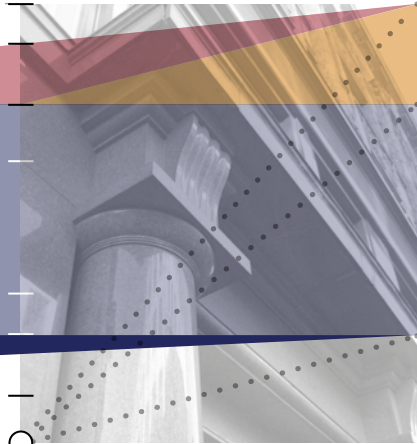




Treasury
Republic of Latvia

The Treasury Public Report for 2015



Contents

<i>Abbreviations Used in the Report</i>	3	2.4. Central Government Debt Portfolio Management	18	4.4. Functions of the Paying Authority within the Latvian-Swiss Cooperation Programme	26
The Treasurer's Statement	4	2.5. State-Issued Guarantees	19	4.5. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Instrument	26
The Operational Strategy of the Treasury for 2014-2016	5	2.6. Performance Indicators of the Operational Targets for Central Government Debt Management as Defined in the Operational Strategy of the Treasury	20	4.6. Function of the Paying Authority in the 2004-2006 Programming Period	26
Legal Status and Structure of the Treasury	6			4.7. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance	26
Activities of the Treasury in 2015					
1. Implementation of the Central Government Budget		3. Cash and State Loan Management		5. Governance of the Treasury as a Public Administration Institution	
1.1. Operational Principles and Areas of Development	8	3.1. Operational Principles and Areas of Development	21	5.1. Funding of the Treasury and the Spending Thereof	27
1.2. Organisation of the Implementation of the Central Government Budget in 2015	8	3.2. Cash Management	21	5.2. Personnel and Personnel Management	39
1.3. Development of the Services and Information Systems of the Treasury	9	3.3. State Loan Management	21	5.3. Quality, Risk and Information Security Management	40
1.4. Performance indicators of the Operational Targets for Central Government Budget Implementation as Defined in the Operational Strategy of the Treasury	11	3.4. Performance Indicators of the Operational Targets for Cash and State Loan Management as Defined in the Operational Strategy of the Treasury	23	5.4. Internal Control System	41
2. Central Government Debt Management		4. Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance		Public Communication	42
2.1. Operational Principles and Areas of Development	12	4.1. Operational Principles and Areas of Development	24	The Treasury's Development Priorities for 2016	43
2.2. Structure, indicators and changes of the Central Government Debt	13	4.2. Functions of the Certifying and Paying Authority in the 2007-2013 Programming Period	24		
2.3. Central Government Borrowing Management	14	4.3. Functions of the Certifying Authority in the 2014-2020 Programming Period	25		

Abbreviations Used in the Report

ERDF	European Regional Development Fund
EU	European Union
ESF	European Social Fund
EUROSTAT	Statistical Office of the European Union
GDP	Gross Domestic Product



Units of Measurement

EUR	<i>euro</i> , the official currency unit of the EU
-----	--

Translation by SIA SkrivaneK Baltic

© In the case of reproduction or quotation, a reference to the Treasury as the source of the data must be provided.

The data included in this publication may be adjusted in subsequent publications.
The Treasury bears no liability for losses incurred as a result of using this publication.
This document may not be copied, distributed for any commercial purposes,
or published in any other way without the consent of the Treasury.

© Design: SIA "Dizaina stratēģija"
© Photo: Valts Kleins (portrait)

The nonstandard situation that formed in the financial markets in 2015, which was determined by the unprecedentedly expansive monetary policy of the European Central Bank, had a significant impact on the Treasury's functions in the field of central government debt and cash management, as well as in the field of central government budget implementation. The measures carried out by the European Central Bank for the stimulation of Europe's economy, including the fixing of negative short-term deposit rates and the implementation of the public sector asset purchase programme, facilitated the fall of the euro base rates to the lowest levels in history, as well as promoted a substantial decrease of the credit risk premium of Latvia and other states of the eurozone.

The implementation of strategically planned borrowing measures, as well as the operative use of the financial market's unique opportunities, allowed the Treasury to reach nationally significant results in central government debt management and decrease the central government debt servicing costs in the medium term.

In September 2015, 10-year bonds in the amount of EUR 500 million were issued in the international financial markets with the historically lowest coupon rate of 1.375% per year, thus attesting to the international investors' high assessment of Latvia's creditworthiness. The stabilisation of the state's credit rating within the "A" rating group attracted new investors who invest only in the safest securities of developed countries with lower rate levels.

At the end of 2015, in order to capitalise on the benefits from the unique situation in the financial markets, with differences in Latvia's credit risk premium in euros and US dollars being present, the Treasury partially repurchased the bonds issued in US dollars and maturing in 2020 and 2021, refinancing them with new Eurobonds with similar terms. By carrying out these operative measures at such a convenient time, it was possible to significantly decrease the costs of central government debt servicing in the medium term, as well as the carried out set of transactions was noted

internationally as the first central government debt refinancing transaction of its kind in Central and Eastern Europe, serving as an example for other states when carrying out similar transactions.

In 2015, the Treasury continued to carry out regular auctions of central government domestic debt securities and bonds in the domestic financial market. The large competition between investors at all auctions, as well as the measures of monetary stimulation carried out by the European Central Bank, facilitated the raising of resources within the domestic financial market with the historically lowest costs, fixing negative rates in the issuing of domestic government T-bills for the first time in the history of Latvia.

In order to ensure effective cash and liquidity management in the current nonstandard financial market situation, with the option to raise short-term resources with negative interest rates and limited possibilities to reallocate resources with positive profitability in the short term being present at the same time, the Treasury carried out the necessary preparatory work for the implementation of a new short-term borrowing instrument – T-bills with 21-day maturity – within the scope of liquidity management starting with 2016. The issue and maturity terms of 21-day T-bills are specifically coordinated with the cycle of implementation of the central government budget within the respective month, allowing the raised resources to be used exactly when necessary.

In 2015, by focusing on the availability of quality services at a technologically high level, the Treasury optimised the central government budget implementation processes, carried out the necessary measures to stabilise, secure and ensure the continuity of the operations of information systems supporting the services of the Treasury, as well as modernised the data communication formats used in the systems. In order to improve the central government budget management, accounting and control process, a new political initiative – "Development of Latvia's public sector

accounting guidelines and their implementation manual (2015–2018)" – was started, and its realisation will ensure the harmonisation of the accounting and report preparation requirements of the public sector of Latvia with international standards.

The Treasury continued to carry out the functions of the certifying authority for the EU Cohesion policy funds of the 2014–2020 programming period, therefore the preconditions for receiving the resources of these funds from the European Commission were fulfilled in 2015 by developing a certifying authority management and control system and receiving a positive assessment from an audit body.

In 2015, the Treasury started transitioning its management system towards the ISO 9001:2015 international standard version, and in February 2016, as the audit of the Treasury's quality management system came to a successful conclusion, the Treasury became the first public administration institution to be certified according to the requirements of the new standard. The management of the Treasury truly appreciates and expresses gratitude to every employee of the Treasury for their professional attitude during work and for their interest in the adjustment and development of the institution's processes.



Treasurer
Kaspars Āboliņš
Rīga, 25 April 2016



The Operational Strategy of the Treasury for 2014-2016

The ultimate strategic objective of the Treasury is to be an institution that is dynamic, modern and geared towards perfecting the quality of the services it provides, and one that efficiently and securely administers and monitors the process of public financial management in accordance with the best financial management practices to serve the interests of the State and its residents.

The Operational Strategy of the Treasury defines the following operational directions for the Treasury:

- 1) implementation of a central government budget that is focused on ensuring an effective and economical central government budget implementation process and improving the services provided by the Treasury in accordance with the best financial management practices;
- 2) central government debt management through securing the necessary financial resources with more favourable terms, limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common market of the Eurozone, as well as ensuring the implementation of state guarantee process;
- 3) cash and state loan management by securing a financially effective and secure cash management, limiting and monitoring financial risks, securing the necessary liquidity for the government to timely and fully meet its financial commitments, and ensuring a state lending process that serves the interests of the State;

- 4) performance of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance by organising and standardising the performance of the functions of the Paying and Certifying Authority in a manner that ensures compliance with the requirements of the granting institutions and regulatory enactments of the Republic of Latvia, the timely receipt of funds from the granting institutions and that minimises the acceptable risk for the inclusion of ineligible expenditures in the expenditure declarations and reports.

In pursuing its strategic objectives, the Treasury observes unified institutional operating principles in:

- 1) quality and risk management;
- 2) personnel management;
- 3) the internal control system;
- 4) the application of information technology and information security;
- 5) ensuring the lawfulness and legality of procedures;
- 6) institutional administration;
- 7) institutional communication.

The main priorities of the Strategy are as follows:

- 1) effective human resource management, whereby employee development and their involvement in the accomplishment of the Treasury's objectives are encouraged at all levels;
- 2) ensuring access to the services provided by the Treasury at a high-standard and conforming to the latest developments in the information technology area level, exploiting the resource optimisation opportunities they afford;
- 3) effective, economical, fast and secure administration and monitoring of public financial management processes in accordance with the interests of the State and its residents.

Legal Status and Structure of the Treasury

The Treasury is a direct administration institution subordinated to the Ministry of Finance. Its operational goal is the effective implementation of public administration functions in the area of public finance management.

The operations of the Treasury are managed by the Treasurer. The Treasurer is appointed and removed from office by the Minister of Finance.

The Treasury has the following functions:

- 1) organising the implementation and financial accounting of the central government budget;
- 2) allocating expenditure and effecting payments from central government budget revenue;
- 3) management of central government debt;
- 4) the functions of the Paying and Certifying Authority for EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism laid down in the regulatory enactments and the National Fund functions delegated by the National Authorising Officer;
- 5) other functions prescribed by the regulatory enactments.

The legal status, functions, tasks, competence and rights of the Treasury are stipulated by Cabinet Regulation No.677 of 3 August 2004 "Regulation of the Treasury". The structure and operational organisation of the Treasury is established by the Rules of Procedure of the Treasury, issued on 20 February 2012 (on 6 February 2015 new Rules of Procedure of the Treasury were issued).

In order to limit the financial risks to the maximum extent possible, the structure of the Treasury has been based on the principle of segregation of functions (according to the best practices of financial institutions and European debt management bodies):

- 1) client service and financial transactions;
- 2) financial risk management;
- 3) payments, accountancy and reports.

To ensure unified decision-making, the following committees remained active in 2015:

Audit Committee – to facilitate the effective implementation of the internal control function at the Treasury and to improve the internal control system established by the Treasury with a view to ensuring the accomplishment of the Treasury's strategic objectives, safeguarding its resources, and establishing and maintaining effective control measures.

Committee for the Management of Information System Changes – to ensure a coordinated review and execution of requests for changes to the Treasury's information systems.

Credit Committee – to facilitate efficient work regarding matters related to the issuing, servicing and managing of state loans and state guarantees, as well as in the area of credit risk management of the Treasury's counter-parties, and in the area of credit risk management of mediators of security purchasing transactions and mediators of security issuing cash payments.

Crisis Management Committee – to ensure the continuity of the Treasury's operations, efficient coordination of actions and resources in a situation of operational crisis in the Treasury, fulfilment of the Treasury's functions and restoration of operations as quickly as possible by simultaneously preventing the risk of a bad image.

Quality and Risk Management Committee – to ensure the achievement of the strategic objectives of the Treasury, continuous improvement of the institution's performance and service conformity to the interests of the State and its residents, as well as the needs of clients, by implementing efficient quality management, risk management and information security management.

Debt Management Committee – to facilitate effective work and decision-making in the area of central government debt management.

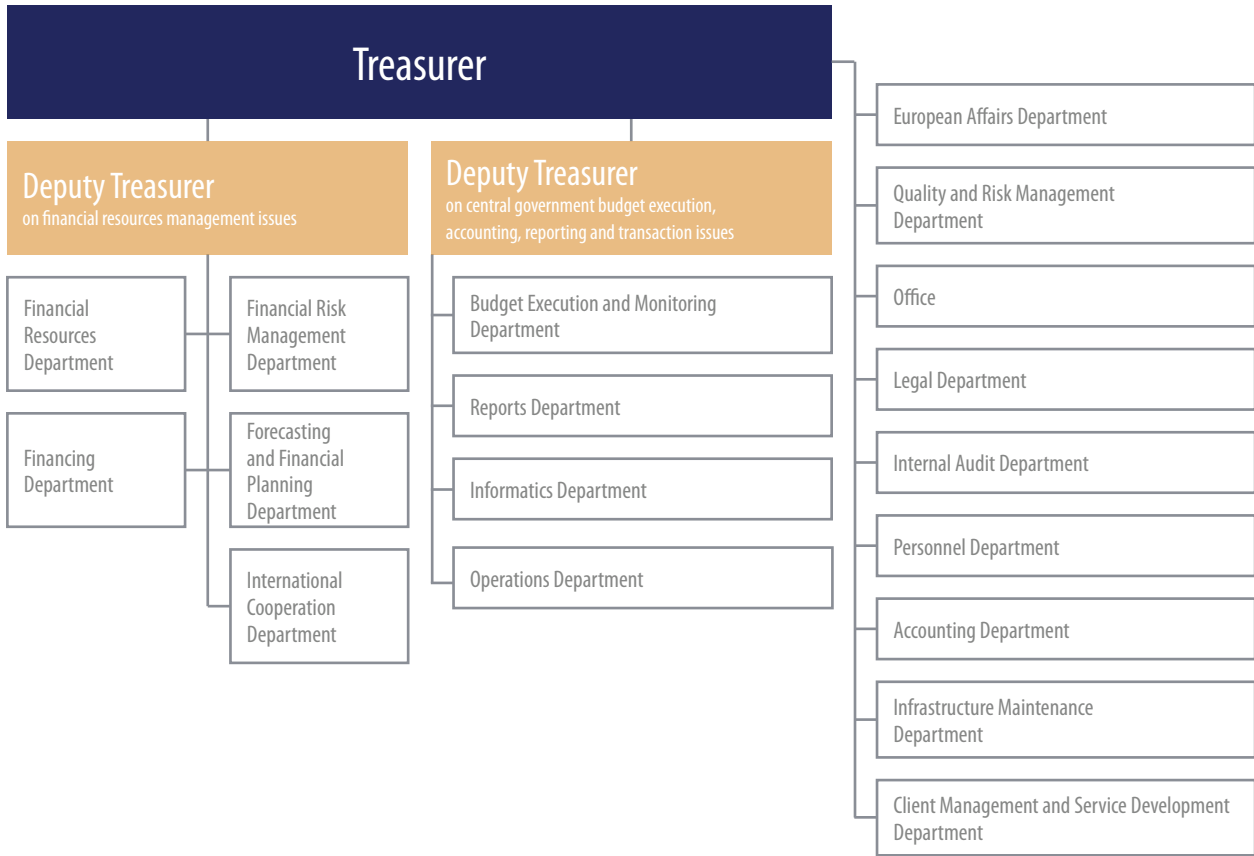
Resource Liquidity Committee – to promote secure and effective cash management in accordance with the Treasury's Cash Management Strategy.

