the analysis are consistently implemented both in BoP and NA.

Tax authority is responsible for NR-VATT registration in Latvia. Information about all NR-VATT (including VAT identification number, company name and registration date) is publicly available from the open data of the tax authority.

### 2. Identification – monitoring system

In accordance with the Cooperation Agreement between Latvijas Banka and the CSB, Latvijas Banka receives individual International Trade in Goods Statistics (hereinafter – ITGS) data at the merchant level.

In the case of trade with EU countries, traders are included in the list of Intrastat respondents based on VAT data (VAT returns and recapitulative statements) provided

by the tax authority. The reporting unit for intra-EU trade statistics is identified by an individual identification number (VAT number).

For trade with non-EU countries, the Economic Operators Registration and Identification (EORI) number is used to identify exporters and importers. Unlike VAT registration, an economic operator can hold only one EORI number within the European Union, which must be used in all Member States where customs activities are carried out. For traders established in the EU, the EORI number is normally issued by the Member State in which the trader is established.

The CSB analysed transactions involving traders that are not established in Latvia, i.e. traders holding a non-LV EORI number. As a first step, the CSB examined whether the trader can be linked to VAT information using the company name. If a matching VAT registration is identified, the corresponding VAT number is used, which in Latvia are identifiable by a VAT number starting with the digit "9".

If no corresponding VAT registration can be identified, the transaction is further analysed to determine whether it relates to goods produced in or acquired in Latvia. Where it can be demonstrated that the transaction does not involve Latvian goods, it is classified as quasi-transit trade and excluded from ITGS data.

If the transaction is considered to be related to Latvian goods (produced in or acquired in Latvia), the nature of the exported goods is examined in order to assess their connection to Latvian economic activity. Peat exports provide a typical example: in most cases, peat exported from Latvia originates from extraction activities carried out within Latvian territory. Such transactions are therefore included in the ITGS data.

In cases where a non-resident trader cannot be linked to a specific VAT registration, the transaction is assigned to a common dummy identification code. This applies both to transactions that are proven to involve goods produced in or acquired in Latvia and to transactions for which there is insufficient evidence to classify them as quasi-transit trade.

In subsequent analysis, the VAT identification number or, where applicable, the dummy identification code is used to distinguish Latvian resident enterprises from non-resident traders. NR-VATT traders can be identified by VAT numbers starting with the digit "9", while non-resident traders without an identifiable VAT registration are represented by the dummy identification code. This makes it possible to separately monitor the activities of resident and non-resident traders and, where necessary, to regularly assess whether NR-VATT traders have reported export or import transactions in Intrastat declarations or customs data.

Additionally, tax authority **information about NR-VATT addresses** was used. The mentioned information allowed to verify whether the NR-VATT has a foreign address. In some cases when NR-VATT are permanent establishments in Latvia, address in Latvia is indicated. In such cases, all available internet resources were used to identify a link to the NR-VATT's country of residence. If no reliable information regarding the country of residence could be identified, the transaction was classified under **W2 Intra Euro Area not allocated**.

For transactions which were recorded under dummy category, the country of ITGS import/export was used.

### 3. Identification - data sources

ITGS is primary data source for identifying NR-VATT which operates in Latvia.

To solve transversal reservation and ensure BoP and NA statistics compliance with the ESA 2010 (following the ESA 2010 paragraph 3.162 "Imports and exports of goods occur when economic ownership of goods changes between residents and non-residents), Latvia decided to use **VAT statement data** as the main data source to exclude from the GDP compilation those transactions recorded in the ITGS that do not involve a change of economic ownership between a resident unit and a non-resident unit.

Latvijas Banka and the CSB carried out a joint comparative analysis of the NR-VATT National ITGS data and the transactions reported in VAT 1 Report.

I "Tax Amounts for the Goods Acquired and Services Received Inland" ("Regulation Regarding Value Added Tax Returns", <https://likumi.lv/ta/en/en/id/254279>; hereinafter – VAT 1).

In the VAT 1 all Latvia's NR-VATT (both residents and non-residents) indicate information about the goods and services purchased in the territory of Latvia indicating also the VAT registration number of the transaction partner. The following VAT 1 fields were used in the analysis:

- the name of transaction partner,
- the VAT registration number of the transaction partner,
- the type of transaction,
- value of goods or services without VAT (EUR).

## Report on the Amounts of the Input Tax and Tax Included in the Tax Return for the Taxation Period

### I. Tax Amounts for the Goods Acquired and Services Received Inland

1. VAT registration number of the registered taxable person LV

2. Period - for   0 (year)  (month)

☐ 1st quarter ☐ 2nd quarter ☐ 3rd quarter ☐ 4th quarter

\* Indicate the type of the transaction, using the following codes: **I** - importation, **A** - transaction with a registered taxable person or a registered taxable person of another Member State, **N** - transaction partner does not have a VAT registration number, **K** - compensation paid to a farmer, **Z** - bad debts, **R<sub>x</sub>** (where x - the digit designating the particular sector, for example, **R1** - transactions with timber, **R2** - transactions with scrap metal) - transactions made inland for which tax is paid by the recipient of goods and services, **C** - transactions related to the acquisition and importation of passenger cars, **M** - sale of property at an auction, **V** - transactions with one transaction partner that do not exceed EUR 150 for the total amount exceeding EUR 150, **T** - transactions not exceeding EUR 150.

