



Latvija 100 



Treasury  
Republic of Latvia

The Treasury Public Report for 2017

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## 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
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## The Treasurer's Statement

At the dawn of the year of Latvia's centenary – 2018, in this report we not only look back to the accomplishments of 2017, but also take a glance at a distant 1918 with interest, when, by the 18 December 1918 decision of the Provisional Government of the Republic of Latvia, the Treasury was created under the subordination of the Ministry of Finance, where, at the end of 1918, several private individuals and Latvian credit institutions contributed the first donations and loans for the necessary expenditures of the newly established State, and later on it also monitored the entire flow of the State revenue and expenditures, as defined by the *Order on the Structure of the Treasury* approved by the government on 25 March 1919. We outline the role of the Treasury in the process of the establishment of the independent State of Latvia in the Chapter of this Report "The Treasury celebrates its centenary", and also provide a parallel historical insight into the implementation of the most characteristic functions of the Treasury 100 years ago in separate Chapters of this Report.

The Treasury led the year 2017 under the aegis of the assessment of strategic goals and objectives. When drafting the Operational Strategy of the Treasury for 2017–2019, we have jointly, attracting each and every employee, analysed and reviewed the strategic progress of the authority, gathered information on development possibilities, assessed the conclusions and recommendations of internal audits, process measurements and risks, decisions on the optimisation of internal processes and allocation of the saved-up resources to the projects of the Treasury, the development and management of changes, setting new initiatives, as well as revising the overriding goal, vision and strategic priorities of the Treasury. We have considered the global trends, the political, legal, economic, social and technological impact factors and innovations in the field of technologies influencing the financial sector and the provision of services.

In terms of the development of the country, 2017 made its name with the strongest economic growth over the period of the last six years, promoted by the economic growth of the European Union, a favourable economic environment, which was also ensured by the decisions of the monetary policy of the European Central Bank, by setting negative short-term deposit rates and implementing the programme of acquisition of public sector securities.

For achieving the strategic goal of the central government borrowing – to achieve a reduction in the central government debt servicing costs in the medium term, ensuring borrowing in international financial markets under the most favourable terms possible – in 2017, the Treasury carried out borrowings in the international financial markets in the amount of

EUR 1 billion, issuing additional issues to the already traded 10-year and 20-year Eurobonds, as well as, for the first time in the history of Latvia, issuing the especially long term – 30-year – Eurobonds in the amount of EUR 500 million, making use of the favourable situation in the financial markets for fixing low interest rates in the long term.

In 2017, the Treasury successfully joined the newly established Baltic depository institution Nasdaq CSD, whose securities payment system fully meets the requirements of a pan-European securities payment platform. This is to be viewed as a significant project of integration of the Baltic capital market, ensuring the application of uniform securities payment standards.

This year, the Treasury will complete the priority measures implemented for the period of four years for the high-level compliance of financial reports with the guidelines of the international accounting standards of the public sector. While realising the respective measure, investors and international rating agencies will receive information (statements) on the financial situation of the state, which corresponds with the best international practice and is comparable between states, and serves as significant preliminary work for the implementation of the European public sector accounting standards. In 2017, the third stage of the measure has been implemented – handbooks have been drafted on the journal entries, activities related to the accounting and budget execution accounts and reflection in reports, *inter alia*, for the use of auditors and developers and promoters of information systems.

By implementing a significant public administration pilot project for centralisation of the functions of the accounting and bookkeeping of the central public authorities and their subordinate authorities, the Treasury drafted the legal regulation of the provision of accounting and bookkeeping services, uniform accounting and bookkeeping processes and procedure, the personnel management processes related to the payroll records, and implemented a technical solution, in order to provide, starting from 2018, accounting and bookkeeping services to the authorities involved in the pilot project – the State Chancellery, the School of Public Administration, the Cross-Sectoral Coordination Centre and the National Electronic Mass Media Council.

Along with the submission of an outcome document prepared by the Treasury to the European Commission, the 2007–2013 programming period of the European Union funds has been officially closed, substantially contributing to the development

of the country's national economy and raising the well-being of society. The Audit Authority has acknowledged that the final statements of expenditures prepared by the Treasury give a true view of the expenditures made within the framework of the programme; the expenditures were incurred in line with the law and correctly, thus approving the conformity and efficiency of the European Union fund management and control system created within the state. Thanks to the created and correspondingly assessed management and control system, in 2017, Latvia was one of the few European Union Member States to submit the account closing documentation in the 2014 – 2020 Programming Period of the European Union Funds.

External auditors have given a positive assessment regarding the activities of the Treasury in 2017 – in February 2018 the supervisory audit of the Quality Control System and Information Security Management System (integrated management system) was successfully accomplished. The auditors of Bureau Veritas Latvia recognised that the implemented management system is being effectively maintained and monitored, the monitoring of the impact of external and internal factors and risk management is being carried out. The management system of the Treasury has been assessed as an example of good practice.

The Treasury expresses gratitude to every employee for their professionalism, awareness and interest in the provision and development of the institution's processes, serving as a guarantee for the achievement of strategic objectives and quality performance of everyday tasks.



Treasurer  
**Kaspars Āboliņš**  
Riga, 24 April 2018

# The Treasury celebrates its centenary

The beginnings of the history of the Treasury date back to 19 November 1918, when the Ministry of Finance was established with four departments, *inter alia* – the Treasury Departments. The Treasury actually commenced operating on 18 December 1918. On 1 January 1919 the Treasury was forced to suspend its activities and evacuate to the Kurzeme Region. Following a short stay in Jelgava, it continued its activities in Liepāja till 16 April 1919, but at the beginning of June of the same year returned to Riga together with the Provisional Government.

On 1 April 1922, the Treasury Department was liquidated and its functions were delegated to the State Savings and Loans Bank, on the basis whereof, by taking over its assets and liabilities, the Bank of Latvia was established on 1 November 1922.

On 1 December 1922, the Public Accounting and Central Government Budget Division of the Treasury Department was formed within the composition of the Credit Department of the Ministry of Finance.

We can start speaking about the financial management of Latvia as an independent State starting from 18 November 1918, when, along with the proclamation of the Republic of Latvia, the Provisional Government of the state was established, and the ministers in its composition (*inter alia*, the Minister for Finance), despite the complicated domestic and foreign political situation, started forming the executive power of the State – the ministries (incl., the Ministry of Finance) and administering the sectors under the subordination thereof.<sup>1</sup>

On 1 February 1927, the Credit Department of the Ministry of Finance was liquidated and its functions were delegated to the State Maintenance Department. The Public Accounting and the Treasury were subordinated to the Central Government Budget Division of this Department.

Organisation of the Ministry of Finance started immediately after the proclamation of the Republic of Latvia and the establishment of the Provisional Government, when the first civil servants were employed both in the central apparatus and in the established divisions of the Treasury and the tax administration institutions. This work had to be suspended at the end of 1918, when the so-called Freedom Fights began. Further formation of the Ministry of Finance resumed in July of 1919, after the Provisional Government of the Republic of Latvia returned to Riga.<sup>2</sup>

During the period of time from 1927 till 1928, the function of the treasury of the budget has been fulfilled by the banks, but from 1928 till 1992 – by the Central Bank. The beginning of the formation of a modern Treasury is marked by the technical assistance mission of the International Monetary Fund, initiating, in 1992, the establishment of the Treasury as an independent authority in Latvia, and the Ministry of Finance, jointly with the technical assistance missions of the International Monetary Fund, prepared the project for establishment of the Treasury. The Council of Ministers of the Republic of Latvia adopted the decision (on 28 December 1992, No. 557) "On Delegation of the Functions of the Treasury to the Ministry of Finance", stating the gradual taking over of the fulfilment of the functions of the treasury of the central government budget from the Bank of Latvia, in order to ensure the accumulation of the budget resources for financing the expenditures, as well as complete accounts of the funds of the central government budget. Since 1997, the Treasury has been an independent direct administration authority under the subordination of the Ministry of Finance.

By the 18 December 1918 decision of the Provisional Government of the Republic of Latvia, the Treasury has been created under the subordination of the Ministry of Finance, starting its work in the Old Town of Riga, at 12 Liela Pils Street, where, at the end of 1918, several private individuals and Latvian credit institutions contributed the first donations and loans for the necessary expenditures of the newly established State. Later on the Treasury monitored the entire flow of the State revenue and expenditures, as defined by the Order on the Structure of the Treasury approved by the government on 25 March 1919.<sup>3</sup>

### The Treasury celebrates its centenary

Former Director of the Riga Division of the National Bank of Russia **Voldemārs Miesiņš** was approved in the office of the First Treasurer of the Treasury of the Chief Cashier of the State, who, in turn, appointed Treasurers of the Divisions of the Treasury to office in several cities of the circuits.



Figure 1. **Voldemārs Miesiņš, the First Treasurer of the Treasury** (Source: Latvia State Historical Archives)

On 25 March 1919 the Order on the *Structure of the Treasury* was issued, establishing the task of the Treasury – to manage monetary funds and other values for the needs of the State.

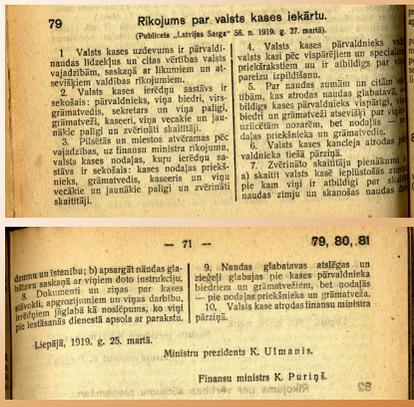


Figure 2. **Order on the Structure of the Treasury, dated 25 March 1919** (Source: Latvia State Historical Archives)

<sup>1</sup> Urtāns Aigars. *Manuscript: Latvian Finances and the History of the Ministry of Finance, 2008.*

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

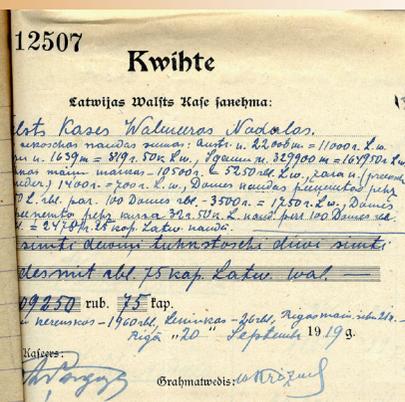
# The Treasury celebrates its centenary

Viensots atpakašas ostrobu nauda norauzumam	Almonas uz 164 oktobra 1919.	Samaksa par lauru uz 16. okt. 1919.	Kopā	Samaksa par lauru uz 16. okt. 1919.	Almonas uz 23 oktobra 1919.
1. Lauksaimniecības nauda	112539	3105	115644	18996	134640
2. Krievu zara nauda	535	94	629	—	629
3. Čehoslovāku nauda	183	20	203	20	223
4. Mašīnu nauda	50	—	50	—	50
5. Atpakašas nauda	20132	1620	21752	2947	24700
6. Krievu domes nauda	20150	—	20150	—	20150
7. — atpakašas nauda	890	52	942	25	967
8. Atpakašas nauda	17	—	17	—	17
<b>Kopā</b>	<b>247141</b>	<b>4651</b>	<b>251792</b>	<b>20468</b>	<b>272260</b>

## The Treasury celebrates its centenary

The first revenue of the State of Latvia was the advance payment issued by August Winning – the provisional authorised representative of the German Government (voucher in the amount of 1 million ostmarks), the amount of excise duty paid in by the tobacco manufacturers Volšmits, Valeika and Rutenbergs (45, 860 ostrubles), loan of several Latvian credit institutions (260 thousand ostrubles), two Tsarist Russia gold coins donated by two women and 5 or 6 British pounds exchanged against the money in circulation, performed by the officers of a British warship. In turn, the first costs in the form of Provisional Government royalties in the amount of 300 and 1, 600 ostrubles from the Treasury were received, correspondingly, by the painter Ansis Cirulis, who had developed a drawing of the first postage stamp of Latvia, and the painter Jāzeps Grosvalds, who was the author of the first coat of arms of the Republic of Latvia.