Management Committee – to ensure the effective management of the Treasury's staff and financial resources with a view to accomplishing the objectives defined in the Operational Strategy of the Treasury.

Central Government Budget Accounting Committee – to organise the implementation and updating of the Treasury's central government budget financial accounting policy and to ensure an effective accounting policy change management.

Legal Status and Structure of the Treasury

Organisational chart of the Treasury



Activities of the Treasury in 2015

1. Implementation of the Central Government Budget

1.1. Operational Principles and Areas of Development

In accordance with the Law on Budget and Financial Management, the Treasury, as a direct administration institution subordinate to the Ministry of Finance, has been tasked with organising the implementation and financial accounting of the central government budget, granting expenditure allocations, and executing budget institution payments within the limits of the appropriations specified in the annual central government budget.

In implementing the central government budget, the Treasury maintains a Comprehensive Central Government Budget Planning and Implementation System, which ensures a full government budget management cycle – from budget planning (including the preparation of the annual central government budget project and its amendments – this function is realised by the Ministry of Finance) to implementation and implementation monitoring (including the accounting of central government budget revenue, opening of accounts for state budget institutions and institutions financed by the budget, allocation of expenditures and issuing of grants from the general revenue on the basis of appropriations in the annual central government budget and financing plans registered with the Treasury, processing and execution of payment orders from the Treasury clients by using the electronic budget payments system eKase), as well as provides information on taxes and duties paid, as well as other payments received in the central government budget to the bodies administering the government budget payments.

With a view to ensuring the uniform accounting of public finances, the Treasury drafts legislation concerning accounting at central and local government budget institutions by defining uniform accounting principles and methods, a single chart of accounts and a reporting system that is based on the classifications of financial information approved by the Cabinet, thus enabling the obtaining of quality information regarding the implementation of the central government budget both under the cash flow principle and the accruals principle. The aggregation of reports submitted by

central and local government budget institutions is ensured by ePārskati (eReports), the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, which is not only used by the Treasury, but also by the Ministry of Finance, the State Audit Office, the Bank of Latvia, the Central Statistical Bureau and other public administration authorities.

The Treasury has to ensure the performance of the financial commitments of the Republic of Latvia, making timely and full annual membership contributions to international financial organisations on behalf of the Republic of Latvia and payments into the capital and/or reserves of the international financial institutions in which the Republic of Latvia holds capital shares, thus ensuring that the commitments assumed by the State are met.

Under the procedure laid down in the regulatory enactments, the Treasury disburses compensation to rehabilitated citizens and ensures the transfer of grants from the state budget to the local government financial equalisation fund.

1.2. Organisation of the Implementation of the Central Government Budget in 2015

1.2.1. Granting and Implementing Expenditure Allocations

In 2015, the Treasury allocated expenditures worth EUR 8,273.46 million towards the implementation of the central government budget, which included EUR 5,952.87 million for the general budget and EUR 2,320.59 million for the special budget. Allocations were granted to 190 state budget institutions.

In 2015, 1,973 general budget expenditure accounts were opened. Compared to 2014, the number of accounts decreased by 364 accounts, which was due to the fact that the 2007-2013 EU fund programming period came to a conclusion, whereas the implementation of the projects of the new programming period has not yet been fully started. Due to this factor, the number of current accounts increased by

only 193 accounts in comparison to 2014 and reached 9,154. With the overall volume of donations and gifts continuing to decline, the number of accounts opened by budget institutions to account for the donated funds fell by 4% – there were 124 accounts opened.

1.2.2. Accounting and Reporting

Pursuant to the regulatory enactments, the Treasury prepares official daily, monthly and quarterly reports and the Annual Report on the Central Government and Local Government Budget Implementation (the monthly reports are available on the Treasury's website, the Annual Report on the Central Government and Local Government Budget Implementation is published on the Treasury's website upon receiving the opinion of the State Audit Office). The Treasury ensures that the consolidated annual report of ministries, central government institutions, state budget institutions, derived public persons partially financed from the central government budget and local governments is published on its website.

The Treasury prepares the Annual Report on Central Government and Local Government Budget Implementation by consolidating the information from the annual reports submitted by the ministries, central government institutions and local governments. The structure and scope of the annual report is prescribed by the Law on Budget and Financial Management and the Cabinet Regulation regarding the procedures for preparing an Annual Report. In 2015, the Annual Report on the performance in 2014 was prepared by consolidating the consolidated annual reports submitted by 13 ministries, 15 central government institutions and 119 local governments. The consolidated annual report of ministries and central government institutions comprises the annual reports of state budget institutions, derived public persons partially financed from the central government budget and institutions not financed from the central government budget, while the consolidated annual report of local government budget comprises the annual reports of local government budget institutions and joint local government institutions¹.

¹ To address common tasks, local governments can establish joint institutions upon mutual agreement. Such institutions operate on the basis of bylaws approved by the respective local councils. The bylaws prescribe the competence of a joint local government institution, the procedures of financing, monitoring and liquidation thereof, and the procedures by which withdrawal from the institution takes place, as well as other matters pertaining to the operation of the joint local government institution (e.g., construction board, regional municipal police, etc.).

1. Implementation of the Central Government Budget

The Annual Report audited by the State Audit Office is the most significant and credible source of information regarding the financial position of the State at the end of the reporting period and the results of the implementation of the central government budget in the reporting year. The opinion issued by the State Audit Office provides assurance that the report gives a true and fair view of the completeness and credibility of the information disclosed in the reports and the quality of the information included in the Annual Report, the users whereof are the Saeima (the Parliament), the Bank of Latvia, various international institutions (European Commission, EUROSTAT, International Monetary Fund and international rating agencies), and potential investors who decide on potential investment in the economy of Latvia based on the information provided in the Annual Report.

In order to include uniform and comparable information in the Annual Report, the Treasury develops and updates the regulatory enactments governing the accounting and reporting of budget institutions.

In order to ensure compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, including amendments to regulatory enactments, as well as detailed explanations, thus providing true, comparable and comprehensible information in the Annual Report, the Treasury organises informative seminars for the preparers of the reports. In 2015, 96.9% of participants of the Treasury's informative seminars assessed the possibility to receive explanatory information in such a manner positively.

A new political initiative – “Development of Latvia’s public sector accounting guidelines and their implementation manual (2015-2018)” – has been started, and its realisation will ensure the harmonisation of the accounting and report preparation requirements of the public sector of Latvia with the International Public Sector Accounting Standards, thus placing Latvia among countries in which financial reports are prepared according to the best international practice. In 2015, an agreement on consultations was concluded with experts of the respective field, differences between the requirements of the International Public Sector Accounting Standards and the regulatory enactments of the Republic of Latvia were identified, as well as the development of guidelines for the implementation of the respective standards within the laws and regulations of the Republic of Latvia was started.

1.3. Development of the Services and Information Systems of the Treasury

One of the priorities laid down in the Operational Strategy of the Treasury stipulates that the services provided by the Treasury must be available at a high standard and consistently with the latest developments in information technology, exploiting the resource optimisation capabilities provided by them, which also correspond with the guidelines brought forward by the state and approved by the results of national level studies on e-governing efficiency.

In 2015, by focusing on the availability of quality services at a technologically high level, the Treasury continued to invest in the information systems supporting the services of the Treasury: processes were optimised, the necessary measures to stabilise, secure and ensure the continuity of the operations of the information systems were carried out, as well as the data communication formats used in the systems were modernised. By providing electronic services, it has been possible to make the central government budget implementation process significantly more efficient – budget execution procedures have been standardised, the bureaucratic burdens of clients and residents have been reduced, and preconditions for the repeated use of information have been developed.

The first stage “Research and Preparation of Suggestions” of the project “Improvement of the Data Comparison Process with the Treasury’s Clients Regarding the Balance of Account and Budget Execution” was realised, and the necessary amendments were introduced to the Cabinet Regulations (it is planned to carry out the technical implementation of the project in 2016).

In 2015, the Treasury maintained and continued the development of the following services and information systems:

1.3.1. Comprehensive Central Government Budget Planning and Implementation Information System

The Comprehensive Central Government Budget Planning and Implementation Information System maintained by the Treasury ensures a full government budget management cycle: from budget planning to implementation to implementation monitoring:

- 1) the central government budget planning functionality ensures the processing of the central government budget and amendments thereto by aggregating data from ministries and central government budget institutions (this function is performed by the Ministry of Finance);
- 2) the central government budget implementation functionality ensures the process of the Treasury and central government budget institutions in the system, e.g., account creation, the granting and execution of expenditure allocations, the central government budget revenue process, the process of daily, monthly and annual closing, as well as the local government financial equalisation fund and personal income tax allocation process, etc. (this function is performed by the Treasury).

The Data Warehouse Section of the Comprehensive Central Government Budget Planning and Implementation Information System generates reports on the implementation of the central government budget according to the central government budget structure.

1.3.2. ePārskati, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments

ePārskati, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, is used for the management of the financial and budget implementation reports of budget institutions. The submitters of the budget institution reports submit their monthly, quarterly and annual reports to the Treasury and sign them electronically online in the *ePārskati* system, thus ensuring administrative and time savings. In 2015, there were 4,162 users registered in the system.

In 2015, the functionality of summary reports on budget implementation during the previous economic year to be harmonised was put into operation in the *ePārskati* system, thus providing a more convenient and safe harmonisation process between the Treasury and the ministries and central government institutions (moving from partial electronic circulation to a complete process provision in a single electronic environment).

1. Implementation of the Central Government Budget

1.3.3. *ePlāni*, the Financing Plan Processing Information System

Ministries or their subordinate bodies use the *ePlāni* system to prepare, approve and submit financing plan projects to the Treasury, on the basis of which allocations and grants are issued from the general revenue. In 2015, 441 users were registered and 9,395 general budget and special budget financing plans were processed in the system.

1.3.4. *eKase*, Budget Electronic Payment System

The Treasury renders payment services electronically, using the budget electronic payment system *eKase* and its Online Data Exchange Module. In 2015, clients made 4,557,421 report requests and sent 10,874,052 payment orders to be processed by using the Online Data Exchange Module.

In 2015, the project "Implementation of the XML Latvian National Standard in Data Exchange with Clients Related to Payments and Account Statements Correspondent with UNIFI (ISO 20022)" was realised (the use of which is prescribed by Regulation No. 260/2012 of the European Parliament and of the Council of 14 March 2012). Guidelines for the Treasury's exchange with payment data were developed within the scope of the project with ISO 20022 XML messages in the "client – bank" and "bank – client" stage, as well as the necessary changes were introduced in the Comprehensive Central Government Budget Planning and Implementation Information System and in the Budget Electronic Payment System *eKase*.

1.3.5. *e-Service for the Verification of the Payment Made to the Budget*

The section "Verification of a Payment Made to the Budget" on the Treasury's website www.kase.gov.lv provides the option for payers to verify whether the payment made by the payer has been received in the specified account of the government budget with the Treasury. In 2015, there were more than 25,000 requests for this e-service, which is 60% more than in 2014.

1.3.6. *Credit Cards Tied to Treasury Accounts*

In cooperation with AS *Swedbank*, the Treasury provides government budget institutions with the opportunity to use credit cards tied to Treasury accounts for

budget expenditures. Such credit card services are intended for covering expenses incurred by personnel on business trips and job-related travel and for business purposes: the employees of central government budget institutions have the option to make non-cash payments during their business trips, while complying with the requirement of the Law on Budget and Financial Management under which central government budget expenditures are to be made from accounts opened with the Treasury.

In 2015, the service of credit cards tied to Treasury accounts was used by 117 state budget institutions, and a total of 993 credit cards were issued to such institutions.

1.3.7. *Acceptance of Payment Cards in the Collection of Government Budget Payments*

The Treasury provides the payment card acceptance service (via AS *SEB banka* and AS *Citadele banka*) to those clients that are institutions administering budget payments and collecting budget payments from private persons. They are provided with the option to collect such payments using *VISA Electron*, *MasterCard*, *Maestro* or *American Express* payment cards in a payment card acceptance terminal or another alternative system.

In 2015, the service provided by the Treasury was used by 87 clients of the Treasury, including 9 local governments. Over the year 753,847 transactions with a total value of EUR 43,272,925 were made with payment cards at the 819 payment card terminals installed at institutions administering budget payments.

2015 has been the first year to show a fall in the amount of transactions and the sum of collected payments. Regardless of the fact that the volume of own income of government budget institutions collected with payment cards has increased, there was a significant fall in the volume of general budget income (government dues) collected with payment cards in 2015, thus forming a decrease in the total amount of transactions and collected sums. The respective situation can be explained with the periodicity of separate government budget incomes (e.g. charges for the issue of passports and charges for the issue of identity cards), whereas the charges for the preparation and issue of cadastral certificates were revoked from 1 January 2015 (see Figure 2).

Figure 1. Dynamics of the service of credit cards tied to Treasury accounts (2011–2015)

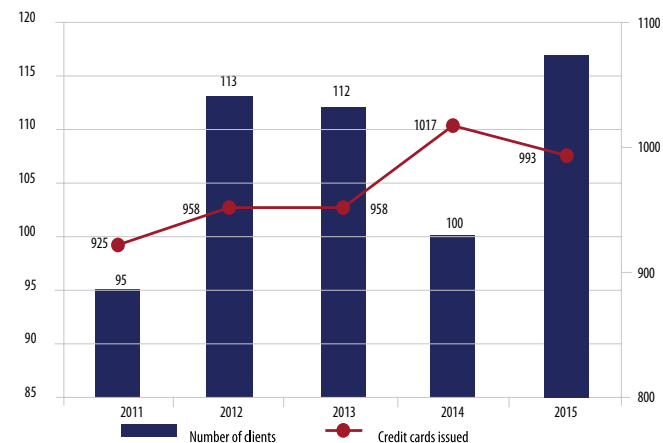
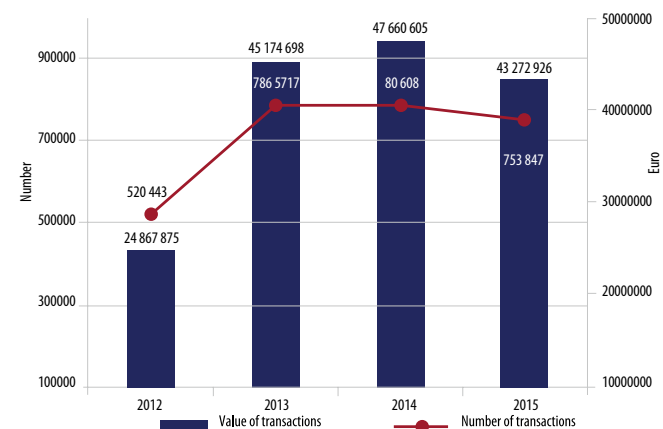


Figure 2. Dynamics of the payment card (*VISA*, *MasterCard* and *American Express*) acceptance service (2012 – 2015²)



² In 2015, the volume of the general budget income (government dues) decreased significantly, thus forming a decrease in the amount of total transactions and collected sums.