\*\* Please indicate the type of the source document, using the following codes: **1** - tax invoice, **2** - cash register receipt or other receipt, **3** - non-cash payment document, **4** - credit note, **5** - other, **6** - customs declaration.

| Name of the transaction partner | VAT registration number of the transaction partner | Type of transaction* | Value of goods or services without VAT (EUR) | VAT (EUR) | Source document    |        |                 |
|---------------------------------|----------------------------------------------------|----------------------|----------------------------------------------|-----------|--------------------|--------|-----------------|
|                                 |                                                    |                      |                                              |           | type of document** | number | Date (dd.mm.yy) |
| 1                               | 2                                                  | 3                    | 4                                            | 5         | 6                  | 7      | 8               |
|                                 |                                                    |                      |                                              |           |                    |        |                 |
|                                 |                                                    |                      |                                              |           |                    |        |                 |

For the purposes of analysis, NR-VATT data were initially selected from the national ITGS data, including the commodity code (CPA) and the type of trade (Intrastat / Extrastat). Records associated with Nature of Transaction (NoT) codes 2, 3, 41, 42, 51, and 52 were excluded from the ITGS data in order to avoid overlap with the processing calculations and to prevent double counting of goods movement.

To carry out a comparative analysis of both – the export side and the import side – information from the VAT was selected in two ways:

- **Latvia's exports were assessed from non-resident side** – all VAT 1 data submitted by NR-VATT on goods that are purchased in the territory of Latvia from residents of Latvia, except where the field "type of transactions" is indicated by "I" (Importation) in the VAT 1,
- **Latvia's imports were assessed from resident side** – all VAT 1 data, where NR-VATT appear as counterparties for goods sold in the territory of Latvia by the residents of Latvia.

In addition to ITGS and VAT return data, several supplementary data sources were used to support the analysis of transactions and their allocation to CPA categories:

- **Business Register data** were used to identify the economic activity (NACE Rev. 2 classification) and institutional sector of transaction counterparties. This information provided the basis for assessing the nature of economic relationships between trading partners and supported the CPA allocation process.

- **CSB survey “Industrial Production by Product and Service” (1-rūpniecība; PRODCOM data)** was used to determine whether a NR-VATT transaction counterparty primarily manufactures products on its own account or provides industrial manufacturing services. This distinction was important for differentiating between goods production and manufacturing services.
- **Structural Business Statistics (SBS) surveys** — the *Complex Report on Activities (1-annual)* and the *Consolidated Report on Activities (1-annual consolidated)* — were used to analyse the business profile of NR-VATT transaction counterparties. In particular, the indicators “**Net Turnover**” (row 1210, column 1) and “**Turnover from the Sale of Goods Purchased for Resale**” (row 1217, column 1) were used to assess whether the NR-VATT counterparty was engaged in wholesale or retail trade activities and to evaluate the consistency between reported turnover and the transaction value.
- **Publicly available online sources and counterparties’ annual reports** were used in cases where the information available from administrative and statistical data sources was insufficient for analysis of NR-VATT transactions. Information from company websites, business descriptions, and published annual reports was used to identify the principal business activities of their transaction counterparties, as well as to obtain additional insights into the nature of transactions and products involved.

## 4. Creation of the Analytical Dataset

In the first step, all of the above-mentioned data sources were linked at the enterprise level to create a consolidated dataset for the NR-VATT analysis.

In the next step, an additional variable was created to determine whether a non-resident VAT payer most likely purchased a good or a service from a Latvian resident, based on the characteristics of the transaction partner.

The classification was performed according to the following rules:

1. If the transaction partner reported only **industrial manufacturing services** in the PRODCOM survey, the transaction was classified as a **service purchase**.
2. If the transaction partner reported both **industrial manufacturing services** and **manufacturing products on its own account**, the transaction was primarily classified as a **purchase of goods**.
3. If the transaction partner reported only **manufacturing products on its own account**, the transaction was classified as a **purchase of goods**.
4. If the transaction partner reported revenue from **Turnover from the Sale of Goods Purchased for Resale** in the SBS survey, the transaction was classified as a **purchase of goods**.
5. In all remaining cases, the classification was based on the transaction partner’s **NACE Rev. 2** activity code. If the partner operated in an industry predominantly associated with the provision of services, the transaction was classified as a **service purchase**. Otherwise, it was classified as a **purchase of goods**.

This approach was used to infer the most likely nature of the transaction (goods or services) when direct information on the type of transaction was not available. After then,

the goods/services classification derived from the algorithm was subject to manual validation. In cases where the analysis of individual observations suggested that the algorithm-based assignment did not adequately represent the actual nature of the transaction, the classification was adjusted accordingly. Therefore, the final classification may differ from the initially assigned category.

For transactions in which non-resident VAT payers supplied goods or services to Latvian residents, the classification as goods or services was based on the nature of the NR-VAT payer's economic activity, as reflected in its NACE Rev. 2 classification code, and on an assessment of the NR-VAT payer's actual business activities. Based on this analysis, each transaction was assigned to the category that most accurately reflected the likely nature of the supply.

## 5. Treatment of transactions of NR-VATT in the Latvia

Subsequently, all NR-VATTs included in the dataset were examined individually and assigned to a specific category based on the cases and classification criteria described in The International Trade by Non-Resident VAT Traders (NR-VATT) Methodological Guidance included in the Envisaged Transversal Reservations GNI document (Eurostat/C3/GNIG/235) and the ESA 2010 Methodological Note (2024 update).