Figure 3 and 4. Documents and Forms of the Treasury in 1919 (Source: Latvia State Historical Archives)



On 1 April 1919, the government of Latvia adopted the decision on the formation of the State Savings bank, which was authorised to accept an unlimited amount of deposits. This savings institution started operating in July–August of the same year, with several Savings Bank Divisions also being opened by several Divisions of the Treasury in Latvian cities, which, on 30 June 1921, had been granted the rights to carry out all banking operations. Since 18 March 1921, it has been transformed into the State Savings and Loan Bank, which, starting from 23 February 1922, also fulfilled the functions of the Treasury. Along with the achieved balance in the central government budget and the suspension of printing paper money due to the development of economic life, the need for stable means of circulation also grew, thus it became necessary to establish the public issue authority. On 19 September 1922, the Cabinet of Ministers adopted the decision on the establishment of the independent public issue bank – the Bank of Latvia. The Bank of Latvia took over all the assets and liabilities of the State Savings and Loan bank under liquidation, and it also had the duty to fulfil the operations of the Treasury. This reorganisation of national importance took place under the management of the Credit Department. In the twenties of the last century the Credit Department had a special function – the management of the central government budget and ensuring of the unified state accounting system. At the end of the twenties of the last century, by carrying out several reorganisations of the central apparatus of the Ministry of Finance, the Credit Department was renamed the State Maintenance Department, being merged with the Industry Department and the Government Flax Monopoly Department<sup>5</sup>

On 22 March 1919, in Liepāja, the Provisional Government of Latvia adopted the decision on the Government Securities Press. By the loan granted by the State, the Government Securities Press established under the subordination of the Treasury started to print the first Latvian Treasury notes, stamp duty notes, government securities etc., which were supposed to increase the government revenue of Latvia. At the same time, on 22 March 1919, the law on Latvian Treasury Notes secured by all State properties and revenue was also adopted, and the referred to governmental order granted rights to the Ministry of Finance to release the printed Latvian exchange notes and Latvian Treasury notes in the total value of 25 million roubles

into circulation. The law prescribed both the official rate of the Latvian rouble, and the fact that the newly printed notes, along with the other ones, represent legal means of payment in Latvia.<sup>6</sup>

The rights of currency issue in the Republic of Latvia were vested in the Ministry of Finance, and after the commencement of activities on 1 November 1922 – also in the Bank of Latvia. Thus, the monetary system of Latvia was comprised of Latvian Treasury notes (in the nominal value of 5, 10 and 20 lats, the sum total whereof in circulation could not exceed 48 million lats) and coins, as well as the notes of the Bank of Latvia (bank-notes of 10, 20, 25, 50, 100 and 500 lats), which were backed by gold.<sup>7</sup>

During the period of the economic crisis, the Ministry of Finance also exercised its rights to issue the notes and metal coins of the treasury. Therewith, money in the value of about 12 million lats was additionally issued. This caused inflation, which, in the middle of the thirties of the last century, triggered the change in the exchange rate of the Latvian lat – devaluation of it took place (gold standard of the Latvian lat was abolished and the Latvian lat was pegged to British pounds sterling). The devaluation of the lat in 1936 was a coercive step, because after the economic crisis in the first half of the thirties of the last century a situation unfavourable to Latvia set in the global markets outside the control of the government. Therewith, the central government foreign debt increased.<sup>8</sup>

When commencing the work, the structural units of the Ministry of Finance were each in charge of their own financial field. At the end of 1918, in 1919 and 1920, the public financial system in Latvia was organised without the central government budget, but after the adoption of the law On the State Budget in 1921, the Central Government Budget Division and the State Uniform Accounting Division were formed in the composition of the Credit Department, but the Treasury Department in charge of the main Treasury in Riga, which, from summer of 1919 was located in the leased building in 64/66 Aleksandra Street (now – Brīvības Street), and the divisions thereof throughout Latvia, were segregated as a separate body. 335 employees were employed in the Treasury and its Divisions on 1 September 1920.<sup>4</sup>

<sup>4</sup> Urtāns Aigars. Manuscript: Latvian Finances and the History of the Ministry of Finance, 2008.

<sup>5</sup> Ibid. <sup>6</sup> Ibid. <sup>7</sup> Ibid. <sup>8</sup>

# The Treasury celebrates its centenary



*The Treasury celebrates its centenary*

Figure 5.  
500 rouble banknote (front) of the Treasury, bearing the signature of the Minister for Finance Kārlis Puriņš and the Treasurer of the Treasury Kārlis Vanags

On 22 March 1919, in Liepāja, the Provisional Government of Latvia adopted the decision on the Government Securities Press and started to print the first Latvian Treasury notes, stamp duty notes, government securities etc., which were supposed to increase the government revenue of Latvia. At the same time, on 22 March 1919, the law on Latvian Treasury Notes secured by all State properties and revenue was also adopted, and the referred to governmental order granted rights to the Ministry of Finance to release the printed Latvian exchange notes into circulation. The law prescribed both the official rate of the Latvian rouble, and the fact that the newly printed notes represent legal means of payment in Latvia, along with many other notes, the circulation whereof in Latvia at that time adversely affected the rate of the Latvian rouble. Nevertheless, the new Treasury notes in the first half of 1919 did not gain the confidence of the population, and they still relied more upon the roubles of Tsarist Russia and the ostmarks issued by the German occupation government during World War I.

A large part of expenditures in the central government budget in the first half of the twenties of the last century was also comprised of the repayment of the central government borrowings of the previous years both to domestic and foreign creditors. On 1 April 1922, the Credit Department of the Ministry of Finance, on behalf of the state, took over all debt liabilities of the liquidated State enterprises and continued repaying the debts to various creditors. The central government foreign debt to European countries for various types of assistance and loans received at the initial period of the existence of the state has reached considerable volumes – 116.4 million lats (maximum sum in 1921-1922) and the gradual repayment thereof commenced in 1924. A favourable situation for the repayment of foreign debt occurred during the years of economic crisis: at the beginning of 1930, the central government foreign

debt of Latvia comprised 110 million lats, but on 1 January 1934 – 79.12 million lats – the repayment of the debt took place, by means of the devaluated exchange rate of the British pounds sterling and the US dollar, while the exchange rate of the Latvian lat remained unchanged. By the end of the thirties of the last century, the state of Latvia had repaid the 5% of loans of the independence of the State of 1918 and 4% of the domestic loans of the state of 1920. At the end of the thirties of the 20th century, the central government foreign debt had decreased as well: by 1939, it comprised 123.2 million lats<sup>9</sup>

The Constitutional Assembly adopted the first law On the State Budget on 26 April 1921. It prescribed the budget period, the procedure for the formation and approval of the central government budget, as well as the supervision of the implementation thereof. After the approval of the central government budget in the Saeima (Parliament), the Minister for Finance signed the order on opening of the credit facility in the State Savings and Loan Bank and from 1922 – in the Bank of Latvia. At the end of the budgetary year, the Minister for Finance closed all unused loans and transferred the balance of the treasury into the State Reserve Fund. According to the central government budget legislation, independent budget management had been also prescribed for the local governments of rural territories and towns, as well as by 1 October 1935 – of the circuits. The loans issued to local government in accordance with the 10 February 1931 law have been taken from the Fund for Restoration of the Economic Life of the State established at the beginning of the twenties of the last century. The same law allowed the local governments to increase the local taxes and utility duties prescribed by them by 20%.<sup>10</sup>

After the 15 May 1934 coup d'état, the Cabinet of Ministers took over all functions related to the central government budget. The Minister for Finance and the Ministry of Finance being in charge of the development of the central government budget and the management thereof, gained great influence in the management of the central government budget at a State level.<sup>11</sup>

<sup>9</sup> Urtāns Aigars. Manuscript: Latvian Finances and the History of the Ministry of Finance, 2008. *Ibid.* <sup>10</sup> *Ibid.* <sup>11</sup> *Ibid.*

# The Operational Strategy of the Treasury

The operation and strategic course of action of the Treasury has been implemented in accordance with strategic goals and objectives in the field of operation of the Treasury set by the "Operational Strategy of the Treasury for 2017-2019" approved by the Minister for Finance, as well as in line with the functions and tasks defined by the Regulation of the Treasury and the financing planned for the fulfilment thereof.

During the period of drafting of the strategy, in 2017, the strategic course of action of the authority was analysed and revised and information was gathered on the development possibilities. Global trends and innovations in the field of technologies influencing the financial sector and the provision of services (political, legal, economic, social, technological, i.e. impact factors) have been considered. Ultimate Objective of the Treasury – sound and Effective Financial Management in the Public Interest.

Operational Directions of the Treasury:

- 1) Implementation of the central government budget ensures an efficient and economical budget implementation process and compliance of the services provided by the Treasury with the best financial management practices.
- 2) Central government debt and cash management – to ensure the availability of financial resources for covering the funding needs of the central government debt at low servicing cost in the long term, while hedging financial risks and promoting the development of the domestic financial market at the same time.

- 3) State loan and guarantee management – to ensure the availability of financial resources (incl. long term) for candidates to state loans in the form of a government loan on financially favourable terms through quality service, and to ensure a timely government guarantee process, while limiting the credit risks of central government loans and guarantees.
- 4) Performance of the functions of the Paying and Certifying Authority of the European Union funds and foreign financial assistance – to organise and standardise the performance of the functions of Payment and Certifying Authorities in a manner that ensures compliance with the requirements of the laws and regulations of the Granting Authorities and Republic of Latvia and timely receipt of funds from Granting Authorities, and minimises the risk of ineligible expenditure being declared.
- 5) Accounting services – to provide effective and high quality accounting services to public administration institutions.

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

- 1) personnel management;
- 2) the formation of the work environment and organisational culture;
- 3) customer service;
- 4) quality, project and risk management;
- 5) internal control;
- 6) effective administration or information technologies and information security;
- 7) the formation of the image of the Treasury;
- 8) the application and transfer of the best practice, interinstitutional cooperation and communication.

The main priorities of the strategy are as follows:

- 1) Effective human resources management, encouraging management leadership and employee development at all levels, and their engagement in the achievement of the Treasury's goals.
- 2) Ensuring effective access to and quality of the services provided by the Treasury through exploiting the possibilities provided by information technologies.
- 3) Effective administration and monitoring of public financial management processes in the public interest.

# 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.

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 2017:

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 the credit risk management of the Treasury's counterparties and coordinate the work of the Treasury's structural units.

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.