1. Implementation of the Central Government Budget

1.3.8. Centralised Resource Management System

The Treasury continued to maintain the centralised resource management system *Horizon*, enabling the financial management, accounting and personnel accounting of the Ministry of Finance and the institutions subordinated to it (departments of the Ministry of Finance) within a single system. In 2015, the maintenance and costs of the centralised resource management system *Horizon* were assessed, and a procurement procedure was started in order to choose the most optimum solution for the further maintenance of the system.

To ensure the uniform and effective implementation of the accounting process at the institutions subordinate to the Ministry of Finance, the Treasury continued to maintain the accounting of the Procurement Monitoring Bureau and the accounting and personnel management process of the Lotteries and Gambling Supervision Inspectorate, as well as started to maintain the accounting of the Fiscal Discipline Council.

1.4. Performance indicators of the Operational Targets for Central Government Budget Implementation as Defined in the Operational Strategy of the Treasury

Table 1

Performance indicators of the operational targets for central government budget implementation

Result formulation	Performance indicators	Numeric values of performance indicators in 2015	
		Projected	Implemented
1. Uniform budget implementation, budget cash flow accounting and implementation principles have been developed and approved; a positive assessment of the quality of the budget implementation, effective accounting, timely and adequate control of the budget implementation process has been received from external auditors and counterparties.	1.1. Conformance of the financial statements to the main principles of the international accounting standards and the international public sector accounting standards (%).	63	63
	1.2. Conformance of financial statements to the requirements of the European Statistical Code of Practice within the framework of the national statistical information programme (percentage of the requirements of the European Statistics Code of Practice referable to the Treasury).	–	–
2. The wishes of the Treasury's clients have been identified and the rendered services have been improved accordingly.	2. Satisfaction with the quality of the services received (percentage of surveyed clients ³).	≥85	88,9
3. It has been ensured that the Treasury's services can be received electronically.	3. Provision of services via electronic service delivery channels (percentage of all services rendered).	≥85	100
4. The financial and management accounting reports of budget institutions have been submitted using a single information system.	4. Option for state and local government institutions to receive information for management decision-making and improvement of budget financing supervision quality in <i>ePārskati</i> , the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments (number of budget institutions).	13	12 ⁴

³ In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service, as well as surveys aimed at identifying the satisfaction and needs of a particular client segment are carried out.

⁴ Local governments are improving their financial management information systems and are no longer applying to use the planning module offered by *ePārskati*.

Activities of the Treasury in 2015

2. Central Government Debt Management

2.1. Operational Principles and Areas of Development

In accordance with the regulation, the Treasury performs the management of central government debt, as well as organises the issuing and monitoring of state guarantees.

The main principles and objectives of central government debt management for the medium term are defined in the Central Government Debt Management Strategy, which is approved by the Minister of Finance. According to the Central Government Debt Management Strategy, the objective of the management of central government debt is to ensure the financial resources required for the refinancing of central government debt, implementation of the central government budget and maintaining of a financial resource reserve with the lowest possible costs, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the Eurozone. In order to ensure the compliance of the central government debt management process with internationally acknowledged practices, and ensure the accomplishment of the central government debt management objective, the central government debt management is divided into two interrelated processes: central government debt portfolio management and central government borrowing management.

The amount of borrowing and the level of central government debt in the medium term is influenced by total financing needs, which are mainly formed by the amount of resources needed for the implementation of the central government budget and the repayment of government debt maturing in the respective period. In order to fulfil the central government debt and budget obligations, a strategic approach in the ensuring of the central government borrowing and debt management process is used, by maintaining high flexibility with regard to the choice of borrowing terms in financial markets (timing, currency, amount and maturity of the borrowing). This allows the limiting of financial risks in the medium term, as well ensuring the resources needed for covering the total financing needs with terms that are as favourable and advantageous as possible.

The steps planned for accommodating the total financing needs in the current year and the choice of borrowing instruments that best suit the financing needs are provided in the Medium-Term Borrowing Plan, which, having regard to the guidelines laid down in the Central Government Debt Management Strategy, is developed by the Treasury and approved by the Minister of Finance.

In order to ensure the observation of the main principles of central government debt management set in the Central Government Debt Strategy and ensure the accomplishment of objectives, the following priorities have been set for the medium-term borrowing strategy:

1) in the domestic financial market:

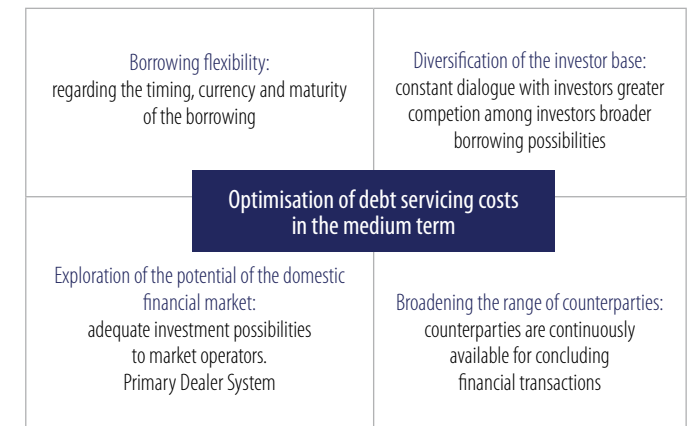
- to maintain a constant and regular supply of government securities in the domestic financial market according to the domestic investor demand in order to use the potential of borrowing in the domestic financial market and promote the functioning of the domestic financial market;
- to maintain communication with investors within the framework of the Primary Dealer System⁵ in order to facilitate the demand for government securities in the initial placement;
- to maintain the supply of savings bonds to households in order to ensure the raising of resources from a group of investors that has been less active, as well as facilitate the decrease of the residents' cash savings and promote their trust in the financial market, thus facilitating the government security market development in general.

2) in international financial markets:

- to ensure borrowing in the international financial markets with public issues of government debt securities by retaining flexibility in relation to choosing the time, currencies and repayment terms of loans in order to ensure borrowing with favourable conditions;

- to ensure the diversification and broadening of the base of government security investors through regular and constant dialogue and long-term work with investors and cooperation partners in order to facilitate the active participation of investors from different regions of the world in the primary placement of government securities in the international markets;
- to ensure and maintain the range of counter-parties that are continuously available for entering into financial transactions;
- to ensure active communication with rating agencies and ensure the provision of a single and coordinated opinion regarding the situation in Latvia within the process of credit rating calculation in order to have a positive impact on the advancement of Latvia's credit rating in the future.

Figure 3.
Medium-term borrowing strategy



⁵ The Primary Dealer System is a form of cooperation between the issuer (the Treasury) and financial institutions for the realisation of a single security market development strategy.

Activities of the Treasury in 2015

2. Central Government Debt Management

By continuing borrowing activities in line with the medium-term strategy and pursuing a responsible fiscal policy, it is possible to ensure borrowing with favourable terms, as well as maintain the government debt at a sustainable level in the long term.

In accordance with the authorisation by the Ministry of Finance, the Treasury evaluates the requests of the ministries for the state guarantees and prepares a shortlist of the applicants to be supported and their projects for inclusion in the annual State Budget Law. The Treasury takes part in the process of providing and servicing state guarantees, by assessing and monitoring the risks related to the guarantee issuing, organising the conclusion of the guarantee agreements and handling the accounting for the state-issued guarantees, as well as regularly analysing and monitoring the financial position of the state-guaranteed project implementers.

2.2. Structure, indicators and changes of the Central Government Debt

The Latvian general government debt, which is formed by the central and local government structure consolidated debt, accounted for approx. 36% of GDP at the end of 2015. The Latvian general government debt is still one of the lowest ones among EU member states, and it is also well below the average indicator in the EU (see Figure 4).

The level of general government debt is mainly influenced by central government debt⁶, which decreased by EUR 600.3 million in 2015 and reached EUR 8,412.0 billion at nominal value at the end of 2015 or 34.5% of the GDP forecast for 2015, remaining below the maximum level of debt of EUR 8,650.0 billion at the end of the year as provided for in the State Budget Law for 2015 (see Figure 5).

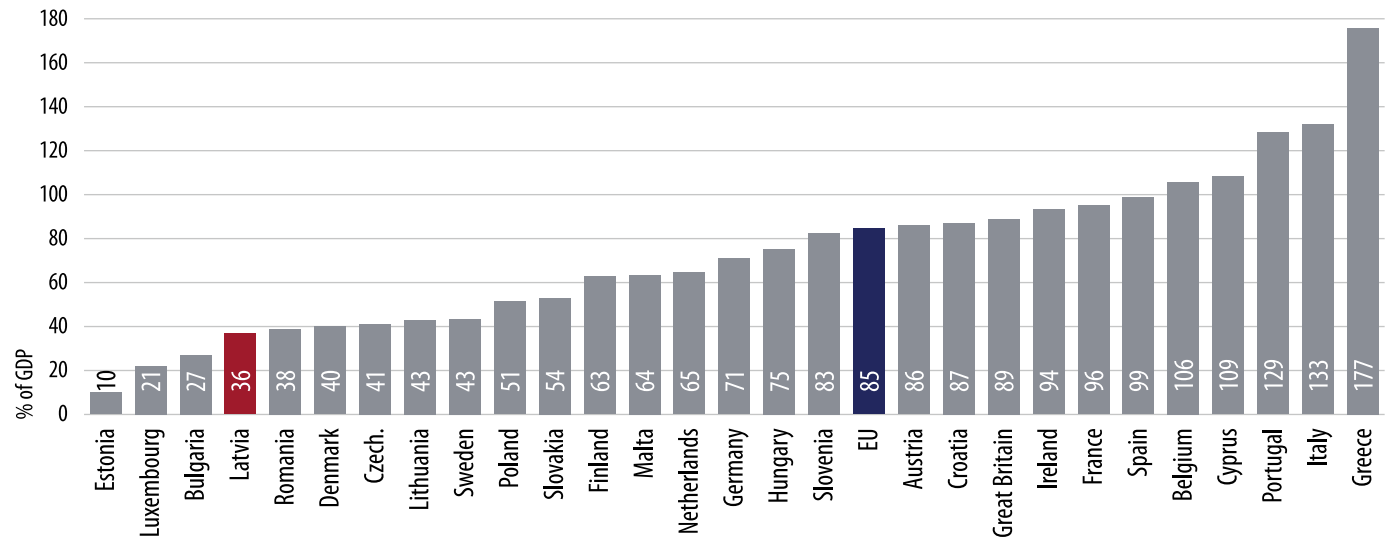
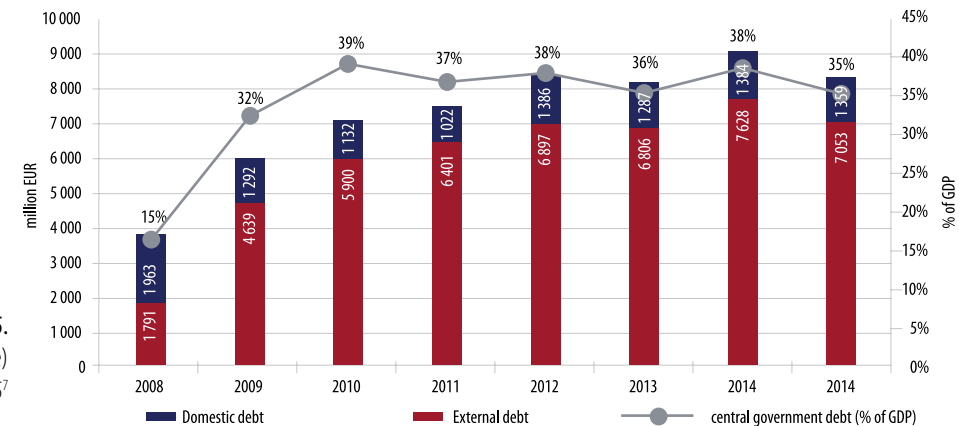


Figure 4. General government debt at the end of 2015 (% of GDP) under the ESA '2010 methodology
Source: EUROSTAT

Figure 5. Central government debt (at nominal value) 2008-2015⁷

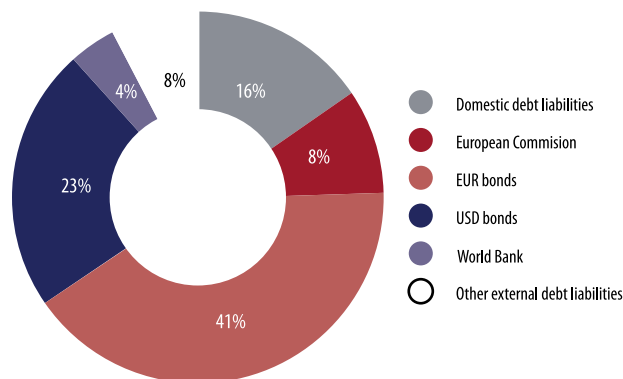


⁶ Central government debt is formed by the central government structure debt, which includes government securities, loans, savings bonds and client deposits placed in the Treasury.
⁷ Operational data – 2015

2. Central Government Debt Management

In the structure of central government debt of 2015, external debt made up the greatest share reaching 84% of the total central government debt (see Figure 6).

Figure 6. Central government debt structure (at nominal value) on 31.12.2015 (% of the total amount)



The central government external debt according to nominal value as of 31 December 2015 stood at EUR 7.053 billion.

On 31 December 2015, the largest share of the central government external debt was formed by Eurobonds. In 2015, the central government external debt decreased by EUR 575.3 million, as in 2015 the European Commission loan in the amount of EUR 1.2 billion was repaid and USD bonds in the amount of USD 650 million were repurchased, as well as in the second part of 2015 the Treasury carried out two bond issues in international financial markets with a total sum of EUR 1.05 billion, by timely ensuring resources for the execution of the 2015 state budget, as well as for the partial refinancing of the debt obligations taken up in US dollars to be carried out in December 2015.