The Methodological Note (2024 update) identifies a set of specific transaction flows that require adjustments to apply ownership change principle in National Accounts, and Balance of Payments statistics.

The methodological framework distinguishes between:

**flows to be excluded from ITGS** for NA / BOP purposes (Cases a, b and c), and

**flows to be included in NA / BOP** but not adequately captured by ITGS (Cases d, e, f, g and i).

However, the enterprise-level analysis revealed that, in the Latvian case, NR-VATT enterprises frequently operate through complex business models involving combinations of several transaction flows described in the methodological guidance. Consequently, many enterprises could not be assigned exclusively to a single methodological case. Instead, their activities often combined characteristics of several cases simultaneously, such as cases similar to quasi-transit trade, domestic purchases and sales, foreign purchases and sales, processing arrangements, and inverse merchanting operations.

To reflect these complexities, all NR-VATT enterprises were classified into 13 analytical case groups, with certain case groups further subdivided into analytical subgroups.

The groups included both the original methodological cases and combinations of several cases observed in practice. Additional sub-groups were created where specific economic activities or commodities required separate treatment or data analyse, particularly for enterprises trading alcoholic beverages, petroleum products (CPA 19), retail and e-commerce activities, financial leasing arrangements, and service-related transactions.

The final classification consisted of:

- stand-alone methodological cases (e.g. Cases a, d, e, f, g and i);
- combinations of exclusion and inclusion cases (e.g. Case a + Case d, Case a + Case e, Case b + Case d, Case c + Case e);
- combinations involving inverse merchandising and processing arrangements;
- specialised sub-groups reflecting commodity-specific transaction patterns (e.g. alcohol and CPA 19 products);
- residual and special-purpose groups, including enterprises with no transactions during the reference year and enterprises engaged primarily in domestic service purchases or sales with insignificant goods trade.

#### Case group 1- quasi -transit-like-trade flows

Case group 1 includes 6 subgroups. For all subgroups significant exports and imports is recorded in ITGS, exists both flows.

- Subgroup 1- Few or no transactions with Latvian resident enterprises identified in VAT return data
- Subgroup 2 - Part of import is sold to Latvia's resident enterprises, negligible purchases of goods from Latvia's enterprises in VAT returns
- Subgroup 3- Part of export/import are sold or purchased from/ to Latvia's resident enterprises, inverse transactions
- Subgroup 4- Part of export are purchased from Latvia's resident enterprises, almost no sales of goods to resident units in VAT returns data
- Subgroup 5- Exists transactions in VAT returns, but mainly related to purchase of services

Decision: Case group 1 was identified as representing quasi-transit-like trade flows. Consequently, the corresponding ITGS import, and export flows were excluded and replaced with goods purchases and sales transactions between the same non-resident VAT payer and resident units, derived from VAT return data.

#### Case group 2- quasi -transit-like-trade flows related to CPA 11 (alcohol)

Case group 2 includes 4 subgroups. The import/export in ITGS data are related to alcohol.

- Subgroup 1 Alcohol import and export, exists both flows
- Subgroup 2 Alcohol import or export, exist only one flow, mainly import flow
- Subgroup 3 Resident custom warehouse operator characterized by large CPA 11 export trade flows in ITGS, goods for resale for this enterprise are not recorded in SBS statistics
- Subgroup 4 Domestic sales after foreign purchase and inflow of goods

Decision: Case group 2 was identified as representing quasi-transit-like trade flows. Consequently, the corresponding ITGS import, and export flows were excluded and replaced with goods purchases and sales transactions between the same non-resident VAT payer and resident units, derived from VAT return data.

Subgroup 2 and Subgroup 3 are treated together, from subgroup 2 are excluded imports and exports ITGS data, the same amount which are recorded in import of Subgroup 2 is excluded from resident custom warehouse operator ITGS export data.

#### Case group 3- quasi -transit-like-trade flows related to CPA 19 (refined petroleum products)

Case group 3 includes one NR-VATT enterprise. Significant exports and imports of CPA 19 (refined petroleum products) recorded in ITGS. The import and export flows are symmetrical, indicating that imports and exports are of a similar magnitude. Few or no transactions with Latvian resident enterprises identified in VAT return data.

Decision: Case group 3 was identified as representing quasi-transit-like trade flows. Consequently, the corresponding ITGS import, and export flows were excluded and replaced with goods purchases and sales transactions between the same non-resident VAT payer and resident units, derived from VAT return data.

Case group 4- Flows related to CPA 19 (refined petroleum products) and notable transactions identified in VAT return data.

Case group 4 includes 3 subgroups. Exports and imports of CPA 19 (refined petroleum products) recorded in ITGS.

- Subgroup 1 Specific case involving a non-resident fuel trader (NR-VATT). Limited fuel import and export flows recorded in ITGS. VAT return data show substantial purchases from a Latvian resident fuel trader. The purchased fuel is subsequently sold to a related (daughter) Latvian resident company. The Latvian resident company reports the purchased fuel volumes in its annual financial statements in line with the values declared in VAT return data. Transaction values reported annual financial statements is recorded excluding excise duties and VAT.
- Subgroup 2 Specific case involving a non-resident fuel trader (NR-VATT). Imported fuel is subsequently sold to a related resident enterprise in Latvia. The value of fuel imports recorded in ITGS is substantially lower than the corresponding value reported in VAT return data. The resident enterprise reports the purchased fuel values in its annual financial statements in line with the VAT return data. Transaction values reported annual financial statements is recorded excluding excise duties and VAT.
- Subgroup 3 Specific case involving a non-resident fuel trader (NR-VATT). NR-VATT enterprise imports fuel products and sell it to other NR-VATT (the same group enterprise). Smaller part of import is also sold to domestic enterprises or exported after domestic purchase.