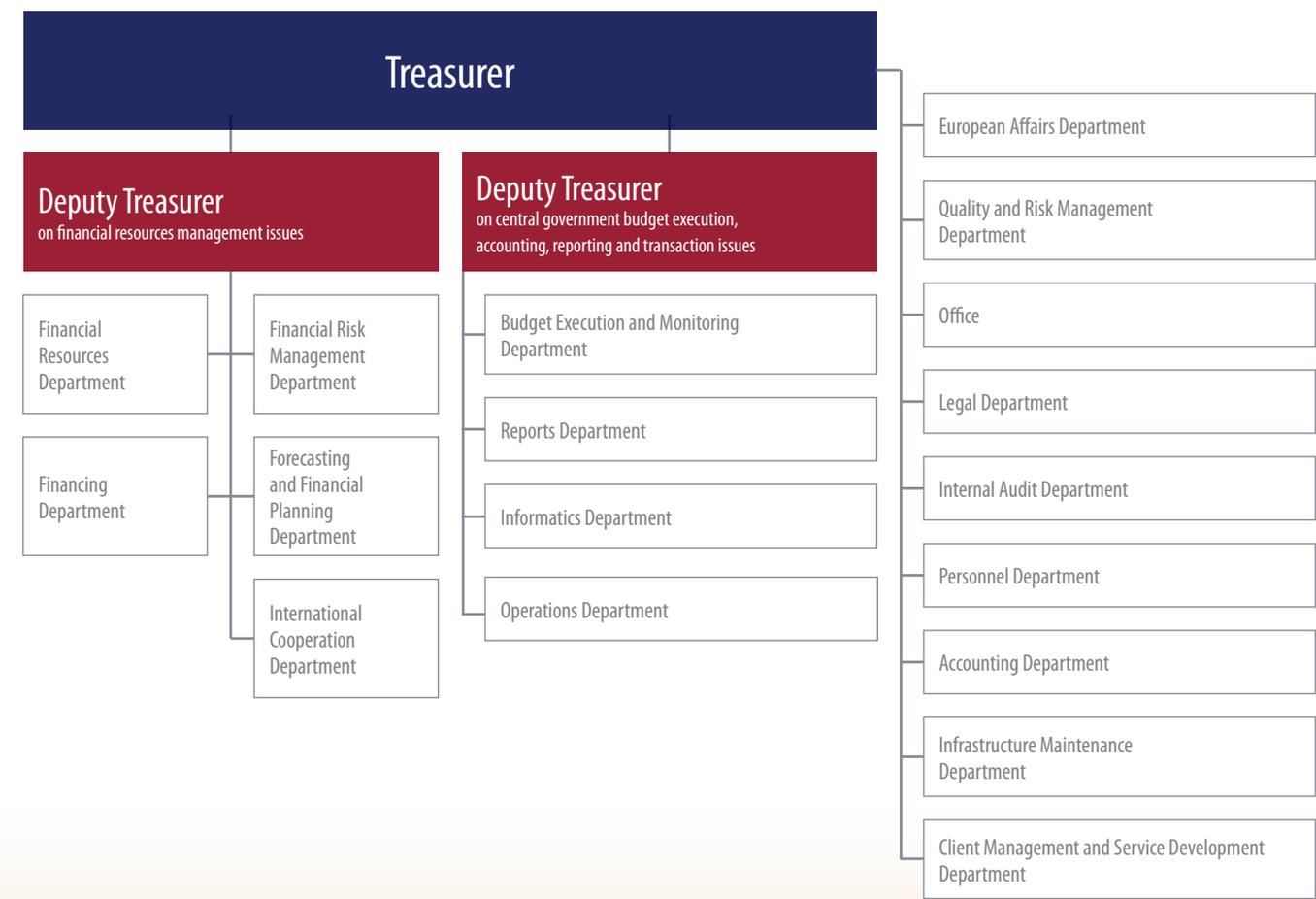
Resource Liquidity Committee – to promote secure and effective cash management in accordance with the Treasury's Debt and Cash Management Strategy.

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 2017

## 1. Implementation of the Central Government Budget

### 1.1. Operational Principles and Areas of Development

The Treasury organises implementation of the central government budget throughout the public financial management cycle.

The Treasury provides services in an e-environment: holds accounts for clients, accounts for central government budget revenues, assigns assignments and grants from general revenues on the basis of annual central government budget appropriations and financial plans registered with the Treasury, provides payment services: processes and effects payment orders and provides institutions administering central government budget payments with information about taxes and duties paid and other central government budget revenues. accounts data provided by central and local government budgetary institutions are available not only for the performance of the Treasury's direct functions, i.e. preparation of reports on budget execution, but also for the monitoring and analysis of grants assigned.

While ensuring unified public financial accounting, the Treasury develops laws and regulations for keeping central and local government authorities' accounting records based on unified principles and methods, and ensures a reporting system which allows one to obtain quality information about budget execution on both a cash-flow and accrual accounting basis. The central government budget implementation process is organised within the Single Treasury Account, which is recognised in world practice as the most efficient method for ensuring financial management. Such financial management approach enables the reduction of direct and indirect costs of borrowing and cash management, provides for a possibility to generate additional revenue through the more efficient management of funds and investments, and a possibility to monitor and control all transactions, as well as facilitates accounting of transactions.

Supporting the European Commission initiative to improve the quality of accounting data and compliance of the accounts with the main principles of international public sector accounting standards, the Treasury is implementing a priority measure (2015–2018) "Ensuring standardisation of financial accounting processes at central and local government institutions". The initial compliance of Latvia with the standards was evaluated at 63% (EUROSTAT, 2014). The set of measures undertaken will allow at least 88% compliance to be achieved by 2020, and, after evaluating the results,

to decide on future activities. Standardisation of financial accounting will enable investors and international credit rating agencies to receive quality, timely and internationally comparable information (reports) on public finances in line with the best practice. In 2017, the draft Cabinet of Ministers regulations were developed on the accounting and bookkeeping and preparation of reports in the public sector, incorporating therein the requirements of the international public sector accounting standards. The legal framework prescribes that the accruals principle shall be introduced in the public tax accounting records from 1 January 2021.

In its operations the Treasury follows the general principles of quality management, strives to follow the European Statistics Code of Practice and actively engages in the development of new statistics methodologies and indicators to provide various policy areas with adequate statistical data. The role of reliable, comparable and timely statistics in European and Latvian policy-making and implementation is increasing, and compliance with the European Statistics Code of Practice is a major contribution.

In accordance with the Official Statistical Programme for 2017–2019, the Treasury provides reports on the implementation of central and local government budgets and central government debt.

### 1.2. Organisation of the Implementation of the Central Government Budget in 2017

#### Granting and Implementing Expenditure Allocations

In 2017, the Treasury allocated expenditures worth EUR 8,756.24 million: EUR 6,177.42 million for the basic budget and EUR 2,578.82 million for the special budget. Allocations were granted to 180 state budget institutions.

In 2017, 1,916 general budget expenditure accounts were opened. As compared to 2016, the number of accounts increased by 187 accounts, which can be explained by the implementation of the activities of the 2014–2020 Programming Period of the EU Funds. In 2017, the number of current accounts has increased by 248, as compared to 2016 (8,893 accounts in 2017). The increase in the number of current accounts can be explained by the fact that the activities and projects of Latvia's Centenary were commenced in 2017.

#### 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 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 annual reports. In 2017, the annual report on the performance in 2016 was prepared by consolidating the consolidated annual reports submitted by 13 ministries, 15 central government institutions and 119 local governments.

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 public, acquiring information on the results of the financial policy of the State, the Saeima (the Parliament) and the Bank of Latvia, various international institutions (European Commission, EUROSTAT, International Monetary Fund and international credit rating agencies), as well as potential investors who decide to invest in the economy of Latvia based on information provided in the annual report.

# Activities of the Treasury in 2017

## 1. Implementation of the Central Government Budget

### The Treasury celebrates its centenary

The Constitutional Assembly adopted the first law On the State Budget on 26 April 1921. In order to harmonise the accounting of public authorities, according to the templates of Tsarist Russia, the State Audit Office (established on 2 December 1918; commenced its operation on 13 July 1919, after the government returned to Riga from Liepāja) had prepared the regulations on central government budget classification and payments. After the end of the budgetary year, the Ministry of Finance developed the account on the implementation of the central government budget, which was submitted to the Saeima (Parliament) on behalf of the government. At the same time, the report on the execution of the central government budget was also submitted to the Saeima (parliament) by the Auditor General.

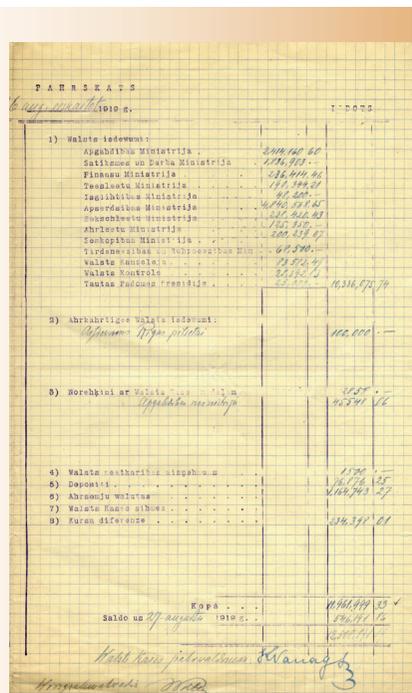


Figure 6 and 7. Monthly statement of the Treasury (August 1919) and the report of the Treasury to the State Audit Office (12 April 1919) (Source: Latvia State Historical Archives)

In order to include uniform and comparable information in the annual report, the Treasury develops and updates regulatory enactments governing the accounting and reporting of budget institutions, and organises informative seminars for the persons preparing the reports. In 2017, 92.3% of the visitors of the informative seminar assessed such initiative positively.

The deliverable of the stage of a priority measure (2015–2018) “Ensuring the standardisation of financial accounting processes at central and local government institutions” — “Development of Handbooks” has been implemented. The handbook is designed for the employees of the authorities defined by the *Law On Budget and Financial Management*, who carry out the bookkeeping entries and other activities related to bookkeeping and disclosure in reports of the implementation of the budget, for the use of attracted and internal auditors, in order to understand the schemes of the applied bookkeeping entries, as well as to evaluate the conformity of the book keeping to the legal framework, and the developers and promoters of information systems, in order to implement the accounting and bookkeeping policy. The application of handbooks will ensure a structured explanation of requirements with easily perceivable samples. Implementing the priority measure, as a whole, will ensure the harmonisation of the Latvian public sector requirements in the field of accounting and bookkeeping and reporting with the international public sector accounting and bookkeeping standards.

In line with the competence of the Treasury, support was provided to the Ministry of Finance for implementation of the project on introducing the accrual basis in tax accounting, in the field of bookkeeping and financial reporting, by submitting the proposals for the Amendments to the Law on Budget and Financial Management regarding the authorisation for the Cabinet of Ministers to establish the legal framework, *inter alia*, the procedure, under which the State Revenue Service will carry out the bookkeeping of the central government budget administered by it according to the accrual basis, and by developing and submitting the draft regulations on accounting and bookkeeping in budget institutions to the Cabinet of Ministers. The Law Amendments to the Law On Accounting incorporates the deviations in executing the supporting documents, for the State Revenue Service to be able to timely perform the preparatory works, *inter alia*, to ensure the development of the payment administration information system.

A data conversion tool has been developed and introduced for posting the data prepared by the Treasury on the website of the Treasury in accordance with the data exchange and statistics requirements of the International Monetary Fund (SDMX format).

### 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: also in 2017, the Treasury remains one of the leaders of Latvia's e-index. The E-index of public authorities reflects the effectiveness of e-administration in public institutions, measuring both the progress of public authorities in implementing the principles of electronic administration and the evaluation and experience of the users of the existing and potential services provided by the State and local governments.

To ensure quality e-services provided by the Treasury at a technologically high level, in 2017 investments continued for information systems to support the services of the Treasury: the processes were optimised, the necessary measures to stabilise, secure and ensure the continuity of operations of the information systems were carried out. The provision of electronic services has made 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 work on a multi-annual project “Modernisation of Accessibility and Usability of the Treasury's E-Services” (2016–2020) has been continued, foreseeing improvements to the electronic services portal of the Treasury by enhancing the usability, visual design and functionality thereof, including the implementation of electronic applications for various services and e-services of the Treasury and ensuring integration with the personal identification solution of the State Information Systems' integrator, which is under the supervision of the State Regional Development Agency.