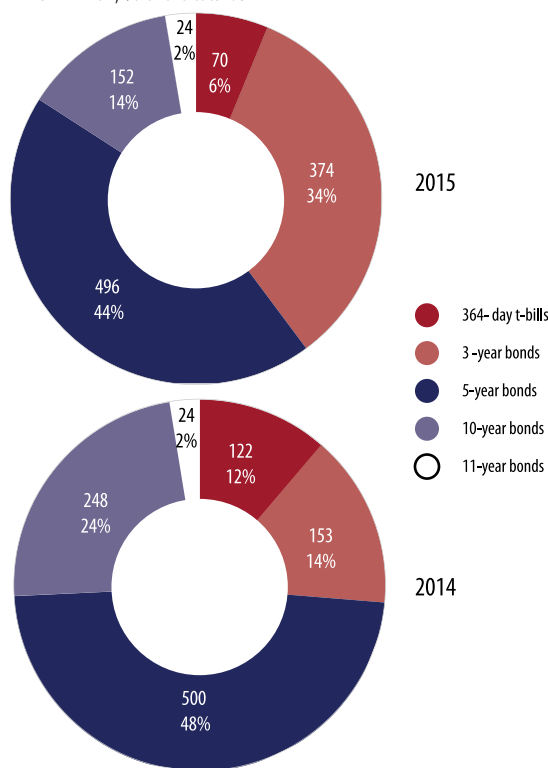
The domestic government debt according to nominal value as of 31 December 2015 stood at EUR 1,359 billion.

In 2015, the domestic government debt decreased by EUR 25.0 million, which was mainly influenced by a decrease in the clients⁸ deposits and account balances placed in the Treasury in the amount of EUR 117.7 million, as well as an increase in the

amount of outstanding domestic debt securities by EUR 69.7 million and an increase in borrowings by EUR 21.7 million.

On 31 December 2015, the largest share of the domestic government debt was formed by domestic debt securities issued by the Treasury worth EUR 1.116 billion, which were mainly purchased by the domestic financial market operators (credit institutions and institutional investors) at the public auctions regularly arranged by the Treasury. In 2015, the Treasury offered investors to purchase short-term and medium-term government domestic debt securities, and according to that the percentage rate of outstanding government domestic debt securities changed (see Figure 7).

Figure 7. Government domestic debt securities outstanding at the end of 2014 and 2015, in EUR million; % of the total sum



The remaining share of the domestic government debt was formed by short notice and short-term deposits, loans, as well as savings bonds and interest-free bonds – total of EUR 243.1 million.

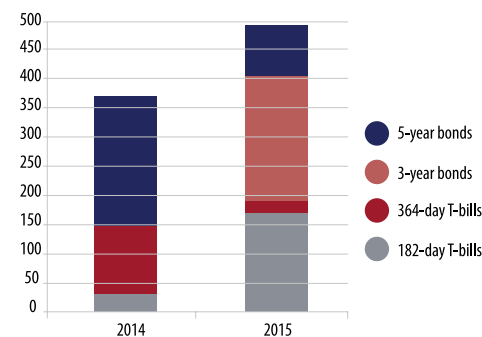
2.3. Central Government Borrowing Management

In accordance with the Central Government Debt Management Strategy, the goal of central government borrowing management is to ensure the constant option of raising resources in international markets and in the domestic market with optimal borrowing transaction terms.

2.3.1. Central Government Domestic Debt

In 2015, the Treasury continued to hold regular auctions of government securities. The offer of Latvian government securities in the domestic market has been maintained above the 2014 level. As in previous years, the Treasury held 6-month and 12-month T-bill auctions with a view to refinance the domestic short-term debt, as well as maintain the domestic government debt securities market. In 2015, the Treasury started two new bond programmes – with maturity terms of three and five years. At the end of the year the amount of the bonds outstanding amounted to EUR 220.9 million, which is the largest domestic government debt security series outstanding to date, and EUR 82.4 million respectively.

Figure 8. Government domestic debt security issues in 2014 and 2015 by maturity, in EUR million



⁸ Excluding the central government structure, but including entities, port and free port authorities and special economic zones that are controlled and financed by the central government structure.

Activities of the Treasury in 2015

2. Central Government Debt Management

The Treasury sold securities worth EUR 493.3 million in the primary market, including EUR 328 million in competitive multi-price auctions. On average the aggregate demand in competitive multi-price auctions was 4.59 times higher than supply and was EUR 1,442.03 million. The large competition between investors (demand/supply correlation) at all auctions provided for the borrowing rates to remain at the lowest levels in history. The rate drop can be explained by the active participation of primary dealers in auctions, positive rate development trends in financial markets from an issuer's perspective, as well as the high liquidity among the credit institutions of Latvia.

In the beginning of 2015, the rates in the euro money market were at the lowest levels in history, providing the possibility to raise cheap short-term resources. After the European Central Bank's decision of 22 January 2015 on the starting of the Public Sector Asset Purchase Programme the already low money market rates decreased even more, and that was reflected in the historically lowest short-term borrowing expenses in the domestic government securities market. For the first time in the history of the primary issues of government domestic debt securities of Latvia a negative rate was fixed, i.e. during the competitive multi-price auction of T-bills of 15 April 2015 securities with a rate of minus 0.012% were sold.

2.3.1.1. Primary Dealer System

In 2015, the Treasury continued to strengthen the Primary Dealer System introduced in February 2013, which is not only aimed at promoting the development of the government securities market, but also at facilitating its activity, i.e. the emergence of new borrowing instruments, widening the base of investors, a more active, liquid and investor-friendly government securities market, and reduction of the risks associated with central government debt management. As part of the Primary Dealer System, the credit institutions that have entered into a primary dealer agreement with the Treasury may take part in government security auctions. After evaluating the performance of each credit institution in the government securities market and their activity in financial transactions with the Treasury with respect to government debt and asset management matters, the following credit institutions have become the primary dealers: AS Citadele banka, AS DNB banka⁹, AS SEB banka, AS Swedbank, and AS ABLV Bank.

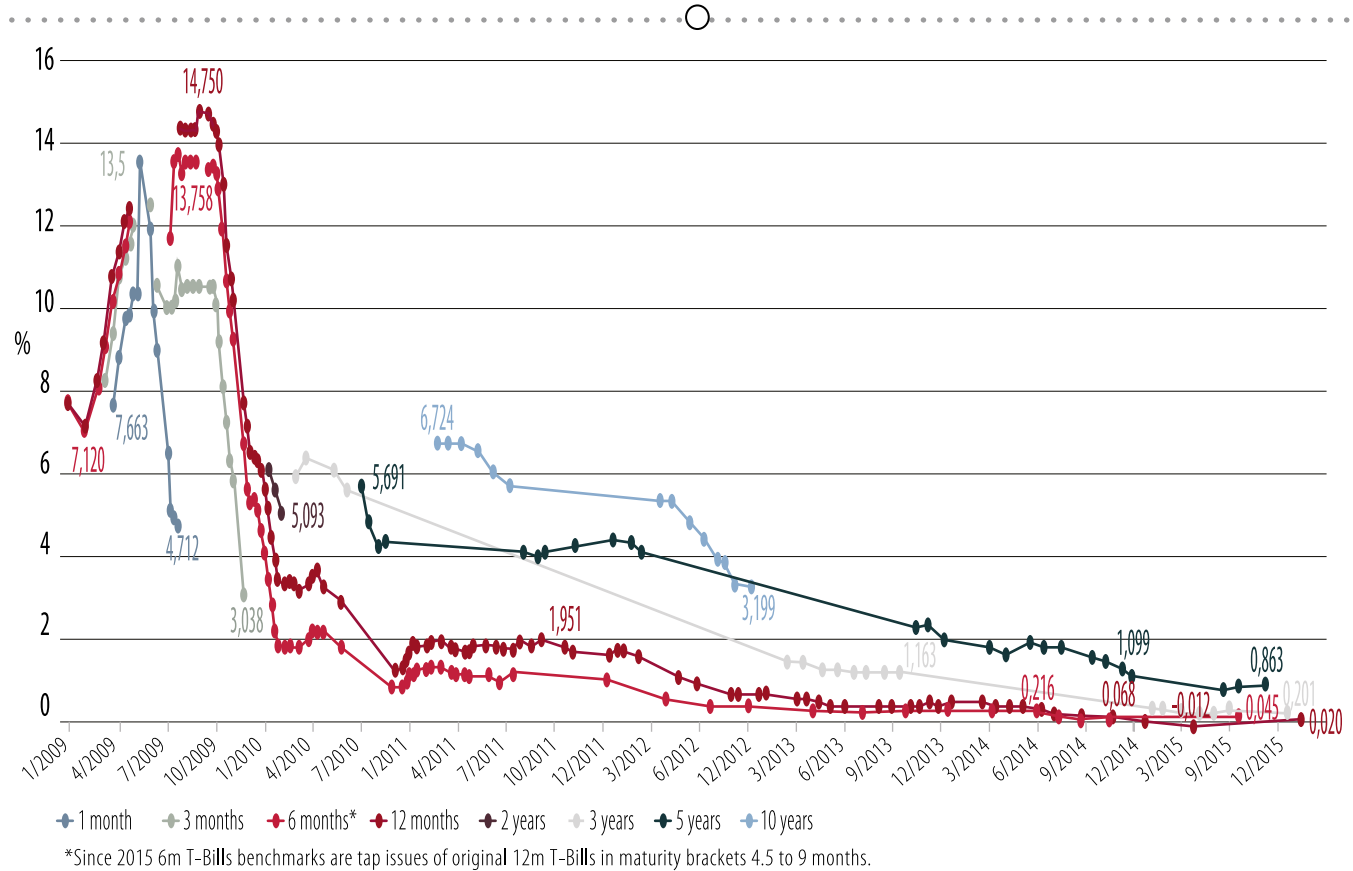


Figure 9. Weighted average interest rates of government securities in competitive auctions

In 2015, regular communication was maintained with Primary Dealers and opinions regarding the situation in the financial market were exchanged. A new European single reporting format for transactions carried out by Primary Dealers – HRF (Harmonised Reporting Format) – was introduced in 2015, allowing the Treasury to analyse the results of the operations of each Primary Dealer in detail.

In 2015, changes in the procedure of initial placement of Latvian government securities also came into force. They foresee that the Treasury may decide on the volume of securities to be sold that corresponds with the financing needs of the respective moment or the actual volume of supply without determining the volume of supply in non-competitive fixed rate auctions.

⁹ The Lithuanian AB DNB Bankas and AB „SEB Bankas“ in the secondary market.

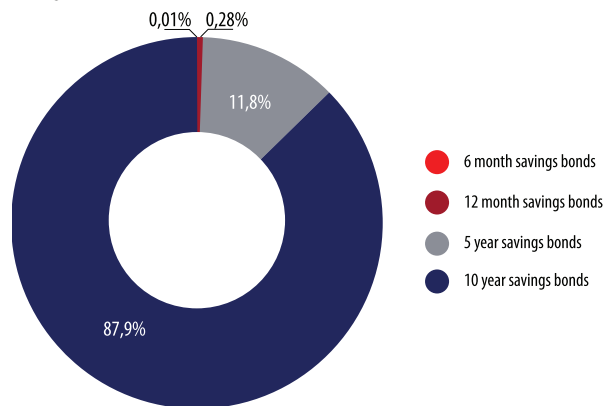
Activities of the Treasury in 2015

2. Central Government Debt Management

2.3.1.2. Savings Bonds

The distribution of the domestic financial market instrument introduced in 2013 – savings bonds – was continued at post service points of the state joint-stock company *Latvijas Pasts* and on the website www.krajobligacijas.lv. The primary objective of savings bonds was to provide a convenient and secure investment opportunity to private persons as a potentially new investor group, expand the investment possibilities for residents in classic and safe financial instruments, broaden their practical experience in investing, facilitate the decrease of cash savings, develop the government securities market in general, as well as facilitate public confidence in the financial market. By realising the above mentioned objectives, residents are offered 6-month and 12-month, as well as 5-year and 10-year savings bonds. At the end of 2015, the savings bonds in circulation amounted to EUR 5.1 million.

Figure 10.
Savings bonds in circulation (on 31.12.2015)



By following the rates in the domestic government debt securities market and general trends in financial markets, the fixed income rates applicable to savings bonds of all terms continued to decrease in 2015, by also steadying the trends in the term structure of savings bonds, where the demand is concentrated in long-term savings bonds. The small amount of sold short-term savings bonds (with a term of up to one year) is also related to the low fixed income rates of savings bonds.

Therefore the approach chosen by the Treasury to offer savings bonds of all terms simultaneously proved to be appropriate for the changing market conditions, as it preserved available options for the investors in relation to term and profitability.

2.3.1.3. Interest-Free Bonds

In 2015, the issuing of a new type of government securities – interest-free bonds – was started. The issue of such securities is foreseen by Section 23, Paragraph one, Clause 31 of the Immigration Law, which prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period of time not exceeding five years if he or she purchases interest-free government securities dedicated to a specific purpose with a nominal value of EUR 250,000. In 2015, interest-free bonds were issued five times, and there was a total of EUR 1.25 million interest-free bonds at the end of 2015.

2.3.2. Central Government External Debt

2.3.2.1. Borrowing in International Financial Markets

The Treasury's experience relating to transactions in international financial markets in recent years shows that under the circumstances of global market uncertainty or a rapidly changing situation the timing of borrowing for issuers is largely determined by the use of particular, brief and the most beneficial moments when positive news emerges in financial markets and investors become better disposed towards making new investments. The activities of the Treasury in the area of external debt management in recent years have been focused exactly on the exploitation of such beneficial borrowing moments, because it allows the accomplishment of the key objective of the borrowing strategy – to achieve a reduction of the government debt servicing costs in the medium term through borrowing in international financial markets on terms favourable to the country.

For borrowing in international financial markets the Treasury uses the legal framework of external government securities documentation GMTN (Global Medium Term Note programme) implemented in 2013, which consists of standardised agreements and has been designed to facilitate Latvia's future borrowing process. The GMTN programme allows the Treasury to efficiently exploit favourable conditions

in international financial markets, as well as issue government securities in different currencies. The programme also provides for the issuing of government securities if the investor addresses the Treasury and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

In 2015, costs of borrowing were substantially influenced by the unprecedentedly expansive monetary policy of the European Central Bank, including negative deposit rates and the Public Sector Asset Purchase Programme, which facilitated the drop of the credit risk premium above euro base interest rates of Latvia and other states of the eurozone. The active communication with government security investors, as well as the state credit rating's return to the "A" rating group attracted investors who invest in bonds of developed countries with lower rate levels.

In September 2015, 10-year bonds in the amount of EUR 500 million were issued with the historically lowest fixed interest (coupon) rate of 1.375% per year (profitability 1.449%), thus attesting to the international investors' high assessment of Latvia's creditworthiness. The issue of the bonds was mainly participated by investors who invest in the safest securities of eurozone states (Germany, Austria, Finland).

At the end of 2015, in order to capitalise on the benefits from the unique situation in the financial markets, with differences in Latvia's credit risk premium in euros and US dollars being present, the Treasury carried out a partial refinancing of bonds issued in US dollars and maturing in 2020 and 2021 with new Eurobonds with similar terms. In December 2015, bonds issued in 2011 and 2012 were repurchased in the amount of USD 650 million by simultaneously ceasing the currency swap transactions concluded for the management of the currency risk of the respective US dollar bonds and issuing new 5-year Eurobonds in the amount of EUR 550 million with a new historically lowest fixed interest (coupon) rate of 0.5% per year (profitability 0.532%). As a result of the transactions carried out it was possible to achieve a significant decrease in the costs of central government debt servicing and a positive impact on the balance of the central government budget in the medium term, as well as the carried out set of transactions was noted internationally as the first central government debt refinancing transaction of its kind in Central and Eastern Europe, serving as an example for other states when carrying out similar transactions.