Decision: The corresponding ITGS import, and export flows were excluded and replaced with goods purchases and sales transactions between the same non-resident VAT payer and resident units, derived from VAT return data.

Case group 5- Domestic sales after foreign purchase and inflow of goods

Case group 5 includes 3 subgroups. Mainly imports of goods followed by sales to Latvian resident enterprises.

- Subgroup 1 Domestic sales after foreign purchase and inflow of goods. Imports and domestic sales. ITGS and VAT returns shows similar flows. The import value is significantly larger than export value.
- Subgroup 2 Domestic sales after foreign purchase and inflow of goods. Imports and domestic sales. ITGS and VAT returns shows similar flows. The import value is significantly larger than export value. Exists also inverse merchanting (purchase and sale from domestic enterprise).

- Subgroup 3 Domestic sales after foreign purchase and inflow of goods. Imports and domestic sales. ITGS and VAT returns shows similar flows. NR-VATT purchases negligible processing service from resident company.

Decision: The corresponding ITGS import, and export flows were excluded and replaced with goods purchases and sales transactions between the same non-resident VAT payer and resident units, derived from VAT return data.

#### Case group 6- Mainly domestic sales after foreign purchase and inflow of goods (retail sales, ecommerce)

Case group 6 represents Business-to-consumer (B2C) trade flows, primarily related to retail trade and e-commerce.

Decision: no adjustment was applied to ITGS data for the period 2018 – 2024. VAT return data were not used to replace the corresponding ITGS trade flows. This decision was taken because VAT return data may not fully capture purchases by private individuals from NR-VATT traders. In BoP and NA statistics, e-commerce imports and exports are compiled using payment card data. For 2018 – 2024, payment card data already included an adjustment eliminating e-commerce transactions from the original ITGS data to avoid double counting. Starting from reference year 2025, all transactions belonging to this group will be excluded from ITGS, while the corresponding adjustment currently applied to payment card data will be discontinued. This approach was adopted to avoid introducing methodological breaks and additional complexity into the historical time series.

No adjustments were made to ITGS data for the period 2018 – 2024, and VAT return data were not used to replace the corresponding ITGS trade flows. This approach was chosen because VAT return data may not fully capture purchases made by private individuals from NR-VATT traders.

In the Balance of Payments and National Accounts statistics, e-commerce imports and exports are compiled using payment card data. During 2018 – 2024, these data already incorporated an adjustment that removed e-commerce transactions from the original ITGS data to prevent double counting.

From the reference year 2025 onwards, all transactions belonging to this case group will be excluded from ITGS and replaced by purchases from VAT returns (purchases of goods by enterprises not individuals). At the same time, the corresponding adjustment currently applied to payment card data will be discontinued. This approach ensures methodological consistency over time while avoiding unnecessary breaks and additional complexity in the historical time series.

#### Case group 7- Provision of construction services

Case group 7 includes NR-VATT enterprises engaged in construction services (import and export).

Decision: ITGS trade flows were excluded. Only goods trade flows replaced by VAT-based purchases and sales from resident units.

#### Case group 8- CPA 06 natural gas storage

Case group 8 is a specific case involving one NR-VATT. The NR-VATT trader uses Latvian gas transmission and storage infrastructure. Most of the imported gas is

re-exported, while only limited quantities are sold in the domestic market to storage operator.

Decision: Identified as gas storage and trading activities. Previously assessed in BoP and NA statistics. Related import and export flows already are excluded from BoP and NA compilation. No further statistical adjustments required.

#### Case group 9- Inverse merchanting (financial leasing)

Case group 9 is a specific case involving one NR-VATT.

Capital goods in Latvia are imported by a related resident enterprise. The capital goods are subsequently transferred from a related resident enterprise to the NR-VATT enterprise and are then leased to resident enterprises. The transaction pattern is consistent with financial leasing arrangements. The NR-VATT enterprise is classified under NACE 64.19 (Other monetary intermediation), indicating that its primary activity is financing rather than trade in goods. Under the financial leasing arrangement, the ownership of the capital goods is ultimately transferred to the resident enterprises. Almost no transactions in ITGS data

Decision: ITGS trade flows were excluded. Goods trade flows replaced by VAT-based purchases and sales from resident units.

#### Case group 10 - Export-oriented manufacturing within an international enterprise group

Case group 10 is a specific case involving one NR-VATT. Specific case involving a global print-on-demand and e-commerce group.

Production activities are primarily carried out in Latvia, while a significant share of transactions takes place with a related enterprise established outside Latvia. VAT return data show substantial transactions between the Latvian enterprise and the related non-resident enterprise. The Latvian enterprise exports goods and production-related services to the related non-resident enterprise. Import and export flows reported by the non-resident enterprise in ITGS are relatively small compared with the value of transactions reported in VAT return data. The observed transaction pattern reflects the group's production and fulfilment business model, whereby production is concentrated in Latvia while sales activities are organised through related entities located abroad.