## Activities of the Treasury in 2017

### 1. Implementation of the Central Government Budget

In 2017, the Treasury maintained and continued the development of the following services and information systems:

#### 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 central 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.

#### 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 2017, there were 4,162 users registered in the system.

The Ministries of Finance, Education and Science, Culture, Transport and The Ministry of Environmental Protection and Regional Development using the *ePārskati* system for submission, compilation and verification of reports in order to ensure the process of monitoring and controlling the use of central government budget funds.

#### 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 2017, 435 users were registered and 7,722 general budget and special budget financing plans were processed in the system.

At the end of 2017, the Treasury introduced a number of updates into its *ePlāni* system, as well as started developing the proposals for enhancement of the budget implementation process in the field of granting and fulfilling assignments.

#### eKase, Budget Electronic Payment System

The Treasury renders payment services electronically, using the budget electronic payment system *eKase* and its Online Data Exchange Module. Through *eKase*, the Treasury enables its clients to execute payment orders, view the results of the execution of payment orders, and receive financial information offered by the Treasury: on account status (balance), account turnover statements, and summary of revenues and expenditures or resources to cover expenditures. The Online Data Exchange Module of *eKase* ensures the automated exchange of payment data (payment status statement and account statement) between the Treasury and its clients, as well as the option to submit payment orders for execution to *eKase*.

#### 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](http://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 central government budget with the Treasury. In 2017, there were more than 30,000 requests for this e-service.

Figure 8.  
Dynamics of the service of payment cards tied to Treasury accounts (2013-2017)

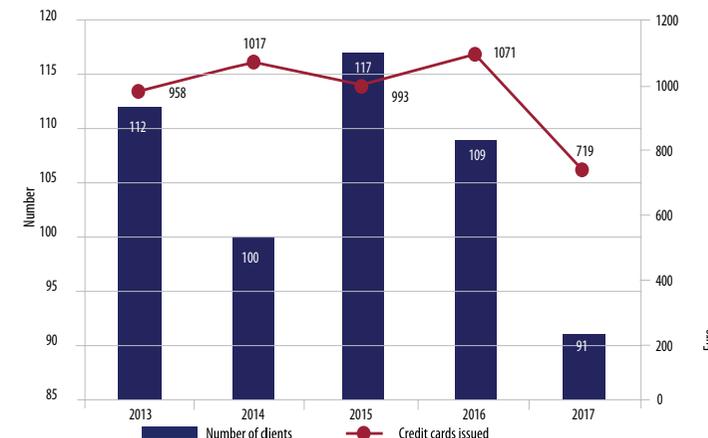
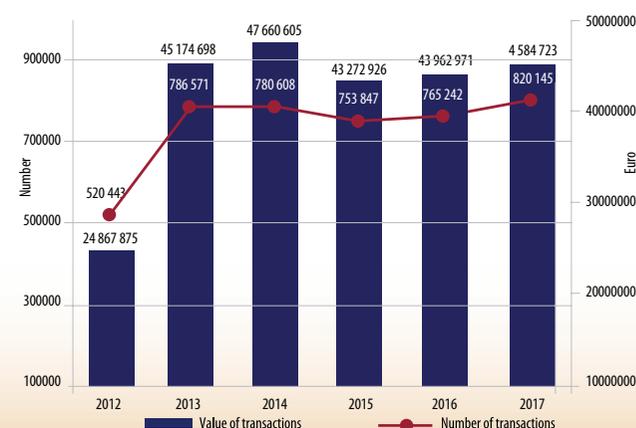


Figure 9.  
Dynamics of the payment card (VISA, MasterCard un American Express) acceptance service (2012 – 2017<sup>12</sup>)



<sup>12</sup> In 2015, there was a significant drop in the volume of specific general budget income (government dues) items, thus forming a decrease in the total amount of transactions and money collected.

## Activities of the Treasury in 2017

### 1. Implementation of the Central Government Budget

#### Payment Cards Tied to Treasury Accounts

In 2017, the Treasury, as a result of the tender procedure, selected a new service provider – AS *Citadele Banka*, providing the possibility for the state budget institutions to perform payments with the payment cards pegged to the Treasury accounts. The payment card service is intended for performing business trips, official travel and operating expenses of the employees: the employees of the state budget institutions are provided with the possibility to carry out wire payments during business trips, in line with the requirements of the Law on Budget and Financial Management, prescribing that the expenditures of the central government budget shall be made from the accounts opened in the Treasury.

In 2017, the service of credit cards tied to Treasury accounts was used by 91 state budget institution, and a total of 719 credit cards were issued to such institutions. The reduction in the number of the payment card users is related to the change of service provider, namely, only those clients who needed such at the relevant period of time, have renewed the payment cards by the new service provider.

#### 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 2017, the service provided by the Treasury was used by 118 clients of the Treasury, including 33 local governments. Over the year 820,145 transactions with a total value of EUR 45,584,723 were made with payment cards at the 990 payment card terminals installed at institutions administering budget payments.

#### 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 2017	
		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).	30	30
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 services received in the field of public budget implementation is not lower than 85% (% of clients surveyed <sup>13</sup> ).	85	87,5
3. Efficient and operational central government budget implementation process ensured.	3. Execution of all payment orders submitted in the national currency (euro) in the e-environment within one business day regardless of the number of payment orders and amounts (annual average % determined by applying the number of payments received from clients during a business day in euros against payment orders executed on that day).	100	100

<sup>13</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a particular service, or satisfaction within and needs of a particular client segment are carried out as necessary.

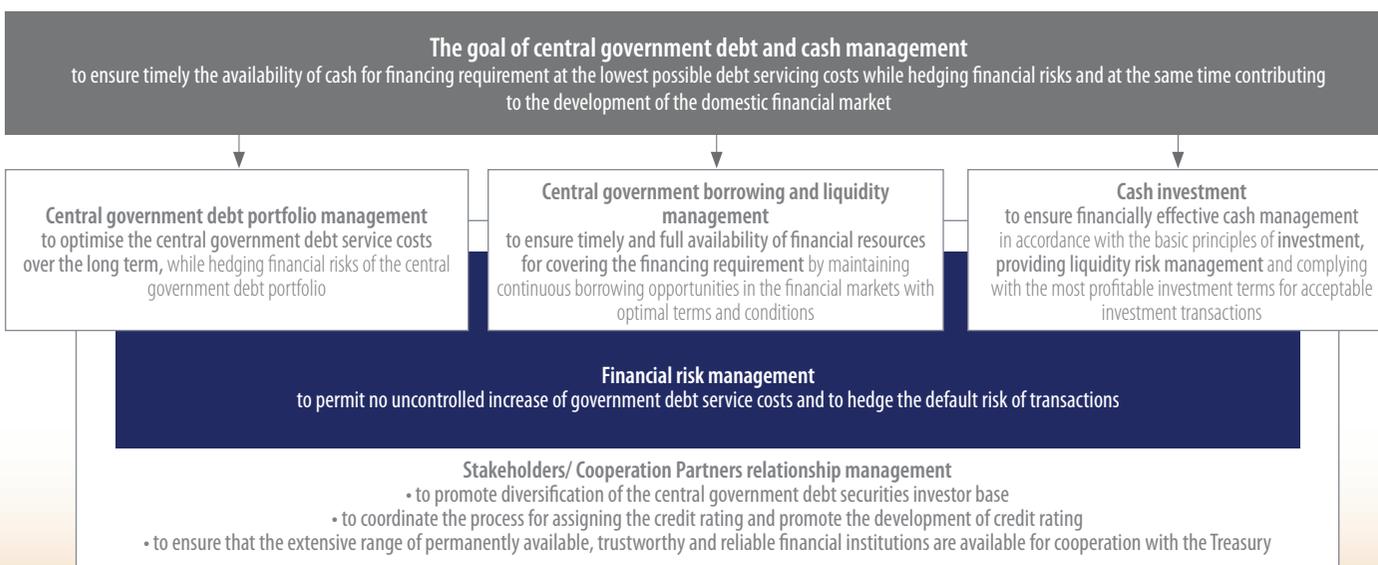
# Activities of the Treasury in 2017

## 2. Central Government Debt and Cash Management

### 2.1. Operational Principles and Areas of Development

In 2017, the activities of the Treasury in the field of central government debt and cash management were determined by the Central Government Debt Management Strategy approved by the Minister for Finance and the Cash Management Strategy approved by the State Secretary of the Ministry of Finance. Since 12 February 2018, these strategies have been replaced by the Central Government Debt and Cash management Strategy approved by the Minister for Finance, prescribing the activities of the Treasury in the field of central government debt and cash management (see Figure 10).

**Figure 10.**  
Central Government Debt and Cash Management Strategy  
(in force since 12.02.2018.)



The Treasury takes measures in the field of central government debt and cash management in accordance with the following medium-term priorities:

- 1) ensuring borrowing in the international financial markets with public issues of medium-term and long-term government debt securities by retaining flexibility in relation to choosing the time and instruments of loans in order to ensure borrowing with favourable conditions;
- 2) promote the development of the domestic market and liquidity of sovereign debt securities, by providing for appropriate investment opportunities (continuous and regular offer of government securities, including savings bonds) for participants of the domestic financial market, in order to make better use of the borrowing potential of the domestic market and facilitate its functioning;
- 3) ensure diversification and expansion of the range of government security investors through regular and continuous dialogue and long-term work with the investor community and cooperation partners, facilitating active participation and competition of investors from various global regions in the primary placement of external government debt securities in international markets;
- 4) actively communicate with credit 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;
- 5) maintain and develop long-term cooperation with the existing and new cooperation partners, ensuring a constantly available circle of partners for closing financial transactions, as well as to expand the range of financial mechanisms to be applied in central government debt and cash management.

# Activities of the Treasury in 2017

## 2. Central Government Debt and Cash Management

### 2.2. Structure, Indicators and Changes of the Central Government Debt

Latvian general government debt, which is formed by central and local government structure consolidated debt, accounted for approx. 40% of GDP at the end of 2017. Latvian general government debt is still one of the lowest of EU member states, and also well below the average indicator in the EU (see Figure 11).

The level of general government debt is mainly affected by central government debt<sup>15</sup>, which, at the end of 2017, according to the operational data of the Treasury, similar to the status at the end of 2016, comprised EUR 9.7 billion at nominal value (see Figure 12). At the beginning of 2017, the resources of Eurobonds issued in the international financial markets in 2016 were used for the repayment of bonds issued in US dollars (USD 1 billion). In turn, in 2017, Eurobonds in the amount of EUR 1 billion were issued in the international financial markets, in order to ensure the resources for covering the funding need of the current year and repayment of the central government debt at the beginning of 2018.