Activities of the Treasury in 2015

2. Central Government Debt Management

2.3.2.2. Possibilities to Borrow from the European Investment Bank

On 17 March 2015, a loan agreement was concluded between the Republic of Latvia and the European Investment Bank for the provision of central government budget co-financing for European Union funded projects during the programming period from 2014 to 2020. Over the next three years this loan agreement will ensure the possibility to borrow up to EUR 200 million if necessary, as well as an additional EUR 200 million after concluding a new agreement if the sum of the first loan will have been fully utilised.

2.3.3. Investor Relation Management

In order to carry out focused investor relation management and define appropriate measures to be taken, the Treasury regularly provides information to investors and counterparties by drawing up the annual Central Government Debt Management Report and quarterly bulletins, and prepares a digest of relevant weekly developments, as well as engages in other communication measures.

In 2015, new means of communication was used for the first time – regular conference calls with investors were carried out, during which representatives of the Ministry of Finance, Bank of Latvia, and the Treasury presented Latvia's economic, financial and fiscal policy trends.

As members of the Latvian delegation, the representatives of the Treasury hold meetings with investors, representatives of foreign investment banks and rating agencies during the Annual Meeting of the World Bank and the International Monetary Fund, and also organise face-to-face meetings, thereby additionally supporting the dissemination of information to investors.

Every year the Treasury produces an analytical Report on Central Government Debt Management (in Latvian and English) for the preceding year, in order to provide clients and operators of the financial market, including the existing and potential counterparties and investors in government securities, with information on developments in the management of the central government debt and assets, borrowing processes and results. The Report on Central Government Debt

Management is also forwarded to other bodies performing equivalent government debt management functions in the EU (debt management offices) and to the embassies of the Republic of Latvia abroad.

Once every quarter, the Treasury posts a Quarterly Bulletin on Central Government Debt Management (in Latvian and English) on its website, which includes the latest data on government budget implementation and central government debt management, information regarding the credit rating of Latvia, borrowing carried out in the domestic and international financial markets, result of government security auctions, government debt portfolio management and achieved results, as well as information regarding local government borrowing and state-issued guarantees.

Every week, the Treasury compiles, forwards to investors and posts on its website a Weekly Update (in English) regarding central government budget implementation, central government debt management, and the most important developments in Latvia's financial sector, economy and politics.

The Treasury also provides the investors with a separate presentation that includes the newest information on the current development matters of the Latvian economy, as well as financial and fiscal indicators, and regularly updates it.

The communication activities are structured to reach the objective of diversifying the investor base set in the Operational Strategy of the Treasury. In 2015, the amount of resources raised from new investors amounted to 19% of the amount of securities issued in international financial markets, thus surpassing the objective that was set (5%).

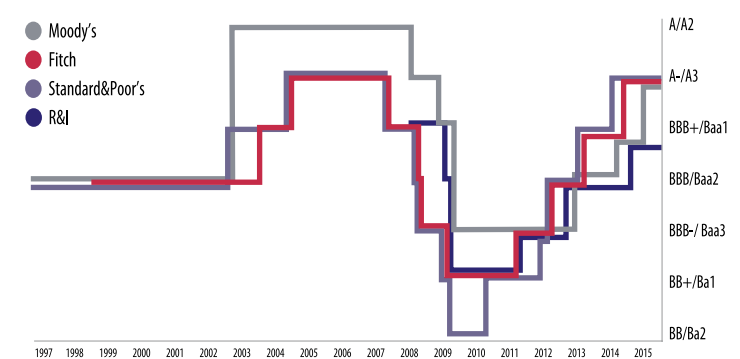
2.3.4. Credit Rating of the Republic of Latvia

The national credit rating is a critical aspect in organising borrowing transactions, and a significant factor for the availability of financial resources, because it influences the price of the borrowed resources. As part of the central government debt management, for the purpose of establishing the credit rating of the Republic of Latvia, the Treasury arranges visits by analysts from the three major international rating agencies – Fitch Ratings, Standard & Poor's and Moody's Investors Service, as well as the Japanese rating agency R&I to Latvia and provides them with regular,

comprehensive and relevant information on Latvia with a view to facilitating the rating agencies to make decisions for the favourable development of the credit rating of the Republic of Latvia. Based on the available information, including the credit rating, investors evaluate the prospects of investing in Latvia, e.g. in government securities. The rating agencies do not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign rating to government securities. Once a year, the inter-agency working group led by the Treasury informs the Cabinet on the national credit rating of the Republic of Latvia and the factors affecting it, as well as provides proposals for improving the credit rating.

In 2015, Latvia managed to return to the "A" rating group completely (according to the assessment of the three major international rating agencies – *Fitch Ratings*, *Standard & Poor's*, and *Moody's Investors Service*) and is steadily retaining its positions, as it can be seen in the rating affirmations: In the beginning of 2015, *Moody's Investor Service* raised Latvia's credit rating from Baa1 to A3 and provided a stable outlook evaluation, whereas *Fitch Ratings* and *Standard & Poor's* affirmed the current rating level. At the end of 2015, Latvia's long-term credit rating was A3 (*Moody's Investors Service*), A- (*Fitch Ratings*), A- (*Standard and Poor's*), and BBB+ (*R&I*).

Figure 11. Credit rating history of the Republic of Latvia



Activities of the Treasury in 2015

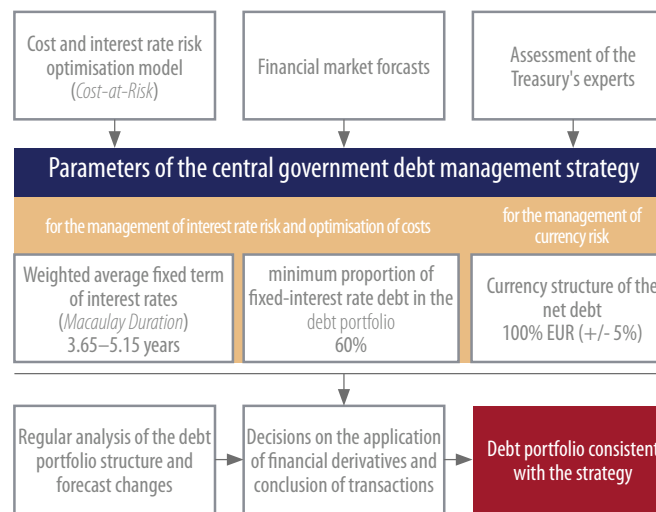
2. Central Government Debt Management

2.4. Central Government Debt Portfolio Management

According to the Central Government Debt Management Strategy, the objective of government debt portfolio management is to optimise the costs of government debt servicing in the long term by limiting the financial risks of the government debt portfolio.

The Treasury assesses the debt portfolio structure parameters laid down in the Central Government Debt Management Strategy on a regular basis and evaluates the need to change them. With a view to limiting the government debt interest rate risk and optimising the long-term government debt servicing costs, the potential volatility risk measure of costs and interest rates (Cost-at-Risk (CaR)) is calculated, which, with the probability of occurrence set at 95%, reflects the extent to which the interest expense on the debt may be higher than that anticipated in the medium term. Based on the results of the calculations, financial market forecasts, and the assessment of the Treasury's experts, the weighted average fixed-period interest rate and fixed-rate ratio values that ensure the best balance between the costs and the interest rate risk (see Figure 12) are determined. Whereas for the currency risk management an optimal currency structure of net debt is determined and monitored by taking into account the financial market forecasts and the assessment of the Treasury's experts, and it allows compliance with the balance of assets and liabilities in foreign currencies, thus avoiding the impact caused by exchange rate fluctuations.

Figure 12.
General principles of central government debt portfolio management



The division of government debt management into two interrelated processes – central government debt management and central government debt portfolio management – enables the Treasury to meet the central government debt management objective when making new borrowings, and subsequently, if necessary, to adjust the structure of the central government debt portfolio with derivatives and other available resources for it to be optimal and comply with the requirements provided for in the Central Government Debt Management Strategy.

In 2015, all the parameters for the central government debt structure specified in the Central Government Debt Management Strategy were complied with (see Table 2).

Table 2
Compliance of the parameters of the central government debt structure with those provided for in the Latvian Central Government Debt Management Strategy

Parameters	Actual debt structure parameters 31.12.2014		Actual debt structure parameters 31.12.2015		Debt structure parameters defined in the strategy	
	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
Amount of domestic debt securities ¹⁰ at the end of the year	EUR 1 046.55 million		EUR 1,116.23 million		not less than outstanding at the end of the preceding year	
Maturity profile (%) of the central government debt portfolio	21.4%	36.4% ⁹	7.9%	31.2%	< 25%	< 50%
Minimum proportion of the fixed interest rate in the central government debt portfolio	81.7%		95.6%		≥ 60%	
Average weighted fixed period of interest rates, in years	4.16		4.47		3.65 – 5.15 ¹¹	
Currency structure of net debt	EUR 100.00%		EUR 100,01%		EUR 100% (+/- 5%)	

In order to ensure compliance with the maturity profile of up to one year determined in the Central Government Debt Management Strategy, the Treasury reserved resources for the repayment of the European Commission's loan of EUR 1.2 billion in January 2015 in good time. Thus the central government debt refinancing risk was eliminated, as the risk related to borrowing was reduced by the amount of earmarked resources – the resources were already in the Treasury's accounts. Whereas during the period from February to December the conformity of the central government debt portfolio indicators was ensured by loans taken out in 2015.

¹⁰ The amount of securities in circulation which were issued under Latvian law.

¹¹ Starting with April 2015, the average weighted fixed period of interest rates in years in the Central Government Debt Management Strategy is set at 3.65 – 5.15 instead of the previous 3.4 – 5.0 corridor.

Activities of the Treasury in 2015

2. Central Government Debt Management

2.5. State-Issued Guarantees

State guarantees are issued:

- 1) for obligations that are assumed by an economic operator that has a central or local government share invested in it, and that produces goods or provides non-financial services in order to retain profit or other benefits;
- 2) for obligations that are assumed to ensure financing for different business support programmes that are approved by regulatory enactments;
- 3) for ensuring the study and student loan programme;
- 4) for the accomplishing of the objectives prescribed in Section 8.1 of the Law on Budget and Financial Management.

In accordance with the annual State Budget Law, the decision on issuing or not issuing state guarantees is made by the Cabinet, based on the assessment of the draft order prepared by the Ministry of Finance and the ministry responsible for the respective field, the business plans of the guarantee candidates, provided collateral, and a list of other documents.

The state guarantees are issued in accordance with the procedure determined by the Cabinet and are secured with a commercial pledge, real estate pledge or other type of security.

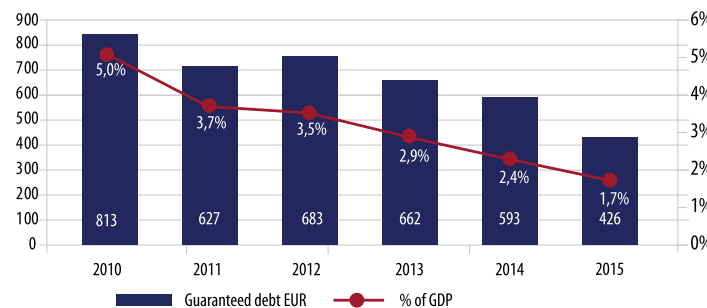
The assessment and management of the fiscal risks of fulfilling the liabilities of state-issued guarantees, as well as the issuing and monitoring process of state-issued

guarantees is prescribed by Cabinet Regulation No. 391 of 8 July 2014 "Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State are Included in the Draft Annual State Budget Law and Guarantees are Issued and Supervised".

In 2015, state-issued guarantees totalling EUR 8.5 million were issued solely in respect of study and student loans, which is less than the amount of state-issued guarantees for study and student loans (EUR 37.7 million) prescribed in the Law on the State Budget for 2015.

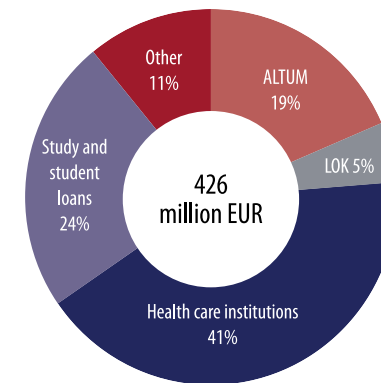
The state guaranteed debt outstanding at the end of 2015 amounted to EUR 426.3 million, which was EUR 166.2 million or 28% less than at the end of 2014.

Figure 13. Outstanding balance of state-guaranteed loans, in EUR million



The largest share of the state-issued guarantee portfolio by borrower was formed by state-issued guarantees for the obligations assumed by health care institutions (41%), state-issued guarantees for ensuring the study and student loan programme (24%), and for the obligations of the state joint-stock company *Attīstības finanšu institūcija Altum* (19%).

Figure 14. State-issued guarantee portfolio, by borrower on 31.12.2015



Activities of the Treasury in 2015

2. Central Government Debt Management

2.6. Performance Indicators of the Operational Targets for Central Government Debt Management as Defined in the Operational Strategy of the Treasury

Table 3

Performance indicators of the operational targets for central government debt management

Result formulation	Performance indicators	Numeric values of performance indicators in 2015	
		Projected	Implemented
1. The investor base has been widened and diversified.	1. The amount of resources raised from new investors through issuing securities in international financial markets during the year (the share of securities purchased by new investors in primary issues in terms of the total amount of annual issue).	5	19
2. Loans of the international borrowing programme have been refinanced on more favourable terms.	2. Conformity of Latvia's government borrowing rate level to the benchmark rate ¹² (%).	Not higher than the benchmark: 16.09.2015. issue benchmark 1.592% 08.12.2015. issue benchmark 1.093%	16.09.2015. issue rate 1.449% 08.12.2015. issue rate 0.532%
3. The government securities remained on offer to operators in the domestic financial market.	3. The amount of domestic debt securities included in the turnover at the end of the year at nominal value (in EUR million).	Not lower than at the end of the previous year (EUR 1,046.55 million)	1 116,23

¹² The benchmark rate for the issue of the benchmark amount is determined by reference to the average rates of the international financial markets and is made up of the secondary market rates of the bonds issued in the international financial markets of the Central and Eastern European countries, the credit rating whereof is +/- 2 degrees against that set for Latvia, of which a profit curve with a logarithmic function has been created, as increased by 0.25% – an additional mark-up on raising a new loan.