Decision: ITGS trade flows were excluded. Goods trade flows replaced by VAT-based purchases and sales from resident units.

#### Case group 11- Foreign sales and outflow of goods after domestic purchase

Case group 11 includes two subgroups. This case group is characterized by transactions in which an NR-VATT enterprise acquires goods from Latvian resident enterprises.

- Subgroup 1 The NR-VATT enterprises acquires goods from Latvian resident enterprises. The goods are subsequently exported.
- Subgroup 2 The NR-VATT enterprises acquires goods from Latvian resident enterprises. The goods are subsequently exported. Exist inverse transactions (purchases and sales from resident units)

Decision: ITGS trade flows were excluded. Goods trade flows replaced by VAT-based purchases and sales from resident units.

Case group 12- Negligible trade flows identified in either or both data sources, namely VAT return data and ITGS data

Case group 12 includes NR VATT enterprises with negligible transactions in either or both ITGS data and VAT returns. Small inverse transactions for some of NR VATT is also detected.

Decision: ITGS trade flows were excluded. Goods trade flows replaced by VAT-based purchases and sales from resident units.

Case group 13 – NR VATT not matched to any Latvian VAT registration number (dummy category)

Case group 13 includes NR-VATT enterprises that could not be matched to any Latvian VAT registration number. Consequently, VAT return data are unavailable for this group. All such enterprises are included in the ITGS dataset under a separate category with a dummy registration code.

ITGS data were analysed at the 6-digit CPA product level to better understand the economic activities of these enterprises in Latvia.

Decision: Following the analysis, all ITGS records were excluded where import and export flows at the 6-digit CPA product level were broadly comparable. These product groups were considered to represent quasi-transit-like trade transactions, as both import and export flows were observed for the same product group.

Product groups with only import flows, only export flows, or highly asymmetric flows were analysed separately. A flow was considered highly asymmetric when the difference between imports and exports exceeded EUR 4 million.

For animal feed products (CPA 10), the analysis indicated that the goods were imported into Latvia by an unidentified NR-VATT enterprise and subsequently exported by a different, identified NR-VATT enterprise. These records were therefore excluded, as the corresponding transactions involving identified NR-VATT enterprises had already been addressed in other case groups.

A separate case involved substantial peat exports. ITGS experts confirmed that the exported goods were peat of Latvian origin; therefore, these records were retained in the ITGS dataset.

All remaining cases with highly asymmetric flows at the 6-digit CPA level, where the difference between imports and exports exceeded EUR 4 million, were retained in the ITGS dataset, as there was insufficient evidence to conclude that the goods were subsequently imported into or exported from Latvia.

Table 2 below presents the NR-VATT groups and the corresponding quantitative results. The table includes all data derived from VAT returns and external trade statistics on goods imports and exports. The totals do not match the final revision amount, as they also include cases for which calculated adjustments were subsequently not incorporated into the final revision, for example, includes also data for Case group 8. For information purposes, the table also includes estimates of exports and imports of services derived from VAT returns.

Table 1. ITGS and VAT Return Data by NR-VATT Case Group, 2023 in thousand EUR

| Case group    | Data from VAT returns |                  | Data from ITGS   |                  | Impact on net exports of goods | VAT returns data    |                     |
|---------------|-----------------------|------------------|------------------|------------------|--------------------------------|---------------------|---------------------|
|               | Exports of goods      | Imports of goods | Exports of goods | Imports of goods |                                | Exports of services | Imports of services |
| Case group 1  | 73 382                | 76 875           | 657 441          | 430 606          | -230 328                       | 3 670               | 2 089               |
| Case group 2  | 870                   | 351              | 186 290          | 168 002          | -17 768                        | 129                 | 991                 |
| Case group 3  | 2                     | 0                | 66 774           | 63 634           | -3 138                         | 29                  | 0                   |
| Case group 4  | 207 408               | 542 869          | 49 300           | 238 787          | -145 975                       | 2                   | 0                   |
| Case group 5  | 25 360                | 212 943          | 43 684           | 157 521          | -73 747                        | 3 550               | 1 163               |
| Case group 6  | 42 220                | 6 244            | 52 617           | 141 227          | 124 586                        | 1 805               | 3                   |
| Case group 7  | 1 933                 | 0                | 0                | 6 711            | 8 644                          | 10 262              | 41 902              |
| Case group 8  | 0                     | 3 749            | 175 429          | 175 839          | -3 338                         | 898                 | 0                   |
| Case group 9  | 13 570                | 15 516           | 0                | 207              | -1 738                         | 1 931               | 0                   |
| Case group 10 | 16 337                | 103              | 2 425            | 0                | 13 809                         | 0                   | 0                   |
| Case group 11 | 273 132               | 24 987           | 321 293          | 58 724           | -14 424                        | 2 219               | 93                  |
| Case group 12 | 1 597                 | 4 355            | 1 768            | 444              | -4 082                         | 3 966               | 245                 |
| Case group 13 | 0                     | 0                | 47 946           | 128 592          | 80 646                         | 0                   | 0                   |
| <b>Total</b>  | <b>655 811</b>        | <b>887 991</b>   | <b>1 604 967</b> | <b>1 570 294</b> | <b>-266 853</b>                | <b>28 461</b>       | <b>46 485</b>       |

## 6. Assignment of CPA Classification Codes to NR-VATT Transactions

The reporting unit is a Latvian resident enterprise that imports goods from or exports goods to the country corresponding to the address declared by the NR-VATT trader.