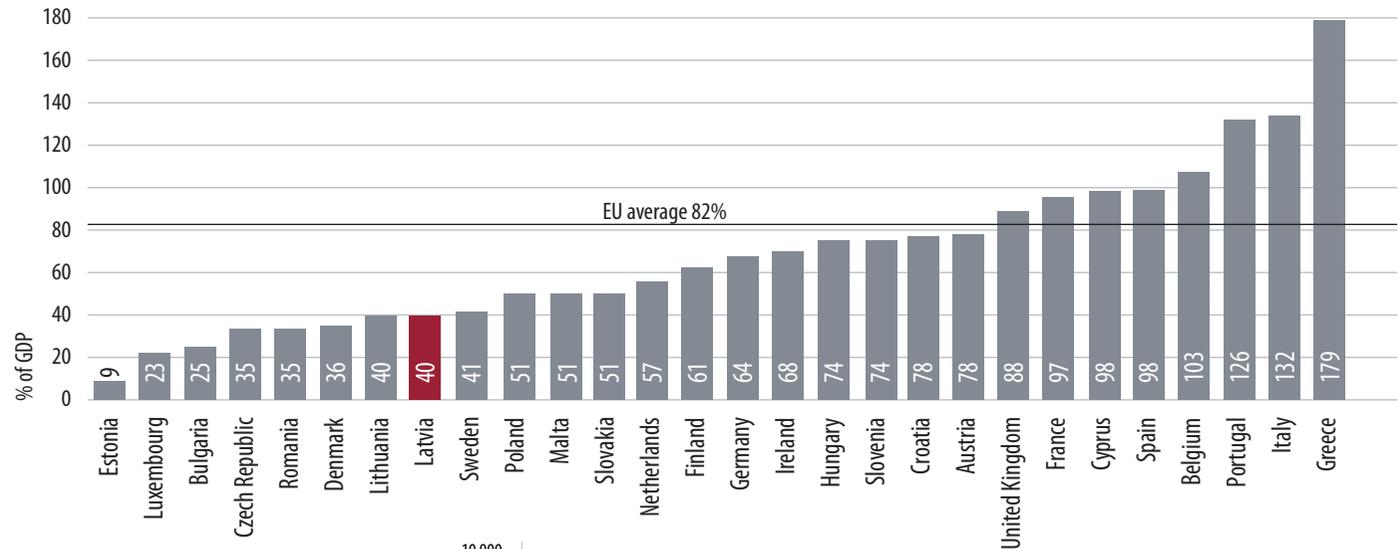


Figure 11.  
General government debt at the end of 2017 (% of GDP)  
under the ESA '2010 methodology'<sup>14</sup>  
Source: EUROSTAT

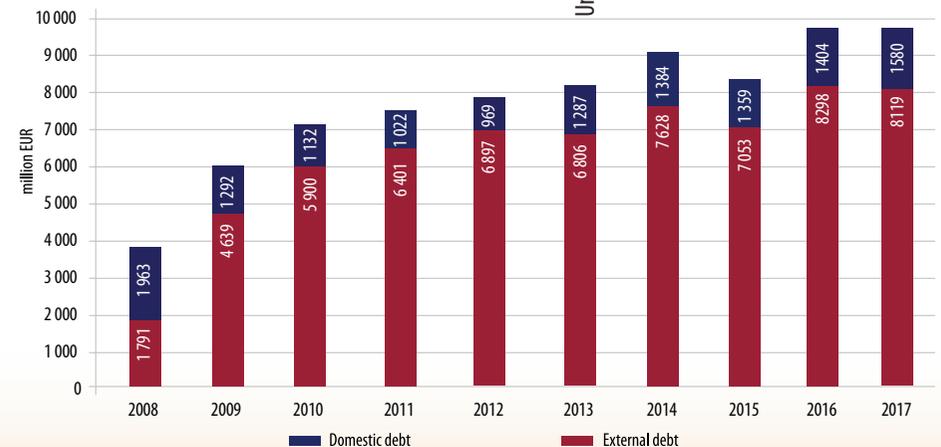


Figure 12.  
Central government debt (at nominal value) 2008-2017.<sup>16</sup>

<sup>14</sup> The general government debt is valued according to common methodology of European system of accounts (ESA 2010) and it includes central and local government consolidated debt, debt liabilities of companies classified in the general government sector and other liabilities according to ESA 2010 methodology requirements.

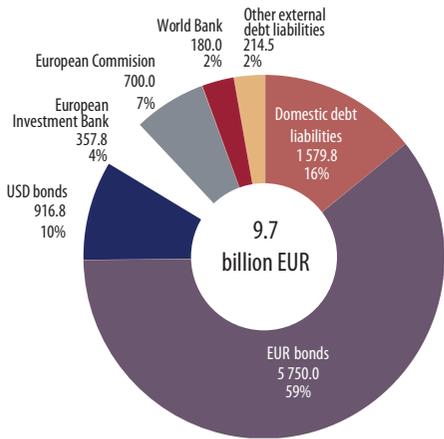
<sup>15</sup> The central government debt, based on national methodology, is comprised of the debts of public bodies, incorporating the State issued debt securities, borrowings, savings bonds, client deposits and balances of current accounts placed in the Treasury.

<sup>16</sup> Operational data – 2017

# Activities of the Treasury in 2017

## 2. Central Government Debt and Cash Management

**Figure 13.**  
Central government debt structure (at nominal value) on 31.12.2017  
(% of the total amount)

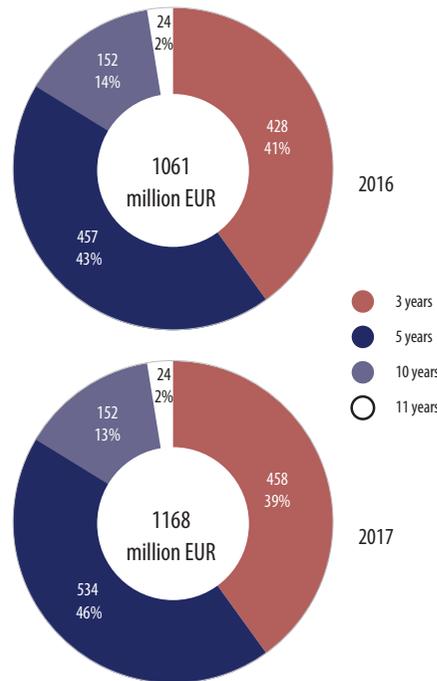


In the structure of central government debt of 2017, external debt made up the greatest share reaching 84% of the total central government debt (see Figure 13). The central government external debt according to nominal value as of 31 December 2017 stood at EUR 8,119 billion and the majority thereof is comprised of the bonds issued in the international financial markets.

The domestic government debt according to nominal value as of 31 December 2017 stood at EUR 1,580 billion.

The largest share of the central government domestic debt was formed by domestic debt securities issued by the Treasury worth EUR 1.168 billion, which were basically purchased by domestic financial market participants (credit institutions, pension funds, insurance companies, etc.) at the public auctions regularly arranged by the Treasury. In 2017, at the auctions the Treasury offered investors medium-term (three and five-year) bonds, and, correspondingly, the percentage share of the medium-term domestic borrowing securities increased in the domestic central government debt portfolio (see Figure 14).

**Figure 14.**  
Government domestic debt securities outstanding at the end of 2016 and 2017,  
in EUR million; % of the total sum after the initial term



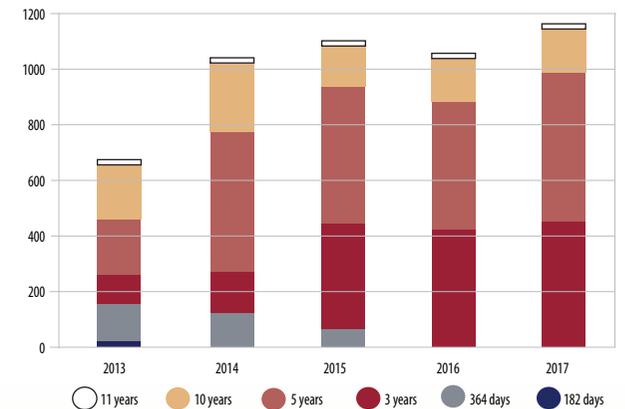
The remaining share of the central government domestic debt was formed by short notice and short-term deposits, loans, as well as savings bonds and interest-free bonds – total EUR 411.8 million.

### 2.3. Central Government Borrowing Management

#### 2.3.1. Central Government Domestic Debt

In 2017, the Treasury continued organising regular government bond auctions – the three and five-year bond programmes launched in 2016, the amount in circulation whereof, at the end of 2017, reached EUR 236.8 million and EUR 156.18 million correspondingly. Unlike in previous years, no T-bill auctions were held, since other instruments were used within liquidity management. The total outstanding amount of government domestic debt securities of Latvia at the end of 2017 was EUR 1,168 million – EUR 107.31 million more than a year before (see Figure 15).

**Figure 15.**  
Government domestic debt security issues in 2013–2017  
by maturity, in EUR million



#### The Treasury celebrates its centenary

*At the end of the budgetary year, the Minister for Finance closed all unused loans and transferred the balance of the treasury into the State Reserve Fund, to be used for various purposes. In May of 1936, the State Reserve Fund was renamed the State Credit Fund, which also took over management of the domestic and foreign central government debt.*

# Activities of the Treasury in 2017

## 2. Central Government Debt and Cash Management

In 2017, the demand for the central government domestic borrowing securities of Latvia remained high, therewith the investor competition (characterised by the supply/demand proportion) in all auctions ensured the attraction of resources under financially beneficial terms. On average, the aggregate demand in competitive multi-price auctions exceeded the supply 4.92 times.

The Treasury sold securities worth EUR 150 million on the primary market, including EUR 110.18 million in competitive multi-price auctions. Also in 2017, in the auctions of the central government domestic borrowing securities (five-year bonds), rates were around the historically lowest levels, namely, near zero, whereas in the final issue of the three-year bond programme – in January of 2017 – a negative average weighted rate was determined. Preservation of the rates at low levels can be

explained by the active participation of primary dealers in auctions and by the high liquidity of Latvian credit institutions, as well as by positive trends of development of the rates from the issuer's perspective, influenced by the continuation of the European Central Bank's securities purchase programme in 2017.

In 2017, the Treasury successfully joined the newly established Baltic depository institution Nasdaq CSD (established on 18 September 2017), whose securities payment system fully meets the requirements and compatibility of a pan-European securities payment platform (Target 2 Securities – T2S). This is to be viewed as a significant project of integration of the Baltic capital market, ensuring the application of uniform securities payment standards: securities and cash cross-border payment services.

### 2.3.1.1. Primary Dealer System

In 2017, the Treasury continued to strengthen the Primary Dealer System introduced in February 2013, which is aimed at facilitating the development and activity of the government securities market by promoting the emergence of new borrowing

Figure 16. Weighted average interest rates of government securities in competitive auctions



\*Since 2015. 3m T Bills benchmarks are tap issues of original 12m T Bills in maturity brackets from 2 to 4.5 months  
 \*\*Since 2016. 6m T Bills benchmarks are tap issues of original 12m T Bills in maturity brackets from 4.5 to 9 months

### The Treasury celebrates its centenary

On 6 December 1918, the People's Council adopted the law developed by the Ministry of Finance on the 5% borrowing for the independence of the state in the amount of 10 million roubles of Tsarist Russia for the period of 15 years, and the State Borrowings Commission started to operate. The first instalment of this loan in the amount of 5,000 roubles for the needs of the State of Latvia was performed by a student – Daniels Dukāts, who would later become the lieutenant colonel of the Latvian Army. Initially, the borrowing – loan was designed as a voluntary bilateral civil transaction, however, in just two weeks, the government recognised it was necessary to perform it under compulsory procedure. Thus, in December of 1918, as a result of the borrowing for the purposes of independence the state obtained about 300 thousand roubles, and in 1919, despite the complicated situation in the country, borrowing was continued on behalf of the Provisional Government of the Republic of Latvia. The next state domestic 4% borrowing was announced after the war in 1920.