Activities of the Treasury in 2015

3. Cash and State Loan Management

3.1. Operational Principles and Areas of Development

The Treasury's Cash Management Strategy, approved by the Minister of Finance, establishes the objectives, tasks and responsibility of the Treasury in carrying out financially effective and secure cash management while meeting liquidity requirements and limiting financial risks.

The Treasury temporarily places its free cash resources in the Bank of Latvia, Latvian and foreign credit institutions or invests them in fixed-income debt securities, thus limiting financial risks in accordance with the investment parameters and cooperation limits which are specified for each counterparty depending on the type of financial instrument as provided for in the Treasury's Cash Management Strategy.

The priorities set for cash management are as follows:

- 1) to ensure the compliance of the cash management process with the best financial market practices, by observing the basic principles of financially effective and secure cash placement, considering the ensuring of liquidity and limiting of financial risks as the most significant ones;
- 2) to maintain and develop long-term partnerships with the operators of domestic and international financial markets (counterparties) with a view to broadening the options for investing cash resources and securing the information required for financial decision-making at both ends.

According to the authorisation by the Ministry of Finance, the Treasury organises the government lending process by making financial resources available in the form of state loans in accordance with the concluded loan agreements and by monitoring the financial position of the recipients of state loans, which involves the monitoring of the repayment of state loans and, if necessary, engaging in recovery measures.

The priorities set for state loan management are as follows:

- 1) to ensure a transparent and effective state loan management process;
- 2) to ensure the quality of client service and client satisfaction with the government lending process, including the option to conclude agreements electronically.

3.2. Cash Management

In 2015, the cash and liquidity management process was led in non-standard financial market conditions, when the possibilities for short-term cash placement (including in balances of accounts) with positive profitability became very limited, and with short-term borrowing possibilities with a negative interest rate being present at the same time. The situation in the financial market was strongly influenced by the decisions made by the Council of the European Central Bank regarding the application of a negative rate to the Eurosystem investment possibilities, in the amount of minus 0.20% from 5 June 2014 and minus 0.30% from 9 December 2015, as well as with the asset securities (including central government debt securities) purchase programme (in the amount of EUR 60 billion per month) realised by the European Central Bank from March 2015.

With the aim to ensure efficient cash and liquidity management, the Treasury carried out the necessary preparatory work for the optimisation of the liquidity management process in order to use the short-term borrowing possibilities from domestic and foreign credit institutions more actively and effectively, as well as by reaching an agreement with Primary Dealers on the implementation of a new short-term borrowing instrument – T-bills with a maturity term of 21 days – starting with 2016. The issue and maturity terms of 21-day T-bills are specifically coordinated with the cycle of implementation of the central government budget within the respective month, allowing the raised resources to be used exactly when it is necessary.

In 2015, the interest income for deposits and account balances in the general government budget amounted to EUR 22.0 million or 134% of the amount

prescribed (EUR 16.5 million) by the Law on the State Budget for 2015. Out of all interest income EUR 2.9 million were received from the management of free resources, whereas EUR 19.1 million were received from the closed bond issues of *AS Reverta* provided by the state for support.

In 2015, within the framework of the support process for ensuring liquidity, *AS Reverta* repaid all interest on bonds in the amount of EUR 19.1 million and redeemed the government support bonds of EUR 30.7 million. At the end of 2015, the value of *AS Reverta* closed issues was EUR 424.65 million. There were no investments into the share capital of *AS Reverta* in 2015.

3.3. State Loan Management

The range of recipients of state loans¹³ is defined in Section 36 of the Law on Budget and Financial Management. Whereas the annual State Budget Law for the current year prescribes the state loan limit, defining the amount in which state loans can be issued during the respective year, by separately dividing the limit for local government loans. The total state loan limit is formed by the amount prescribed in the annual State Budget Law, to which the state loan repayments made in the respective year have been added (loan repayments in the central government general budget are planned in accordance with the terms and amount set in the loan agreement). In order to apply for a state loan, the applicant makes a request to the ministry responsible for the respective field on prescribing a state loan for the following economic year. After receiving support from the respective ministry, the state loan request is sent to the Ministry of Finance to be included in the planned state loan limit in the Draft State Budget Law for the following year.

State loans are issued according to the procedure determined by the Cabinet and are secured with local government guarantees, commercial pledge, real estate pledge or other type of security.

¹³ According to the Law on Budget and Financial Management state loans may be issued to local governments, state special budget implementers, capital companies where the State or local government share of the fixed capital, separately or combined, exceeds 50% and to capital companies formed by several local governments, where the combined local government share of the fixed capital exceeds 65%, as well as those scientific institutes and higher education establishments to which the status of a derived public person has been determined, and port authorities.

Activities of the Treasury in 2015

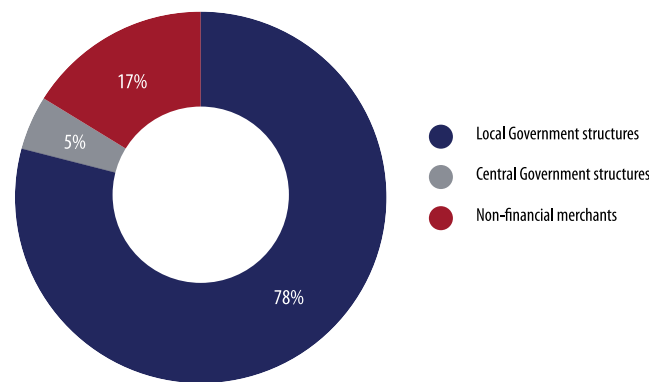
3. Cash and State Loan Management

The Treasury monitors state loans and, if necessary, performs debt recovery activities. In cases when the borrower is not able to perform the assumed obligations, the set of required measures of activity derives from the conditions established in each individual case, the financial situation and risks, and its implementation is ensured in close cooperation with the ministry of the respective field and the borrower, in order to ensure the repayment of the state loan. For example, in cases when local governments have failed to perform the obligations under the provisions of the agreements, the Treasury is entitled to deduct the outstanding sums from the amount of personal income tax due to the local government or the grant from the local government financial equalisation fund. Whereas in cases when commercial companies have failed to perform the obligations under the signed agreements, claims for repayment are brought to the borrowers or complaints regarding the recovery of the debt and an application to secure the claim are filed with the courts. If a commercial company is being liquidated and debt recovery is no longer possible, the Treasury writes off the cancelled debt obligations of the liquidated commercial company in accordance with the Cabinet Regulation "Procedures for the Cancellation of State Loans by the Minister of Finance". The debt obligations of commercial companies liquidated in the respective budget year are cancelled in the amount prescribed in the annual State Budget Law.

On 30 June 2015, the Cabinet issued Regulation No. 363 "Procedure by which Sectoral Ministries or Other Central Government Institutions Include State Loan Requests in the Annual State Budget Draft Law, and Procedure According to which State Loans are Granted and Serviced", prescribing actions in the state loan granting process, when deviations in the borrower's financial standing are identified and the borrower may become insolvent during the project realisation period, with the aim to evade state loan granting projects with a low possibility of repayment, thus decreasing the risks of state loans not being repaid. The regulation includes suggestions of the Treasury regarding the necessary improvements of the process by taking into account the former experience in the state loan granting process, which will improve the efficiency of the state loan planning and granting process.

By assessing the state loan portfolio and its structure, as well as by evaluating the repayment possibility of the loan portfolio, the Treasury submitted suggestions to the Minister of Finance regarding future actions for the supervision of the loan portfolio. In 2015, the overall increase of state loans in the annual state budget was set at EUR 296.0 million, including the overall increase of local government loans in the amount of EUR 195.4 million. The total amount of state loans to be issued in 2015 was foreseen to be EUR 399.6 million, which included the overall increase in state loans stipulated in the annual State Budget Law and the 2015 repayments of state loans issued in the previous years.

Figure 15.
Recipients of state loans issued in 2015

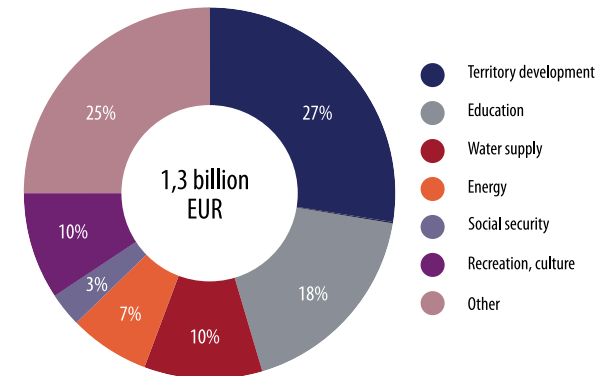


3.3.1. State Loans to Local Governments and Entities Managed and Funded by Local Government Bodies

In 2015, the largest share of state loans – EUR 190.5 million or 78% of the total amount of state-issued loans – was issued to local governments and entities managed and funded by local government bodies, including for the implementation

of projects co-financed by the EU – EUR 110.8 million, and for local government investments – EUR 79.7 million.

Figure 16.
State loans issued in 2015, by purpose



3.3.2. State Loans to Central Government Bodies

- 1) State loans of EUR 13.0 million or 5% of the total amount of state-issued loans were issued to central government bodies, including: state loans in the amount of EUR 3.5 million or 1% of the total amount of state-issued loans were issued to entities controlled and financed by central government bodies, i.e. *AS Attīstības finanšu institūcija Altum*, which unites three institutions that provide support in the form of financial instruments since 15 April 2015 – *AS Latvijas Attīstības finanšu institūcija Altum*, *AS Latvijas Garantiju aģentūra*, and *AS Lauku attīstības fonds*;

3. Cash and State Loan Management

2) State loans of EUR 9.5 million or 4% of the total amount of state-issued loans were issued to derived public persons partially financed from the central government budget, excluding special economic zones, port and freeport administrations, i.e. higher education establishments and scientific institutes that possess the status of a derived public person, for the implementation of projects co-financed by the EU.

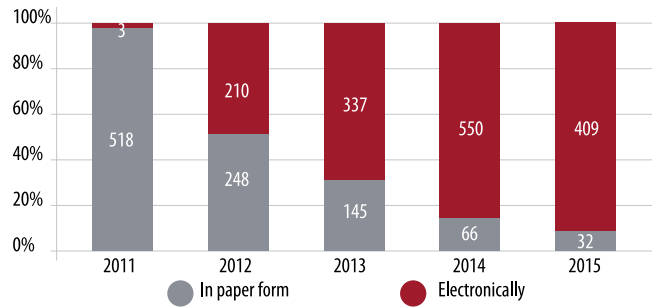
3.3.3. State Loans to Non-Financial Entities

State loans of EUR 40.9 million or 17% of the total amount were issued to non-financial entities, including:

- 1) a loan of EUR 14.5 million for the implementation of water and heat supply system reconstruction projects co-financed by the EU (for example, SIA Dobeles ūdens, SIA Ķekavas nami, SIA Grobiņas siltums, SIA Kokneses komunālie pakalpojumi, SIA Ugāles nami, SIA Vangažu namsaimnieks etc.);
- 2) a loan of EUR 16.4 million to the Liepāja Special Economic Zone Authority;
- 3) a loan of EUR 2 million to VAS Starptautiskā lidosta Rīga (Riga International Airport);
- 4) a loan of EUR 1.9 million to SIA Aviosabiedrība Liepāja;
- 5) a loan of EUR 5.3 million to SIA Liepājas tramvajs;
- 6) a loan of EUR 0.8 million to AS Daugavpils Satiksme.

According to decisions of the Cabinet and the Operational Strategy of the Treasury, state loan agreements are concluded electronically, thus saving time and financial resources. In 2015, 87% of the total amount of concluded state loan agreements and agreement protocols were concluded electronically, therefore the performance indicator of the Operational Strategy of the Treasury ($\geq 80\%$) was achieved.

Figure 17.
Number of agreements concluded with local governments, by years



3.4. Performance Indicators of the Operational Targets for Cash and State Loan Management as Defined in the Operational Strategy of the Treasury

Table 4
Performance indicators of the operational targets for cash and loan management

Result formulation	Performance indicators	Numeric values of performance indicators in 2015	
		Projected	Implemented
1. Secure and maximally effective cash management consistent with the best financial market practices has been ensured.	1. Revenues from investments of government budget funds have been ensured in the amount provided for in the annual State Budget Law (implementation as a percentage of the annual plan).	≥ 100	134
2. A methodologically transparent, effective and operative process of planning, issuing and monitoring of state loans that is consistent with the best market practices and serves the national interests has been ensured.	2.1. Satisfaction with the quality of the services received (percentage of surveyed clients ¹⁴).	≥ 75	_15
	2.2. Provision of services via electronic service delivery channels (electronically concluded agreements and memorandums of understanding (percentage of the total agreements and memorandums of understanding entered into during the year)).	≥ 80	87,17

¹⁴ In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service, as well as surveys aimed at identifying the satisfactions and needs of a particular client segment are carried out.

¹⁵ In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service, as well as surveys aimed at identifying the satisfactions and needs of a particular client segment are carried out. In 2015, the need to carry out a survey was not identified, as the performance indicator of the client satisfaction survey carried out by the Treasury in 2014 reached 87%.

Activities of the Treasury in 2015

4. Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance

4.1. Operational Principles and Areas of Development

Under the requirements of the regulatory enactments the Treasury performs the functions of the Paying and Certifying Authority for the EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism, and the Latvian-Swiss Cooperation Programme.

Figure 18.
Implementation of the Functions of the Paying and Certifying Authority of EU funds and foreign financial assistance

4.2. Functions of the Certifying and Paying Authority in the 2007-2013 Programming Period

Regular declaration of expenditures made within the framework of the 2007-2013 EU structural funds and the Cohesion Fund, as well as the receipt of repayments from the European Commission has been ensured. In 2015, an audit institution carried out an audit in order to assess the readiness of the institutions administering EU funds to conclude the 2007-2013 programming period. The Treasury's readiness to conclude the programme was assessed with the highest evaluation by the audit institution.

In 2015, within the framework of EU funds for the 2007-2013 programming period the Paying Authority executed 5,235 payment orders, including the verification and refunding of 123 advance payments. The Paying Authority refunded EUR 706,232 thousand to the beneficiaries from EU fund financing. Advance payments of EUR 28,680 thousand were made within the framework of EU fund projects.

In 2015, the Certifying Authority prepared and verified 20 expenditure declarations and submitted them to the European Commission. In 2015, 95% of financing from EU funds¹⁶ was received from the European Commission within the scope of Operational

2007-2013 Programming Period of EU Funds



- Carries out payments to the receivers of the financing of EU Structural Funds and the Cohesion Fund;
- ensures accounting of the received and paid funds;
- certifies the expenses carried out and receives refunds in the central government budget;

2014-2020 Programming Period of EU Funds



INVESTING IN YOUR FUTURE

- ensures accounting of the received and paid funds;
- certifies the expenses carried out and receives refunds in the central government budget.