CPA Rev. 2.1 classification codes were assigned to goods transactions following a multi-step procedure.

As a first step, transactions between Latvian resident enterprises and NR-VATT traders were classified according to the transaction type reported in the VAT return data. For both imports and exports, the CPA code was assigned based on the rules described in Table 2.

Table 2. Assignment of CPA codes according to the transaction type reported in VAT return data

| Transaction code in VAT returns (see picture VAT 1) | Description on VAT returns                            | CPA Rev 2.1.                                                                                                                                                                                                                             |
|-----------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| C                                                   | Passenger vehicle acquisition and import transactions | 2910                                                                                                                                                                                                                                     |
| R1                                                  | Supply of wood products and related services          | 16                                                                                                                                                                                                                                       |
| R2                                                  | Delivery of scrap metal and related services          | 3832                                                                                                                                                                                                                                     |
| R3                                                  | Construction-related services                         | If the first two digits of the transaction partner's NACE Rev. 2 code are 41, 42 or 43, the CPA code is assigned according to the transaction partner's NACE Rev. 2 activity. Otherwise, the transaction is assigned to CPA division 41. |

| Transaction code in VAT returns (see picture VAT 1) | Description on VAT returns                                                                  | CPA Rev 2.1.                                                                                                                                                                                                                         |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| R4                                                  | Supply of mobile phones, tablets, laptops, integrated circuits and game consoles            | 26                                                                                                                                                                                                                                   |
| R5                                                  | Supply of cereals and oilseed crops                                                         | 011                                                                                                                                                                                                                                  |
| R7                                                  | Supply of semi-finished products of ferrous and non-ferrous metals                          | If the first two digits of the transaction partner's NACE Rev. 2 code are 24 or 25, the CPA code is assigned according to the transaction partner's NACE Rev. 2 activity. Otherwise, the transaction is assigned to CPA division 24. |
| R6                                                  | Supply of raw precious metals, precious metal alloys and metals plated with precious metals | 244                                                                                                                                                                                                                                  |
| R8                                                  | Supply of consumer electronics and household electrical appliances                          | 27                                                                                                                                                                                                                                   |
| R9                                                  | Supply of construction materials                                                            | 23                                                                                                                                                                                                                                   |

In the next steps, transactions for which the transaction type could not be determined from the VAT return data CPA was assigned following such steps (see Table 3).

Table 3. Assignment of CPA codes if the transaction type is not reported in VAT return data

| Step | Flow                      | Condition                                                                          | CPA assignment rule                                                             |
|------|---------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 2    | NR-VATT purchases goods   | If transaction partner NACE Rev 2.1 (DP_NACE) belongs to predefined list (Annex A) | CPA = DP_NACE (4-digit level)                                                   |
| 2    | NR-VATT sold goods        | NR-VATT NACE belongs to predefined list (Annex A)                                  | CPA = NR-VATT NACE (4-digit level)                                              |
| 4    | NR-VATT purchases service | DP_NACE first two digits are not 45, 46 or 47 and NR-VATT acquires a service       | CPA = DP_NACE                                                                   |
| 5    | NR-VATT sold service      | NR-VATT NACE first two digits are not 45, 46 or 47 and NR-VATT sells a service     | CPA = NR-VATT NACE                                                              |
| 6    | NR-VATT purchases goods   | DP_NACE first two digits are 45, 46 or 47 and NR-VATT purchases goods              | CPA assigned using NRVATT's ITGS export structure (CPA Rev. 2.1, 6-digit level) |

| Step | Flow                             | Condition                                                                              | CPA assignment rule                                                                                                                                                                                       |
|------|----------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7    | NR-VATT sells goods              | NR-VATT NACE first two digits are 45, 46 or 47 and NR-VATT sells goods                 | CPA assigned using NR VATT's ITGS import structure (CPA Rev. 2.1, 6-digit level)                                                                                                                          |
| 8    | NR-VATT sells goods, services    | If still CPA is not assigned after all steps for case NR-VATT sells goods, services    | Most likely CPA assigned at 2-digit level after individual assessment of NR-VATT                                                                                                                          |
| 9    | NR-VATT acquires goods, services | If still CPA is not assigned after all steps for case NR-VATT acquires goods, services | Most likely CPA assigned at 2-digit level based on partner NACE (DP_NACE)                                                                                                                                 |
| 10   | The last step                    | If transaction value exceeds EUR 2 million in both flows                               | Transactions in both flows (purchases and sales) were reviewed individually. The CPA code was revised where necessary following a detailed assessment of the NR-VATT trader and the specific transaction. |

## 7. Mirror transactions

The possibility of mirror transactions was assessed as part of the analysis of non-resident VAT-registered (NR-VATT) enterprises. No evidence was found of material transaction flows involving resident entities registered for VAT in other Member States and engaged in economic activities outside Latvia.

## 8. Materiality assessment

Table 4 summarises the total value of import and export transactions that were excluded from ITGS data and replaced by VAT return data for all years covered by the reservation.