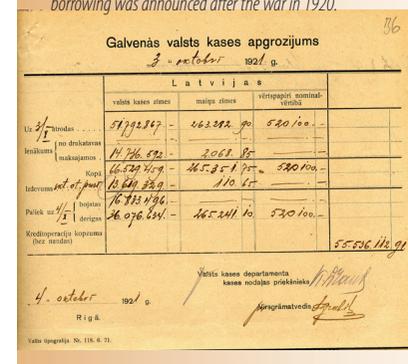


Figure 17. Turnover of the Treasury in October of 1921, incl. securities at nominal value (Source: Latvia State Historical Archives)

instruments, broadening the investor base, a more liquid and investor-friendly government securities market, as well as the reduction of risks associated with central government debt refinancing. 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. The primary dealers are selected, by assessing the operation of the credit institutions in the state security market and the activity in financial transactions with the Treasury, within the scope of the debt and asset activities. At present, the group of Primary Dealers includes credit institutions such as AS "Citadele banka", "Luminor Bank" AB<sup>17</sup>, AS "SEB banka"<sup>18</sup> and AS "Swedbank".

<sup>17</sup> Previously – AS "DNB banka" for the organisation of the primary market and AB "DNB bankas" for the organisation of the secondary market, and from 1 December 2017 – "Luminor Bank" AB for the organisation of the primary and secondary market.  
<sup>18</sup> Since 24 March 2017 – AB "SEB bankas" for the organisation of the primary market and the organisation of the secondary market.

## Activities of the Treasury in 2017

### 2. Central Government Debt and Cash Management

In 2017, regular communication was continued with Primary Dealers and opinions were exchanged regarding the situation in the financial market, auction plans and results, as well as matters related to the secondary market of government securities. The volume of outstanding government domestic debt securities grew in 2017, as a result of the borrowing measures carried out in 2017; the total turnover of trade with government securities of primary dealers in the secondary market indicated a slight increase, which may be assessed positively.

#### 2.3.1.2. Savings Bonds

The offer of the domestic financial market instrument introduced in 2013 – savings bonds – was maintained on the website [www.krajobligacijas.lv](http://www.krajobligacijas.lv), as well as at post service points of the state joint-stock company Latvijas Pasts. The primary objective of savings bonds was to provide private persons as a new potential investor group with a convenient and secure investment opportunity in classic and secure financial instruments, broaden their practical experience in investing, facilitate the decrease of cash savings, develop 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 2017, the volume of savings bonds at the disposal of residents amounted to EUR 5.119 million.

In 2017, 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, across the year, remained stable, promoting demand for long-term savings bonds, while demand for short-term savings bonds expressly reduced. At the end of 2017, the rate of the five-year savings bonds reduced to 0.20% (at the beginning of 2017 - 0.30%), while the rates of savings bonds of other terms remained unchanged. Also in 2017, as with in previous years, 10-year savings bonds clearly retained the largest share in trading, achieving 88% of the traded savings bonds.

However, it is necessary to maintain the offer of savings bonds of all terms, in order to retain various options for investors in relation to the term and profitability in changing market conditions.

#### 2.3.1.3. Interest-Free Bonds

In 2017, the Treasury continued the issue of interest-free bonds started in 2015. 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 2017, interest-free bonds were issued 9 times, and the total nominal value of interest-free bonds at the end of 2017 amounted to EUR 8.25 million.

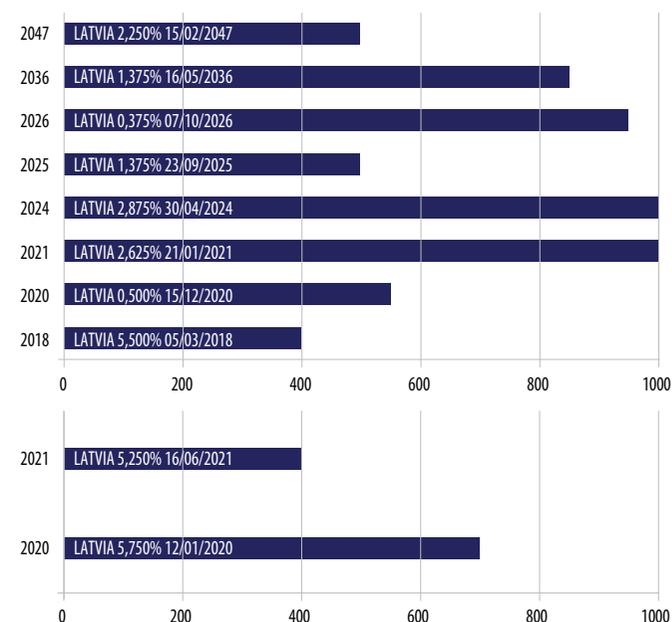
#### 2.3.2. Central Government External Debt

##### Borrowing in International Financial Markets

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, beneficial moments when financial markets stabilise and investors become better disposed towards making new investments, especially for the acquisition of long-term government securities. The activities of the Treasury in the field of external debt management in recent years have been focused on the exploitation of such beneficial borrowing moments, because it allows accomplishment of the key objective of the borrowing strategy – to achieve a reduction in the government debt servicing costs in the medium term through borrowing in international financial markets on the most favourable terms possible.

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.

**Figure 18.**  
Bonds traded in international financial markets



## Activities of the Treasury in 2017

### 2. Central Government Debt and Cash Management

The stable credit rating of the state in the rating group “A”, high investor evaluation and confidence in the long-term development of Latvia, as well as the constantly low levels of the euro base rates and the credit risk premium of the securities of the Eurozone countries, thanks to a stimulating monetary policy implemented by the European Central Bank, in 2017, ensured the possibility to attract resources in the international financial markets on favourable terms, by capitalising the long-term gains from the existing low EUR interest rate levels and fixing low debt servicing costs in the long term. This is also demonstrated by the borrowing deals performed in 2017 in the international financial markets, by issuing Euro bonds in the sum total of EUR 1 billion (see Table 2).

**Table 2.**  
Characteristic values of the Euro bonds issued in 2017

Scope of borrowing TOTAL: 1 billion EUR				
time of issue	February 2017		May 2017	
scope of issue	500 million EUR	150 million EUR	200 million EUR	150 million EUR
maturity term	2047 (30 years - the historically longest term)	additional issue in 2026 (10 years)	additional issue in 2036 (20 years)	additional issue in 2026 (10 years)
interest (coupon) rate	2.250%	0.375%	1.375%	0.375%

Active communication with government security investors, as well as the stable position of the state’s credit rating within the “A” rating group and diversification of Euro bond terms in the issues, attracted more and more investors who invest in bonds of developed countries with lower yield levels.

In 2017, by attracting funding for covering the funding need of the current year and redemption of the domestic borrowing of three-year bonds in the amount of EUR 220.9 million in January 2018 and the redemption of Euro Bonds in the amount of EUR 400 million in March 2018, flexibility is ensured in choosing the most suitable time for taking the borrowing measures planned in 2018.

#### 2.3.3. Counterparty relationship management

The aim of managing relationships with collaborating financial institutions is to regularly ensure the widest, safest and most reliable range of financial institutions possible for collaboration with the Treasury, which ensures competitive terms for the performance of financial transactions.

In order to carry out focused counterparty management of relationships, the Treasury regularly provides information to investors, representatives of investment banks and rating agencies 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.

As members of the Latvian delegation, the experts of the Treasury hold meetings with investors of government debt securities, representatives of foreign investment banks and credit rating agencies during the Annual Meeting of the World Bank and the International Monetary Fund, and also organise face-to-face meetings, thereby ensuring additional support in the dissemination and explanation of information to the investor community.

On an annual basis, the Treasury prepares an Analytical Report on Central Government Debt Management (in Latvian and English) for the previous year, in order to provide financial market participants, including existing and potential cooperation partners, credit rating agencies and state securities investors, with information on the latest updates of central government debt and asset management, borrowing measures and outcomes, to financial market participants. The central government debt management report is also sent to other implementers of the functions of the central government debt management in the EU that are similar in terms of functions (debt management offices), as well as to the foreign embassies of the Republic of Latvia.

The Treasury posts the Quarterly Bulletin of the Central Government Debt Management (in Latvian and English) on its website on a quarterly basis, providing for the latest data of the central government budget implementation and central government debt management, information about the credit rating of the Republic of Latvia, borrowing measures taken in the domestic and international financial markets, results of the auctions of government securities, central government debt portfolio management and

achieved results, as well as local government borrowings and state-issued guarantees. The Treasury summarises and posts a Weekly News Update (in English) regarding the central government budget implementation, central government debt management, the most important updates in the Latvian financial sector, economy and politics on its website and sends it in electronic form to the cooperation partners on a weekly basis. The Treasury also provides the counterparties with a separate presentation that includes the latest 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 task of diversifying the debt securities investor base set in the Operational Strategy of the Treasury. In 2017, face-to-face meetings were organised with current, as well as potential securities investors in Europe (Frankfurt), the USA (Boston) and Japan (Tokyo), thus strengthening the confidence of securities investors in the Latvian economy and having a positive impact on their future vision regarding the development of the situation in Latvia. The same approach to reaching investors is also being continued in 2018.

#### 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, as it has an influence on the price of the borrowed resources. As part of 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, S&P Global 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 credit 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 credit rating agencies not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign credit 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, and provides proposals for improving the credit rating.

## Activities of the Treasury in 2017

### 2. Central Government Debt and Cash Management

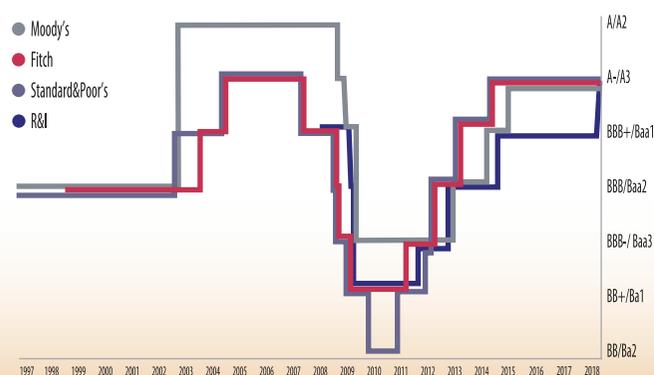
Also in 2017, the credit rating of Latvia held a stable position in the “A” credit rating group (according to the assessment of the three major international rating agencies – Fitch Ratings, S&P Global, and Moody’s Investors Service), as can be seen in the credit rating affirmations: Fitch Ratings in May and, repeatedly, in November 2017 and S&P Global in March 2017 affirmed the current rating level, as did Moody’s Investors Service in October.

In January 2017, the Japanese credit rating agency R&I, and in September 2017 – S&P Global – increased the outlook of Latvia’s credit rating from stable to positive, which has been facilitated by the rapid growth of the Latvian economy.

At the end of 2017, Latvia’s credit rating for long-term liabilities in foreign currency was “A3” (with a stable outlook) (Moody’s Investors Service), “A-” (with a stable outlook) (Fitch Ratings), “A-” (with a positive outlook) (S&P Global) and “BBB+” (with a positive outlook) (R&I). (On 15 January 2018, Japanese credit rating agency R&I announced the increase of Latvia’s credit rating from “BBB+” to “A-”, stating a stable outlook).

According to the credit rating assessment, Latvia is valued as a quality and reliable issuer that facilitates borrowing with favourable terms.