European Economic Area/ Norwegian financial instrument



- Submits the approved interim financial statements and the final reports of the programme to the Financial Mechanism Office;
- summarises and submits expenditure forecasts to the Financial Mechanism Office;
- ensures accounting of the received and used funds of financial instruments;
- provides information regarding interest accrued with the framework of financial instruments to the Financial Mechanism Office;
- monitors the repayment of unused funds or ineligible expenditures to the Financial Mechanism Office.

Swiss-Latvian Cooperation Programme



LATVIJAS-ŠVEICES SADARBĪBAS PROGRAMMA
LATVIAN-SWISS COOPERATION PROGRAMME

- Opens and maintains the co-financing accounts of the cooperation programme;
- verifies the received payment requests for compliance with the Framework Agreement and the provisions of the relevant regulatory enactments, approves and submits them to the competent Swiss authorities;
- makes payments after receiving co-financing from the Swiss Confederation;
- ensures the repayment of unused funds or ineligible expenditure to the Swiss Confederation.

¹⁶ The amount mentioned within the scope of Operational programme 1 was already reached in 2013.

Activities of the Treasury in 2015

4. Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance

programmes 1 and 2 in the form of advance and interim payments, and, according to the provisions of European Commission regulatory enactments, the Treasury will not receive any additional payments, although the submission of expenditure declarations is being continued. The Treasury will receive the remaining 5% of financing from EU funds after the approval of the final documentation of the European Commission programme.

The requested amount specified in Table 5 is smaller than that received from the European Commission because the Treasury received the funding for the expenditure declarations submitted at the end of 2014 in January 2015.

The project implementation process is approaching its final stage within the scope of the Operational programmes, as the volume of declared eligible expenditure has decreased in comparison to 2014.

4.3. Functions of the Certifying Authority in the 2014-2020 Programming Period

In 2015, work was continued on the drafting of regulatory enactments for the 2014-2020 programming period (Cabinet regulations), and the development of a management and control system.

During the reporting period the Treasury received a positive initial conformity assessment from an audit institution regarding the management and control system developed by the Treasury as an EU Cohesion Fund certifying authority of the 2014-2020 programming period, which is a precondition for receiving payments (repayment of expenditures) from the European Commission.

In 2015, the Treasury received the regular advances within the scope of the operational programme "Growth and Employment".

Table 5

Expenditure Certified to the European Commission and refunds received in 2015 compared to 2014, in EUR thousand

The EU policy instrument	Declared eligible expenditure		Amount requested		Amount received	
	2014	2015	2014	2015	2014	2015
Operational programme 1 (ESF)	73 735	53 678	0	0	0	0
Operational programme 2 (ERDF)	262 980	159 342	156 921	48 693	93 669	146 336
Operational programme 3	702 065	571 285	577 533	426 179	598 473	477 042
<i>incl. ERDF</i>	326 728	293 761	274 255	231 889	293 517	233 388
<i>incl. the Cohesion Fund</i>	375 337	277 524	303 278	194 290	304 956	243 654
Total	1 038 780	784 305	734 454	474 872	692 142	623 378

Source: The Treasury, MIS of the EU SFCF ¹⁷

Table 6

Advance payments received from the European Commission in 2015, in EUR thousand

Fund	Advance sum, EUR
ERDF	22 571
CF	12 684
ESF	14 723
Incl. Youth Employment Initiative	8 703
Total	49 978

During the first accounting year – from 1 January 2014 to 30 June 2015 – no repayments were made to the receivers of financing, therefore applications for payment and account lockouts were not prepared for the respective period.

¹⁷ The Information System for the Management of European Union Structural Funds and the Cohesion Fund.

Activities of the Treasury in 2015

4. Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance

4.4. Functions of the Paying Authority within the Latvian-Swiss Cooperation Programme

In 2015, as part of the Swiss-Latvian Cooperation Programme the Paying Authority verified and submitted 14 interim and one final refund application to the competent Swiss authorities for the total amount of CHF 4.8 million, and received CHF 5.2 million with respect to the submitted refund applications (the amount received is larger than that applied for because two of the applications for funding submitted in 2014 were paid for by the competent Swiss authorities in 2015). By the end of 2015 there were five final reports submitted to the competent Swiss authorities within the scope of the programme.

4.5. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Instrument

The implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Instrument of the 2009–2014 programming period occurs mainly in the form of programmes¹⁸, thus ensuring a more efficient implementation of financial instruments. By the end of 2012 the donor states had approved all programmes submitted by Latvia, and in 2013 implementation of the programmes was started. In 2015, according to the procedure determined in the documents governing its quality management system, the Certifying Authority verified 24 interim reports and submitted them to the Financial Mechanism Office, requesting EUR 13.8 million from the donor states, and received funding in full amount for the submitted reports.

4.6. Function of the Paying Authority in the 2004–2006 Programming Period

In 2015, the Treasury received the remaining final payments from the European Commission in the amount of EUR 1.3 million for the final Cohesion Fund expenditure declarations submitted during the previous years. Thus the 2004–2006 programming period of the Cohesion Fund has been concluded¹⁹.

4.7. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Paying and Certifying Authority of the EU Policy Instruments

Table 7

Performance indicators of the operational targets for the implementation of the functions of the Paying and Certifying Authority of the EU policy instruments

Result formulation	Performance indicators	Numeric values of performance indicators in 2015	
		Projected	Implemented
1. Certified expenditure has been paid in full.	1. Expenditure received from the European Commission (percentage of the expenditure requested from the European Commission).	100	100

¹⁸ Technical assistance to the recipient country and funding for mutual relations at the national level are implemented as a project.

¹⁹ The final payment of the EU structural fund 2004–2006 programming period was received in 2013.

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

5.1. Funding of the Treasury and the Spending Thereof

The Treasury's financing consists of:

- 1) a grant from the general revenue;
- 2) chargeable services and other own revenues:
 - revenue from the servicing of state loans;
 - revenue from the servicing of state guarantees.

In 2015, the Treasury implemented the following general budget programmes and sub-programmes:

- 1) Programme "Central Government Budget Implementation and Central Government Debt Management":
 - Sub-Programme "Central Government Budget Implementation";
 - Sub-Programme "Central Government Debt Management";
- 2) Sub-Programme "Contributions to International Organisations";
- 3) Sub-Programme "Compensation to Rehabilitated Citizens";
- 4) Programme "State Budget Loans and Repayments Thereof";
- 5) Sub-Programme "Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013)";
- 6) Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism";
- 7) Programme "Grant to the Local Government Financial Equalisation Fund";
- 8) Programme "Use of Funds for Unforeseen Events".

The objective of the Sub-Programme "Central Government Budget Implementation" is the implementation and monitoring of the general central government budget, aimed towards ensuring an effective and economical process of the central government budget implementation and improving the quality of the services provided by the Treasury to bring them in line with the best financial management practices, organising and standardising the performance of the functions of the Paying and Certifying Authority with a view to ensure the compliance with the requirements of the granting institutions and the regulatory enactments of the Republic of Latvia, timely receipt of financing from the granting institutions, and

minimising the acceptable risk regarding the inclusion of ineligible expenditure in expenditure declarations and reports.

The objective of the Sub-Programme "Central Government Debt Management" is to secure the necessary funding for meeting the financing needs with more favourable terms, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the Eurozone, to ensure the implementation of a state guarantee process, to ensure a financially effective and secure cash management, by limiting and monitoring financial risks, and to timely and fully ensure the availability of cash for the performance of the financial commitments of the State, as well as ensure the implementation of a government lending process that serves the interests of the State.

The objective of the Sub-Programme "Contributions to International Organisations" is to perform the commitments of the Republic of Latvia, by making timely and full annual memberships contributions to international financial organisations and by making payments into the capital and/or reserves of the international financial institutions in which the Republic of Latvia holds capital shares, thus ensuring that the commitments assumed are met and the capital shares belonging to the State are accounted for.

The objective of the Sub-Programme "Compensation to Rehabilitated Citizens" is to ensure the timely and full disbursement of compensations to rehabilitated citizens under the decisions of the local governments submitted to the Treasury.

The objective of the Programme "State Budget Loans and Repayments Thereof" is to ensure effective state loan issuing and servicing.

The EU technical assistance project "Technical assistance to ensure the operation of the Treasury as the Certifying and Paying Authority" has been implemented within the framework of the Sub-Programme "Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013)". The objective of the project is to ensure the quality and effective performance of the functions of the Certifying and Paying Authority and qualified personnel. Support to ensure the quality and effective performance of the functions of the Treasury as the Certifying

and Paying Authority as prescribed in the Law on the Management of European Union Structural Funds and the Cohesion Fund has been ensured within the framework of the technical assistance project.

The Treasury has been participating in the implementation of the technical assistance project of the Ministry of Finance "Technical Assistance Fund for 2011-2017" within the scope of the Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism".

Programme "Grant to the Local Government Financial Equalisation Fund". The financial resources envisaged for the programme represent the funding of the Local Government Financial Equalisation Fund to ensure the performance of the requirements prescribed by the law "On Local Government Financial Equalisation". The Local Government Financial Equalisation Fund implements the equalisation of both the revenue raising capacity and expenditure needs. The grant for the Local Government Financial Equalisation Fund is envisaged to ensure the amount of grants payable to local governments, which is made up of the contributions of local governments made to the Fund and the state budget grant. The funding is also envisaged for the transfer of the grant to local governments in respect of the people who were placed in social care institutions – orphanages, old people's homes and centres – before 1 January 1998, and transferring the grant to local governments that have the lowest assessed revenues per capita after the equalisation of the local government finances. Funding for regional local governments is envisaged for ensuring the assessed revenues after the equalisation of the local government finances, at 97% of the lower limit of the non-equable financing needs.

A payment in the amount of EUR 50,000 was carried out in the European Investment Bank Eastern Partnership Technical Assistance Trust Fund within the framework of the programme "Use of Funds for Unforeseen Events" in order to provide technical assistance in the projects financed by the European Investment Bank in the Eastern Partnership states and improve the quality of the respective projects by continuing to bring the partner states closer to European Union member states.

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 8
Central government budget financing and spending
(Summary by programme, EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	389 679 510	485 971 566	476 217 631
1.1.	grants	385 985 748	482 543 347	472 161 277
1.2.	chargeable services and other own revenues	3 693 762	3 381 419	4 009 554
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	344 572 069	441 350 543	430 718 630
2.1.	maintenance costs (total)	344 021 047	440 891 967	430 263 502
2.1.1.	running costs	13 930 827	11 182 433	8 745 694
2.1.2.	interest expense	299 928 297	392 921 314	384 856 354
2.1.3.	subsidies, grants and social benefits	111 710	135 173	52 058
2.1.4.	regular payments into the European Community budget and international cooperation	113 875	173 664	170 578
2.1.5.	maintenance cost transfers	29 936 338	36 479 383	36 438 818
2.2.	expenditure for capital investments	551 022	458 576	455 128
3.	Financial balance	-45 107 441	-44 621 023	-45 499 001
4.	Financing	-45 107 441	-44 621 023	-45 499 001
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	485 780	1 289 691	387 298
4.2.	Shares and other holdings in the equity of economic operators	-45 593 221	-45 910 714	-45 886 299

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 9
Central government budget financing and spending for the general budget Programme "Central Government Budget Implementation and Central Government Debt Management" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	313 703 317	403 146 843	393 559 467
1.1.	grants	310 009 555	399 718 624	389 503 113
1.2.	chargeable services and other own revenues	3 693 762	3 381 419	4 009 554
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	314 189 097	404 436 534	404 436 534
2.1.	maintenance costs (total)	313 755 542	403 977 958	393 491 637
2.1.1.	running costs	13 827 245	11 056 644	8 635 283
2.1.2.	interest expense	299 928 297	392 921 314	384 856 354
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	433 555	458 576	455 128
3.	Financial balance	-485 780	-1 289 691	-387 298
4.	Financing	485 780	1 289 691	387 298
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	485 780	1 289 691	387 298

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 10
Central government budget financing and spending for the
general budget Sub-Programme "Central Government Budget
Implementation" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	5 773 179	5 628 997	6 254 969
1.1.	grants	2 079 417	2 247 578	2 245 415
1.2.	chargeable services and other own revenues	3 693 762	3 381 419	4 009 554
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	6 258 959	6 918 688	6 642 267
2.1.	maintenance costs (total)	5 825 404	6 460 112	6 187 139
2.1.1.	running costs	5 825 404	6 460 112	6 187 139
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	433 555	458 576	455 128
3.	Financial balance	-485 780	-1 289 691	-387 298
4.	Financing	485 780	1 289 691	387 298
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	485 780	1 289 691	387 298

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 11
Central government budget financing and spending for the general budget Sub-Programme "Central Government Debt Management" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	307 930 138	397 517 846	387 304 498
1.1.	grants	307 930 138	397 471 046	387 257 698
1.2.	chargeable services and other own revenues	3 693 762	3 381 419	4 009 554
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	307 930 138	397 517 846	387 304 498
2.1.	maintenance costs (total)	307 930 138	397 517 846	387 304 498
2.1.1.	running costs	8 001 841	4 596 532	2 448 144
2.1.2.	interest expense	299 928 297	392 921 314	384 856 354
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 12
Central government budget financing and spending for the general budget Sub-Programme "Contributions to International Organisations" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	45 707 096	46 034 378	46 006 877
1.1.	grants	45 707 096	46 034 378	46 006 877
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	113 875	123 664	120 578
2.1.	maintenance costs (total)	113 875	123 664	120 578
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	113 875	123 664	120 578
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
3.	Financial balance	45 593 221	45 910 714	45 886 299
4.	Financing	-45 593 221	-45 910 714	-45 886 299
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-45 593 221	-45 910 714	-45 886 299

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 13
Central government budget financing and spending for the general budget Sub-Programme "Compensation to Rehabilitated Citizens" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	111 710	135 173	52 058
1.1.	grants	111 710	135 173	52 058
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	111 710	135 173	52 058
2.1.	maintenance costs (total)	111 710	135 173	52 058
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	111 710	135 173	52 058
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 14
Central government budget financing and spending for the general budget Programme "Grant to the Local Government Financial Equalisation Fund" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	29 936 338	36 479 383	36 438 818
1.1.	grants	29 936 338	36 479 383	36 438 818
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	29 936 338	36 479 383	36 438 818
2.1.	maintenance costs (total)	29 936 338	36 479 383	36 438 818
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	29 936 338	36 479 383	36 438 818
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 15
Central government budget financing and spending for the general budget Sub-Programme "Limited Competition Projects Financed by the European Regional Development Fund (ERDF) (2007-2013)" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	110 560	-	-
1.1.	grants	110 560	-	-
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	110 560	-	-
2.1.	maintenance costs (total)	29 936 338	-	-
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	110 560	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 16
Central government budget financing and spending for the general budget Sub-Programme "Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013) (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	92 865	107 589	98 789
1.1.	grants	92 865	107 589	98 789
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	92 865	107 589	98 789
2.1.	maintenance costs (total)	85 958	107 589	98 789
2.1.1.	running costs	85 958	107 589	98 789
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	6 907	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 17
Central government financing and spending for the general budget
Sub-Programme "Technical Assistance for the Absorption of the
European Economic Area Financial Mechanism and the Norwegian
Financial Mechanism" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	17 624	18 200	11 622
1.1.	grants	17 624	18 200	11 622
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	17 624	18 200	11 622
2.1.	maintenance costs (total)	17 624	18 200	11 622
2.1.1.	running costs	17 624	18 200	11 622
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Table 18
Central government budget financing and spending for the general budget programme "Use of Funds for Unforeseen Events" (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	-	50 000	50 000
1.1.	grants	-	50 000	50 000
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	-	50 000	50 000
2.1.	maintenance costs (total)	-	50 000	50 000
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	50 000	50 000
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

State and Local Government Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, a negotiated procedure and a procurement procedure pursuant to Section 8, Paragraph seven of the Public Procurement Law and by applying a procurement procedure pursuant to Section 8.2 of the Public Procurement Law. For undertaking the procurement, the Treasurer establishes, based on its order, a procurement committee that is competent within the field of procurement in respect of which the contract is being awarded. Procurements are registered and the performance of contracts is monitored in the Centralised Resource Management system *Horizon*. In 2015, the Treasury undertook 21 procurements (excluding procurements valued under EUR 4,000) and awarded contracts worth EUR 2,010,376, excluding VAT.