Table 4. Impact on Net exports of goods (export minus import), in thousand EUR

| Year                                  | 2018            | 2019            | 2020           | 2021            | 2022            | 2023            | 2024            | 2025            |
|---------------------------------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Included from VAT returns data</b> |                 |                 |                |                 |                 |                 |                 |                 |
| Exports of goods                      | 269 769         | 292 939         | 334 103        | 512 642         | 908 206         | 613 591         | 631 508         | 799 473         |
| Imports of goods                      | 353 019         | 344 016         | 346 520        | 594 408         | 1 010 482       | 877 998         | 871 101         | 841 604         |
| Net exports (C-D)                     | -83 249         | -51 078         | -12 416        | -81 766         | -102 276        | -264 408        | -239 593        | -42 131         |
| <b>Excluded from ITGS data</b>        |                 |                 |                |                 |                 |                 |                 |                 |
| Export of goods                       | -788 367        | -825 365        | -878 614       | -1 097 205      | -1 552 183      | -1 376 921      | -1 513 344      | -1 637 097      |
| Import of goods                       | -687 764        | -697 399        | -823 369       | -947 536        | -1 132 716      | -1 253 228      | -1 365 619      | -1 431 285      |
| Net exports                           | -100 603        | -127 966        | -55 245        | -149 669        | -419 467        | -123 694        | -147 725        | -205 812        |
| Total impact on Net export of goods   | <b>-183 853</b> | <b>-179 044</b> | <b>-67 661</b> | <b>-231 435</b> | <b>-521 743</b> | <b>-388 101</b> | <b>-387 317</b> | <b>-247 943</b> |

To maintain balance in GDP at the 2-digit CPA product level, offsetting adjustments were made to other expenditure-side GDP components, affecting Household Final Consumption Expenditure and Changes in inventories.

The decision on whether to adjust household consumption expenditure or changes in inventories was based solely on an analysis of balancing adjustments introduced during the Supply and Use Tables (SUT) balancing process in previous years.

As a result of resolving this GNI reservation, GDP from the production approach and Gross National Income were not affected. In table 5 are shown impact on GDP aggregate at 2-digit CPA level for 2023.

Table 5. Impact of adjustments caused by corrected treatment of NR-VATT transactions on Expenditure approach aggregates, CPA Rev 2.1, 2023, thousand EUR

| CPA | Correction<br>Exports of<br>goods | Correction<br>Import of<br>goods | Net exports<br>of goods | Counter-<br>adjustment to P3<br>S14 | Counter-<br>adjustment to<br>P52 |
|-----|-----------------------------------|----------------------------------|-------------------------|-------------------------------------|----------------------------------|
| 01  | -129 850                          | -89 796                          | -40 054                 | 40 054                              | 0                                |
| 02  | -9 851                            | -229                             | -9 622                  | 0                                   | 9 622                            |
| 03  | 12                                | 0                                | 12                      | 0                                   | -12                              |
| 05  | -4 681                            | 0                                | -4 681                  | 0                                   | 4 681                            |
| 07  | -142                              | 0                                | -142                    | 0                                   | 142                              |
| 08  | -1 779                            | -29                              | -1 750                  | 0                                   | 1 750                            |
| 10  | -132 498                          | -95 237                          | -37 262                 | 0                                   | 37 262                           |
| 11  | -181 592                          | -163 628                         | -17 964                 | 17 964                              | 0                                |
| 13  | -4 160                            | -2 131                           | -2 029                  | 2 029                               | 0                                |
| 14  | -90 761                           | -86 600                          | -4 161                  | 4 161                               | 0                                |
| 15  | -55 718                           | -56 113                          | 395                     | -395                                | 0                                |
| 16  | -3 515                            | -24 584                          | 21 069                  | 0                                   | -21 069                          |
| 17  | -21 539                           | -41                              | -21 497                 | 21 497                              | 0                                |
| 18  | 16 692                            | 187                              | 16 504                  | -16 504                             | 0                                |
| 19  | 139 790                           | 286 764                          | -146 974                | 146 974                             | 0                                |
| 20  | -86 916                           | -33 316                          | -53 601                 | 26 800                              | 26 800                           |
| 21  | -45 604                           | -48 432                          | 2 828                   | 0                                   | -2 828                           |
| 22  | -12 466                           | -10 034                          | -2 432                  | 2 432                               | 0                                |
| 23  | -2 990                            | -2 441                           | -549                    | 0                                   | 549                              |
| 24  | -4 335                            | 6 173                            | -10 508                 | 0                                   | 10 508                           |
| 25  | 6 005                             | -7 433                           | 13 438                  | -13 438                             | 0                                |
| 26  | -11 426                           | -5 660                           | -5 766                  | 0                                   | 5 766                            |
| 27  | -21 821                           | -26 930                          | 5 109                   | 0                                   | -5 109                           |
| 28  | -59 651                           | -2 977                           | -56 675                 | 56 675                              | 0                                |
| 29  | -27                               | 3 864                            | -3 890                  | 0                                   | 3 890                            |
| 30  | -2 652                            | 369                              | -3 021                  | 3 021                               | 0                                |
| 31  | -11 563                           | -693                             | -10 870                 | 0                                   | 10 870                           |
| 32  | -29 236                           | -15 327                          | -13 909                 | 13 909                              | 0                                |
| 35  | 133                               | 0                                | 133                     | -133                                | 0                                |
| 38  | -767                              | -671                             | -96                     | 0                                   | 96                               |

| CPA                    | Correction<br>Exports of<br>goods | Correction<br>Import of<br>goods | Net exports<br>of goods | Counter-<br>adjustment to P3<br>S14 | Counter-<br>adjustment to<br>P52 |
|------------------------|-----------------------------------|----------------------------------|-------------------------|-------------------------------------|----------------------------------|
| 58                     | -339                              | -270                             | -70                     | 70                                  | 0                                |
| 59                     | -55                               | -2                               | -53                     | 53                                  | 0                                |
| 90                     | -27                               | -13                              | -14                     | 14                                  | 0                                |
| <b>Grand<br/>Total</b> | <b>-763 331</b>                   | <b>-375 229</b>                  | <b>-388 101</b>         | <b>305 182</b>                      | <b>82 919</b>                    |