**Figure 19.**  
Credit rating development of the Republic of Latvia

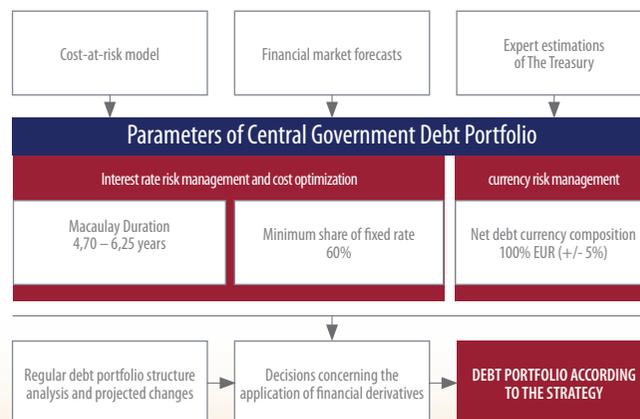


### 2.4. Central Government Debt Portfolio Management

The goal of the central government debt portfolio management is to optimise the central government debt servicing costs over the long term while hedging financial risks of the central government debt portfolio. The Treasury assesses the debt portfolio structure parameters, as well as the need to change them on a regular basis. Based on the assessment of the Treasury’s experts, financial market forecasts, as well as the results of modelling costs and interest rate risk, 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 20) are determined. Whereas for 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.

#### 20.attēls.

Basic principles of central government debt portfolio management



In 2017, all the indicators of the debt structure as defined in the Central Government Debt Management Strategy have been complied with (see Table 3).

**Table 3**

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

PARAMETERS	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2016		ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2017		DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY	
	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
Amount of domestic debt securities <sup>19</sup> at the end of the year	EUR 1,060,76 million		EUR 1 168,07 million		not less than outstanding at the end of the preceding year	
Maturity profile (%) of the central government debt portfolio	14.6%	33.6%	13.1%	36.4%	≤ 25%	≤ 50%
Minimum proportion of the fixed interest rate <sup>20</sup> in the central government debt portfolio	88.7%		90.5%		≥ 60%	
Average weighted fixed period of interest rates, in years	4.96		5.86		4.70 – 6.25	
Currency structure of net debt	EUR 100.44%		EUR 99.89%		EUR 100% (+/- 5%)	

<sup>19</sup> The amount of securities in circulation which were issued under Latvian law.

<sup>20</sup> Central government debt with a fixed interest rate with a remaining maturity term, which is longer than one year.

## Activities of the Treasury in 2017

### 2. Central Government Debt and Cash Management

#### 2.5. Cash management

The cash and liquidity management process was managed under a non-standard financial market conditions in 2017 as well, as the EUR interest rates in money markets remained negative. The European Central Bank continued applying negative rates (minus 0.40%) to the Euro-system deposit possibilities, as well as the securities (including central government debt securities) purchase programme.

In 2017, the Treasury placed the temporarily available cash in Latvian and foreign credit institutions and deposited them into fixed-income debt securities, hedging the financial risks in accordance with the contribution parameters and cooperation limits set for each counterparty according to the type of financial instrument.

In 2017, interest income for deposits and account balances in the general government budget were secured in the amount of EUR 18.0 million (including EUR 15.2 million from AS "Reverta").

<sup>21</sup> In accordance with the Stability Programme methodology, the indicator is determined by dividing the debt servicing interest expense of the general government debt for the current year in the relevant country by the preceding year's amount of general government debt (using Eurostat data on ESA 2010 basis).

<sup>22</sup> The value of the ratio is established as a percentage by dividing the interest expenditure of the budget sub-programme 31.02 "Central Government Debt Management" in year n (reduced by the budget revenue from financial derivative instruments, the premium fixed at the issuance of government debt securities, and revenue from borrowings with negative interest rate) by the amount of consolidated government hedged debt as at the end of year N-1.

<sup>23</sup> The value of the performance indicator is the difference between the ratio value of the current and preceding year in basis points, determined in accordance with the calculation methodology referenced in footnote 4. Overrun of the performance indicator in the current year is only permissible if transactions resulting in reduced interest expenditure in the medium and long term are effected within the central government debt management during the year concerned.

<sup>24</sup> The performance indicator is carried out, as it has decreased in 2017 compared to the 2016 figure.

<sup>25</sup> Funding required for the liquidity reserve of the relevant month, which, in compliance with the applicable Cash Management Strategy, is constituted by liquid financial resources and short-term borrowing transactions (e.g., issue of 21 day T-bills, short-term borrowings to be made within the relevant month).

<sup>26</sup> Amount of funding required to ensure the execution of central government budget and debt obligations within a calendar month.

<sup>27</sup> Government debt securities distributed among domestic financial market investors through initial placement.

<sup>28</sup> A negative net issuance in 2016 is in line with the allowed derogation defined by the existing Central Government Debt Management Strategy of the Treasury and was taken into account when planning borrowing measures in the domestic financial market in 2017. A derogation may be made for negative net issuances within a current year provided that the relevant amount is compensated when planning domestic market borrowings for the following year.

#### 2.6. Performance indicators of the Operational Targets for Central Government Debt and Cash Management as Defined in the Operational Strategy of the Treasury

**Table 4**

Performance indicators of the operational targets for central government debt and cash management

Result formulation	Performance indicators	Numeric values of performance indicators in 2017	
		Projected	Implemented
1. Availability of financial resources to cover funding needs at low debt servicing costs in the long term while hedging financial risks.	1.1. The implicit interest rate on Latvian general government debt <sup>21</sup> does not exceed the average of euro area countries with a similar and one grade higher credit rating for the year concerned (the minimum positive deviation of the Latvian indicator from the euro area average, in basis points).	0	-65
	1.2. Interest expenditure of the current year to the preceding year's central government debt ratio <sup>22</sup> does not exceed the relevant indicator of the preceding year by more than 30 basis points (deviation from the preceding year in basis points). <sup>23</sup>	30	-44 <sup>24</sup>
	1.3. Liquidity funding <sup>25</sup> is not lower than the liquidity reserve (annual average (%)) determined as a ratio of the amount of liquidity funding of each month against the liquidity reserve of the relevant month <sup>26</sup> .	100	180
2. Offer of government securities to domestic financial market participants maintained stable.	2. Outstanding amount of domestic securities <sup>27</sup> at the end of the year is not lower than at the beginning of the year concerned (minimum difference between the outstanding amount of securities at the end and beginning of the year, EUR million). <sup>28</sup>	55.5	107.31

# Activities of the Treasury in 2017

## 3. State Loan and Guarantee Management

### 3.1. Operational Principles and Areas of Development

Candidates for state loans meeting the eligibility criteria defined by the Law on Budget and Financial Management<sup>29</sup> and whose projects comply with the objectives of the Law, may operationally receive state loans within the limits set by the Annual State Budget Law.

According to Cabinet 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" of 30 June 2015, the Treasury grants and services state loans, and, if necessary, carries out measures for ensuring the proper performance of state loan commitments.

It is important for the Treasury to ensure the availability of financial resources for the implementation of economically significant investment projects co-financed by the EU on financially favourable terms, thus reducing non-implementation of projects or freezing risks (e.g., due to insufficient financial flows), and availability and quality risks of the services provided to citizens.

To ensure the availability of the services, local governments issue guarantees on liabilities of their capital companies. To date, in 67% of cases local governments have issued guarantees on their capital companies' borrowings from the Treasury. Within the study and student loan programme, the Treasury provides support to education authorities on behalf of the Ministry of Finance by organising auctions among credit institutions on the right to issue and service government guaranteed study and student loans, and providing for a possibility for students to receive loans from credit institutions on the most favourable financial terms and at the lowest possible rates.

In 2017, the possibilities of reducing the administrative burden in the field of granting and servicing state loans have been assessed, by commencing the drafting of amendments to the legal framework. By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the loan portfolio, the

Treasury provided suggestions to the Minister of Finance regarding future actions for supervision of the loan portfolio.

According to the procedure prescribed by the Cabinet, the Treasury takes part in the process of providing state guarantees, by assessing and monitoring the risks related to the issuing of guarantees, organising the conclusion of guarantee agreements and handling the commitment of accounting for state-issued guarantees, as well as regularly analysing and monitoring the financial position of state-guaranteed project implementers, thus facilitating the realisation of nationally significant projects.

State guarantees are issued:

- 1) for obligations that are assumed for making investments by capital companies where the State or local government share of the fixed capital exceeds 50%;
- 2) for obligations that are assumed to ensure financing for business support programmes that are approved by regulatory enactments;
- 3) for ensuring the study and student loan programme.

The annual State Budget Law foresees the state guarantees to be issued according to the maximum permissible limit of guarantees, which is determined according to the fiscal risk assessment, as well as the assessment of ministries regarding the necessity of the respective project to be implemented and the impact thereof on the central government budget and development of the national economy.

The assessment and management of the fiscal risks of fulfilling the liabilities of guarantees, as well as the planning, issuing and monitoring process of 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 accordance with the annual State Budget Law, the decision on issuing or not issuing state guarantees is made by the Cabinet.

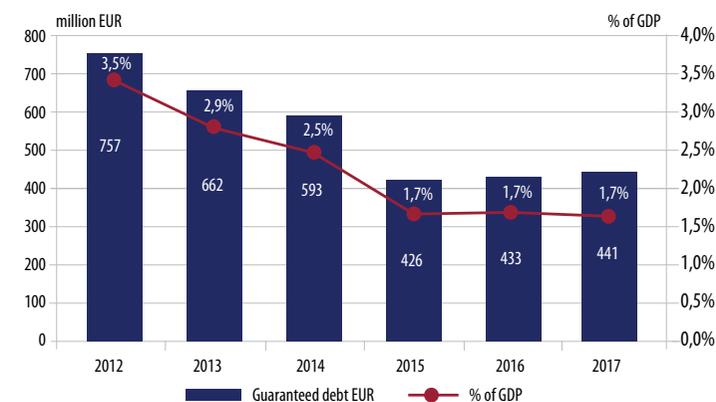
### 3.2. State-Issued Guarantees

In 2017, state-issued guarantees totalling EUR 7.3 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 35.9 million) prescribed in the Law on the State Budget for 2017.

The state guaranteed debt outstanding at the end of 2017 amounted to EUR 440.6 million, which was EUR 7.7 million more than at the end of 2016.

Figure 21.

State Guaranteed Debt Outstanding, million EUR



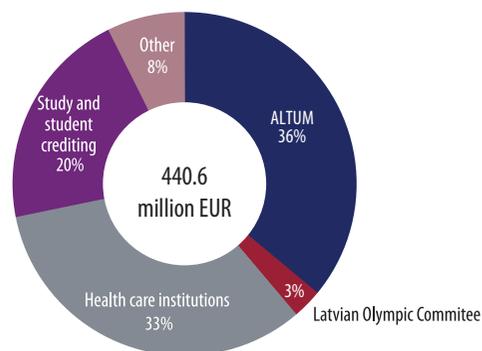
<sup>29</sup> In accordance with the Law on Budget and Financial Management the state loans may be issued to local governments, state special budget implementers, capital companies where the state or local government share of the fixed capital, separately or combined, exceeds 50% and to capital companies 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 2017

### 3. State Loan and Guarantee Management

The largest share of the state-issued guarantee portfolio by the borrower was formed by state-issued guarantees for the obligations assumed by the state for the obligations of the state joint-stock company *Attīstības finanšu institūcija Altum* for the implementation of state aid programmes (36%), for the obligations assumed by health care institutions (33%) and state-issued guarantees for ensuring the study and student loan programme (20%).