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

5.2. Personnel and Personnel Management

At the beginning of 2015, there were 190 official positions at the Treasury: 173 civil service positions and 17 staff positions, while at the end of 2015 there were 191 official positions: 175 civil service positions and 16 staff positions. In 2015, the average number of employees was 193 (including employees on a long-term leave of absence): 176 civil servants and 17 staff.

In 2015, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 18 and 19).

Figure 18.
Breakdown of the Treasury personnel by gender, 2011 to 2015 (%)

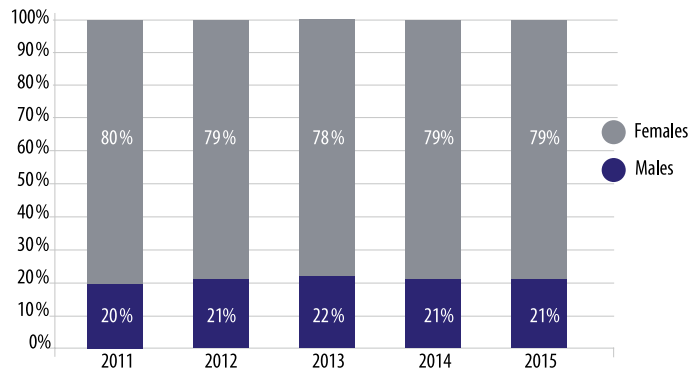
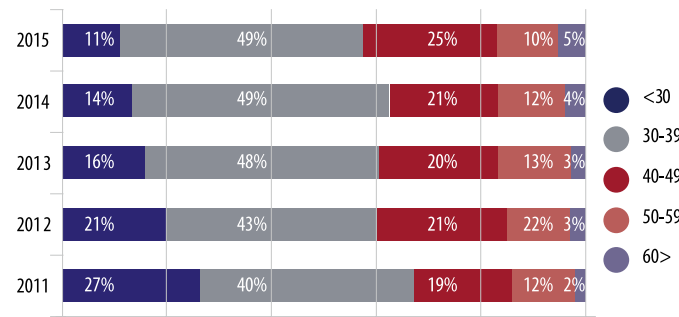


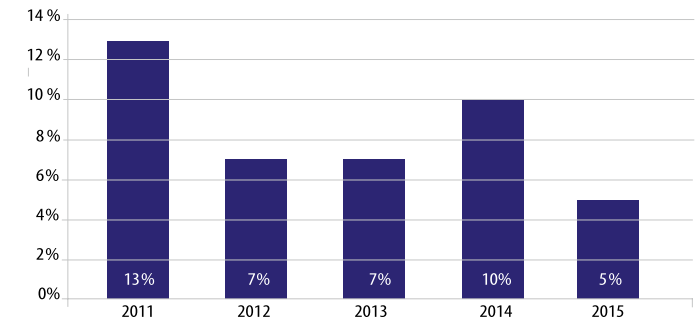
Figure 19.
Breakdown of the Treasury personnel by age, 2011 to 2015 (%)



The Treasury combines functions characteristic of a public administration institution and those of a banking sector operator with a dynamic work environment that is full of new challenges. The Treasury can be characterised by low personnel turnover and long length of service, which speaks of the employees' loyalty to the Treasury as a workplace. In 2015, 9 employees or 5% of the total personnel were released. The percentage change of personnel turnover decreased by 5% in comparison to 2014 (see Figure 20).

After last year's debut the Treasury managed to retain its 3rd place in the business sector Finances of the annual survey regarding the most popular employer in Latvia organised by the internet recruitment company *CV-Online Latvia* in 2015, and this can be considered as high praise in a sector, which is mainly dominated by commercial banks, and it shows that the work carried out by the Treasury in strengthening the loyalty of our employees and maintaining the good reputation of the Treasury among society is highly valued.

Figure 20.
Released personnel, 2011 to 2015 (%)



The greatest asset of the Treasury is its highly educated and professional personnel. 98% of the personnel hold university degrees (of those, 51% hold a master's degree). In order to attract professional personnel, the Treasury cooperates with institutions of higher education and a recruitment agency. With a view to ensuring a professional and impartial personnel selection process, a selection committee has been established; the committee selects the most suitable candidates by using a scoring system and arranging practical tests and interviews in several rounds. During the reporting year, 14 specialists entered into a civil service or employment relationship with the Treasury.

At the time of approving the annual Training Plan, training needs are assessed and determined with regard to the strategic direction of the institution, the functions of the structural units, and other criteria that justify the need for training for the effective performance of job-related tasks. In organising the training process, the Treasury seeks solutions for the professional development and enhancement of the competencies of its employees, including free seminars and experience-sharing events.

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

Same as in previous years, training organised by the employees themselves has been of relevance as well — the training covered areas such as information security, preparation of annual reports and financial information, and corporate training regarding the prevention of corruption was organised for all employees with the assistance of specialists. During the Newcomer Days, employees get acquainted with the functions of the Treasury, its strategic direction, risk management and information security policy, as well as other information necessary for work.

In 2015, within the framework of the ESF project “Support for Reforms within the Area of Budget and Financial Policy”, some civil servants involved in the area of finance were once again given the opportunity to attend experience-sharing events and specialised advanced training on the best practices and competence of other countries in areas of finance, such as the improvement of the government borrowing strategy, liquidity management, management of financial and fiscal risks, compliance with international financial rights and standards in financial market transactions etc.

5.3. Quality, Risk and Information Security Management

Since 2006 the Treasury’s quality management system has been certified in accordance with the requirements of the international standard ISO 9001 “Quality management systems. Requirements”.

In 2015, the Treasury started transitioning its management system from the ISO 9001:2008 standard to the ISO 9001:2015 international standard version, and in February 2016, as the audit of the Treasury’s quality management system came to a successful conclusion, the Treasury became the first public administration institution to be certified according to the requirements of the new international standard ISO 9001:2015. The auditors approved of the fact that the new requirements of the ISO 9001:2015 standard version — risk management, leadership, communication, information gathering on interested parties and monitoring of influencing factors — were determined, directed and reviewed at the Treasury before the respective requirements were defined within the new standard.

The audit provided assurance that the quality management system implemented since 2006 is efficiently maintained, directed towards development and ensures a constant improvement of the Treasury’s work, as well as the conformity of the services provided with the interests of the state and its residents, as well as the requirements prescribed by laws and regulations. The whole sphere of activity of the Treasury has been certified; it includes central government budget implementation, cash and state loan management, implementation of the functions of the paying and certifying authority of the EU funds and foreign financial assistance.

The auditors had the highest praise for the following special examples and good practice in the work of the Treasury: the level of detail of the quality management system and traceability of processes, strategic management, efficient management of communication processes by providing the preservation of knowledge and its successful circulation within the institution, information technology management tools and personnel management.

Risk management is an essential part of the Treasury’s management processes, which facilitates the achievement of the Treasury’s objectives and the efficient management of processes and projects. Risk management in the Treasury is directed towards the promoting of good management principle observation, which includes the organisation of events on the management and reduction of fraud and corruption. The Treasury’s risks are divided into different risk categories. In 2015, a new certifying authority risk category was introduced, and it is related to EU fund expenditures and the approval of declarations. The external auditors gave special attention to the assessment of the Treasury’s risk management methodology and actions with risks.

Due to the institution’s long-term experience in risk management, representatives of the Treasury are invited to public administration institutions, as well as various events to share their good practice and experience.

Activities of the Treasury in 2015

5. Governance of the Treasury as a Public Administration Institution

In order to ensure that services provided by the Treasury are of high quality, by giving special attention to the operational stability and reliability of information processing systems, one of the Treasury's priorities since 2014 has been information security management. In 2015, the audit of the Treasury's information security management system came to a successful conclusion, moreover the transition to the new version of the international standard ISO/IEC 27001:2013 was carried out, and the information security management system is regularly being improved in order to protect the Treasury's resources from external, internal, deliberate and accidental threats.

When developing the Public Administration Unified Client Servicing Manual, the Treasury's experience and examples of good practice were used in it, whereas the Ministry of Environmental Protection and Regional Development developed and approved the "Manual for the Management of Information and Communication Technology Projects of National Significance" on a national level by taking the project management methodology and information system implementation process developed and implemented by the Treasury as an example.

5.4. Internal Control System

The internal control system of the Treasury has been established on the basis of broad key constituents of the internal control system: the control environment, job

performance appraisal, risk management, control activities, monitoring, an efficient flow of information and mutual communication.

The Treasury has established a control environment culture by ensuring that its operations comply with the quality management system and the code of ethics, facilitating the engagement of employees in the improvement of the internal control system. The Treasury has established an organisational structure with clearly defined responsibilities and powers, segregation of duties and reporting procedure.

Risk management and quality management systems are embedded in the daily operations and project management, shifting the control activities of the Treasury from corrective to preventive. The processes of the Treasury and the controls applied in implementing them have been set out in the internal documents governing the quality management system.

The Treasury performs the monitoring of the internal control system by applying the process management approach, measuring the process operation quality criteria, using the strategic management process, analysing the Treasury's performance, carrying out internal audits, and by implementing the recommendations provided within the scope of internal audits and other assessments with a view to improving the performance of the internal control system.

The results of internal audits performed in 2015, as well as the process of implementation of audit recommendations, attested to the fact that the Treasury's internal control system is functioning well and the assessed controls are generally adequate, sufficient and efficient, providing plentiful assurance that the Treasury's risks are being managed and the institutional objectives are being met.

The internal control system ensures the execution of the defined institutional goals in accordance with the strategic objectives and in compliance with the requirements laid down in the external and internal regulatory enactments and documents.

The Treasury has been continuously improving its processes by adhering to the examples of best practices and the experience of organisations of the financial sector.

Activities of the Treasury in 2015

Public Communication

Measures for Public Information and Education

The main objective of the Treasury's communication is to create and maintain a positive image of the Treasury that is in line with the main objectives of the Treasury in the external and internal environment, by implementing a complex of purposeful, understandable and coordinated communication measures.

Considering the functions delegated to the Treasury, the Treasury's communication focuses primarily on rendering inter-institutional services, informing of clients and other interested parties²⁰, as well as targeted investor relations management – provision of information to foreign and international financial institutions, credit rating agencies, and investors who use the information provided by the Treasury on public debt management, performance indicators and future trends, and current developments in the Latvian financial sector.

The communication processes of the Treasury are significantly influenced by the national socio-political and economic conditions. The Treasury remains at the epicentre of events, and the interest of mass media and the public regarding the Treasury's operations, functions and responsibilities has remained high. The Treasury regularly informs the mass media about the matters falling within its scope of competence: it prepares and distributes press releases, provides interviews, and replies to questions of interest to the mass media.

In accordance with the Communication Strategy of the Treasury for 2014–2016, the Communication Plan of the Treasury for 2015 has been developed and fulfilled with

a view to ensuring the planning of efficient and successful operations, creating and maintaining a favourable and cooperative environment for internal communication within the Treasury, and to develop the image of the Treasury using additional external communication activities.

The Treasury's website www.kase.gov.lv provides information on the institution and its functions. Information on the latest developments at the Treasury is posted and updated on the website on a regular basis, and it is also possible to ask questions and file submissions. Visitors to the website can receive prompt answers to their enquiries, whereas the Treasury has the opportunity to familiarise itself with the issues that are of interest to the clients and interested parties, and, if necessary, prepare more in-depth information to be posted on the website and distributed to the clients and interested parties, as well as identify potential problems and prevent them.

In order to build two-way communication with the general public, counterparties and other stakeholders more actively, thus promoting awareness of the competences of the Treasury, the Treasury also communicates through its profile on the social media site *Twitter*.

A secure investment opportunity has been opened up for Latvian residents – savings bonds, the purpose of which is to provide an opportunity for every Latvian resident to purchase government securities, thus temporarily entrusting their money to the State. The website www.krajobligacijas.lv was created for making purchases of savings bonds, and it provides all of the necessary information and explanations for purchasing savings bonds.

Events aimed at identifying public opinion regarding satisfaction with the quality of the operation of the Treasury and the results thereof

It is very important for the services provided by the Treasury to be comprehensible, efficient, convenient and simple, and planned and coordinated communication has to be ensured. This is achieved by analysing the needs of the clients and requirements of the stakeholders, using the options provided by modern information technologies, as well as client-driven servicing principles.

In order to ensure compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, including amendments to normative acts, as well as detailed explanations, thus providing true, comparable and comprehensible information in the Annual Report, the Treasury continued to organise informative seminars for the preparers of the reports in 2015. In order to determine the satisfaction of the clients and examine suggestions for possible improvements to the seminar, the Treasury carried out a survey of its participants. 96.9% of participants of the Treasury's informative seminars assessed the possibility to receive explanatory information in such a manner positively.

The Treasury thanks its clients for their opinion, which is very important to the Treasury. The results of the survey will also be used in the future in order to develop and improve quality and diverse services in accordance with good management and client servicing standards.

²⁰ A person or a group of persons that can have a direct or indirect influence or be influenced as a result of a decision or action of the Treasury.

Activities of the Treasury in 2015

The Treasury's Development Priorities for 2016

- 1) Ensuring borrowing in international financial markets in the amount of EUR 3.2 billion from 2016 to 2018.
- 2) Ensuring financially efficient liquidity management in non-standard conditions of the financial market.
- 3) Ensuring the quality provision of e-services.
- 4) Harmonising the content of the public sector financial report with the guidelines of the international public sector accounting standards.
- 5) Ensuring the certification of expenses of the new 2014-2020 programming period of EU funds and conclusion of the 2007-2013 programming period of EU funds.