In the final step, BoP compilers recalculated the CIF-FOB coefficients, as the NR-VATT treatment adjustments significantly affected the values of goods imports and exports.

The CIF-FOB adjustment is shown in table 7 below.

Table 7. Changes in CIF-FOB following NR-VATT treatment adjustments, thousand euro

| EXPENDITURE APPROACH          | code<br>ESA<br>2010 | 2018  | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
|-------------------------------|---------------------|-------|--------|--------|--------|--------|--------|--------|
| Exports of goods and services | P6                  | 9 372 | 10 353 | 11 245 | 12 947 | 16 292 | 17 111 | 18 366 |
| Imports of goods and services | P7                  | 9 372 | 10 353 | 11 245 | 12 947 | 16 292 | 17 111 | 18 366 |

Table 6 presents the impact of the solving of the GNI reservation on the expenditure-side components of GDP, including Household Final Consumption Expenditure and changes in inventories, for all years covered by the reservation.

Table 6. Impact on GDP expenditure approach aggregates, thousand Euro

| EXPENDITURE APPROACH                    | code ESA<br>2010 | 2018     | 2019     | 2020     | 2021     | 2022     | 2023     | 2024     |
|-----------------------------------------|------------------|----------|----------|----------|----------|----------|----------|----------|
| Total final consumption expenditure     | P3               | 87 617   | 83 812   | 49 867   | 149 805  | 463 957  | 305 182  | 275 602  |
| Household final consumption expenditure | P3               | 87 617   | 83 812   | 49 867   | 149 805  | 463 957  | 305 182  | 275 602  |
| Gross capital formation                 | P5               | 96 236   | 95 232   | 17 794   | 81 630   | 57 786   | 82 919   | 112 129  |
| Changes in inventories                  | P52              | 96 236   | 95 232   | 17 794   | 81 630   | 57 786   | 82 919   | 112 129  |
| Exports of goods and services           | P6               | -509 226 | -522 073 | -533 265 | -571 616 | -627 684 | -746 219 | -868 250 |
| Imports of goods and services           | P7               | -325 374 | -343 029 | -465 604 | -340 181 | -105 941 | -358 118 | -480 520 |
| Gross domestic product (ESA2010)        | B1*G             | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Gross national income (ESA2010)         | B5*G             | 0        | 0        | 0        | 0        | 0        | 0        | 0        |

All results of the reservation resolution were incorporated into the GDP data on 30 September 2026.

## Annex A. Predefined list of industries with direct NACE-CPA correspondence

For the following NACE Rev. 2 classes, CPA Rev. 2.1 was assigned directly from the corresponding 4-digit NACE code:

0111, 0113, 0119, 0124, 0125, 0126, 0129, 0130, 0141, 0142, 0143, 0144, 0145, 0146,  
0147, 0149, 0150, 0161, 0162, 0210, 0220, 0240, 0311, 0811, 0812, 0892, 0990, 1011,  
1012, 1013, 1020, 1031, 1032, 1039, 1041, 1051, 1052, 1061, 1062, 1071, 1072, 1082,  
1083, 1084, 1085, 1086, 1089, 1091, 1092, 1101, 1103, 1105, 1106, 1107, 1310, 1320,  
1330, 1391, 1392, 1393, 1394, 1399, 1412, 1413, 1414, 1419, 1431, 1439, 1512, 1520,  
1610, 1621, 1622, 1623, 1624, 1629, 1711, 1712, 1721, 1722, 1723, 1724, 1729, 1812,  
1813, 1910, 1920, 2011, 2013, 2014, 2015, 2016, 2020, 2030, 2041, 2042, 2051, 2052,  
2053, 2059, 2060, 2110, 2120, 2211, 2219, 2221, 2222, 2223, 2229, 2312, 2314, 2319,  
2320, 2332, 2341, 2342, 2351, 2361, 2362, 2363, 2364, 2365, 2369, 2370, 2399, 2410,  
2420, 2433, 2444, 2445, 2451, 2454, 2511, 2512, 2521, 2529, 2540, 2550, 2561, 2562,  
2572, 2573, 2591, 2592, 2593, 2594, 2599, 2611, 2612, 2620, 2630, 2640, 2651, 2660,  
2670, 2711, 2712, 2731, 2732, 2733, 2740, 2751, 2752, 2790, 2812, 2813, 2814, 2822,  
2823, 2825, 2829, 2830, 2849, 2891, 2893, 2896, 2899, 2910, 2920, 2931, 2932, 3011,  
3012, 3020, 3030, 3091, 3092, 3101, 3102, 3103, 3109, 3212, 3213, 3220, 3230, 3240,  
3250, 3291, 3299, 3511, 3512, 3514