**Figure 22.**  
State-issued guarantee portfolio, by borrower on 31.12.2017



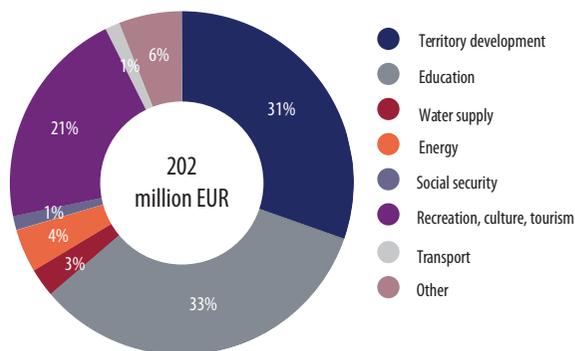
#### 3.3. State Loans

In 2017, the overall increase of state loans in the annual state budget was set at EUR 334 million, including the overall increase of local government loans in the amount of EUR 118 million. The total amount of state loans to be issued in 2017 was foreseen to be EUR 437 million, which included the overall increase in state loans stipulated in the annual State Budget Law and the 2017 repayments of state loans issued in the previous years.

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

In 2017, the largest amount of state loans at EUR 202 million was granted to local governments (77% of total state loans issued in 2017), which, compared to 31 December 2016, has increased by EUR 83 million and is related to the successful implementation of projects co-financed from EU funds.

**Figure 23.**  
State loans issued in 2017, by purpose



In 2017, 100% of financial resources raised by local governments in the form of loans came from the Treasury, which is an indication that the Treasury provides financially favourable conditions and quality service.

#### 3.3.2. State Loans to Central Government Bodies

State loans in the amount of EUR 0.3 million (0.1% of the total volume of State loans) were granted to economic operators controlled and financed by public bodies<sup>30</sup> – for the completion of reconstruction phase III of the inner courtyard of the Latvian National Opera and Ballet Theatre’s historical building.

#### 3.3.3. State Loans to Non-Financial Entities<sup>31</sup>

State loans in the amount of EUR 61 million or 23% of the sum total have been issued to non-financial economic operators, mainly, for the implementation of the project co-financed by the EU.

<sup>30</sup> Economic operator, whose activities are controlled and financed by public administrative structural units and public agencies, the competence whereof covers the entire economic territory of the state – ministries, embassies, representative office, agencies, councils, educational, health protection, law enforcement, culture and other central public institutions.

<sup>31</sup> Economic unit performing the manufacture of goods or provision of non-financial services for the purposes of gaining profit or other benefits, for example, capital company, joint stock company and sole proprietorship.

## Activities of the Treasury in 2017

### 3. State Loan and Guarantee Management

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

Table 5.

Performance indicators of the operational targets for State Loan and Guarantee Management

Result formulation	Performance indicators	Numeric values of performance indicators in 2017	
		Projected	Implemented
1. A client-orientated state loan issuing and monitoring process on financially favourable terms ensured.	1.1. The amount of state loans granted to local governments and their capital companies guaranteed by local governments is not less than 85% of the total amount of borrowings by local governments and their capital companies guaranteed by local governments in the year concerned.	85	100
	1.2. Satisfaction with the quality of services received through the implementation of the state loan issuing process is not lower than 85% (% of clients surveyed <sup>32</sup> ).	85	_33
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	2. The amount of provisions calculated within the state loan portfolio for the preceding quarter is sufficient or exceeds the amount actually unpaid in the current quarter (provisions as % of receivables).	100	100

<sup>32</sup> Economic operator, whose activities are controlled and financed by public administrative structural units and public agencies, the competence whereof covers the entire economic territory of the state – ministries, embassies, representative office, agencies, councils, educational, health protection, law enforcement, culture and other central public institutions.

<sup>33</sup> In 2017, the decision was adopted not to organise a customer satisfaction survey about the issuance of state loans.

# Activities of the Treasury in 2017

## 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.

As the Paying and Certifying Authority, the Treasury ensures accounting of the resources received and spent, prepares and submits reports to the Granting Authority confirming that the declared expenditure comply with the requirements of applicable laws and regulations, and performs other duties related to financial management. To ensure the approval of the declared expenditure, based on the risk assessment the Treasury carries out various verifications determined in laws and regulations, and analyses the information at its disposal.

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

On 31 March 2017, along with the submission of the concluding document prepared by the Ministry of Finance and the Treasury to the European Commission, the 2007–2013 Programming Period of the EU funds was officially concluded, being Latvia's first full seven-year period and providing a substantial contribution to the development of the state's national economy and raising the well-being of society. Programme closure was a labour-consuming process, already commenced in the second half of 2016 and requiring timely and coherent actions of the institutions involved in the management of the EU funds, as well as the adoption of decisions on the eligibility of separate project expenditures and the inclusion/non-inclusion thereof into the closing expenditure declarations.

As Latvia had previously assumed the excess liabilities by approving the EU fund projects, despite the performed corrections in the expenditures to be declared, the expenditures declared in the closing expenditure declarations nevertheless exceeded the EU fund allocation (declared excess liabilities), therewith Latvia has fulfilled the preconditions in order to receive the EU fund financing allocation in full.

At the end of 2017, the European Commission approved the concluding documentation of the European Social Fund and transferred the first closing payment on 20 December.

**Table 6.**

Expenditures declared within the scope of the 2007–2013 Programming Period of EU funds thousand EUR.

Operational programme	Operational programme allocation		Declared financing	Claimed sum of community financing	
	EU financing	Total financing	Total financing	EU financing	% of EU financing allocation
1. Operational programme (ESF):	583,104	686,004	746,340	583,104	100
2. Operational programme (ERDF)	696,282	1,023,742	1,307,935	696,282	100
3. Operational programme	3,251,062	3,940,762	4,055,485	3,251,062	100
<i>incl., ERDF</i>	<i>1,711,286</i>	<i>2,019,445</i>	<i>2,057,524</i>	<i>1,711,286</i>	100
<i>incl., Cohesion Fund</i>	<i>1,539,777</i>	<i>1,921,317</i>	<i>1,997,961</i>	<i>1,539,777</i>	100
<b>Total</b>	<b>4,530,448</b>	<b>5,650,508</b>	<b>6,109,760</b>	<b>4,530,448</b>	<b>100</b>

Source: The Treasury, EU SFCE SIS<sup>34</sup>

<sup>34</sup> Unified Information System of the EU Structural Funds and the Cohesion Fund.

## Activities of the Treasury in 2017

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

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

In this programming period, regulatory enactments of the European Commission<sup>35</sup> (hereinafter – Regulation No. 1303/2013) foresee changes in the reporting mechanism for the expenditure made, determining that applications for payments have to be submitted in the current accounting year, and, as the accounting year concludes, a closing balance of accounts must be submitted.

In 2017, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. The amount of expenditures to be declared, as compared to 2016 has not considerably grown in general; please refer to Table 7 and 8 for more detailed information.

In 2017, the set of account closure documentation was submitted to the European Commission for the first time for the accounting year from 1 January 2015 till 30 June 2016:

- 1) The closure of accounts prepared by the Treasury as the certifying authority<sup>36</sup>;
- 2) Governance declaration and the annual summary for the previous year prepared by the Ministry of Finance as the national focal point;
- 3) The annual control report and opinion prepared by the Ministry of Finance as the audit authority<sup>37</sup>.

The concluding documentation has been approved on the part of the European Commission without objections, thus closing the above mentioned accounting year. It should be noted that Latvia was one of the few countries to submit the account closure documentation during the current programming period, while other Member States have either not submitted any payment claim, or they did not have a management and control system established and correspondingly evaluated.

**Table 7**

Declared expenditures and refunds/ advances received from the European Commission in 2017, thousand EUR

Fund	Total <sup>38</sup> eligible expenditure declared in payment applications	incl. in the 3rd accounting year	incl. in the 4th accounting year	Payments received from the European Commission	incl. annual advances received from the European Commission for the 3rd accounting year	incl. refunds for the 3rd accounting year	incl. refunds for the 4th accounting year	Planned balance payment <sup>39</sup> for the 3rd accounting year
(1)	(2)=(3)+(4)	(3)	(4)	(5)=(6)+(7)	(6)	(7)	(8)	(9)
ESF <sup>40</sup> (t.sk. JNI <sup>41</sup> )	54 719	36 463	18 256	59 643	16 564	28 842	14 237	-12 165
ERDF <sup>42</sup>	123 272	957 740	65 532	128 529	59 251	44 171	25 107	-47 623
KF <sup>43</sup>	73 411	33 094	40 317	89 457	33 297	25 317	30 843	-28 943
<b>Kopā</b>	<b>251 402</b>	<b>127 297</b>	<b>124 105</b>	<b>277 629</b>	<b>109 112</b>	<b>98 330</b>	<b>70 187</b>	<b>-88 731</b>

Source: The Treasury, CP MIS4<sup>44</sup>

**Table 8**

Declared expenditures in 2017, as compared to 2016, thousand EUR

Fund	Total financing allocation	Total declared expenditures	Declared expenditures in 2016	Declared expenditures in 2017
ESF (incl. YEI)	780,252	165,328	56,086	109,242
ERDF	2,825,003	170,721	80,162	90,559
Cohesion Fund	1,587,547	187,547	114,137	73,410
<b>Total</b>	<b>5,192,802</b>	<b>523,596</b>	<b>250,385</b>	<b>273,211</b>

<sup>35</sup> Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

<sup>36</sup> Annex 12 to Regulation (EU) No. 1011/2014 – Report on Transactions Included in the PAEC.

<sup>37</sup> On the effectiveness of the created system, eligibility of the expenditures declared to the European Commission and the conformity thereof to the legal framework, truthfulness and objectivity of information provided in the reports (including the governance declaration).

<sup>38</sup> European Union financing, national public financing and private financing.

<sup>39</sup> Planned amount of resources to be received from the European Commission/ to be repaid to the European Commission for the 2nd accounting year (the sum is calculated by taking into account the planned amount of expenditure to be included in the closing balance of accounts, the amount of annual advances received, which should have been used over the 3rd accounting year, as well as the refunds received from the European Commission for the 3rd accounting year.

<sup>40</sup> European Social Fund

<sup>41</sup> Youth Employment Initiative

<sup>42</sup> European Regional Development Fund

<sup>43</sup> Cohesion Fund

<sup>44</sup> Cohesion Policy Funds Management Information System

## Activities of the Treasury in 2017

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

Likewise, in the reporting period the proposals have been provided for the amendments to the legal framework, prescribing a more flexible tool for amending the terms for the submission of payment applications, as well as the expenditure periods, stipulating them in the internal legal framework (and not by the Cabinet of Ministers regulations); the information system where the reports to be submitted to the European Commission are prepared has been improved, ensuring that the data in the reports are gathered automatically according to a certain algorithm, minimising manual activities and possible errors, as well as ensuring the traceability of the preparation of the reports. In addition to the above mentioned, in order to form a unified understanding and conduct of the involved institutions during the process of the preparation of reports, the explanations of the certifying authority have been developed regarding the preparation of the confirmation of the payment applications on the part of the cooperation authority and the national focal point and information necessary for adjusting the closure of the accounts.

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

Within the scope of the Latvian-Swiss Cooperation Programme, in 2017, the paying authority has verified and submitted four interim and four closing fund reimbursement claims to the competent authorities of Switzerland in the sum total of 3.41 million Swiss francs, received in the full amount. Along with the submission of the last four project closure fund reimbursement claims to the competent authorities of Switzerland and receipt of the reimbursement, the implementation of the Latvian-Swiss Cooperation Programme has been successfully completed, receiving funding in the amount of 94% (53.28 million Swiss francs) out of the allocation for Latvia (56.88 million Swiss francs).

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

In the 2009–2014 Programming Period, within the scope of the European Economic Area and the Norwegian Financial Mechanism, seven programmes and a technical assistance project have been implemented in Latvia. In 2017, according to the procedure and terms determined in the documents governing its quality management system, the Certifying Authority verified 22 interim reports and submitted them to the Financial Mechanism Office, requesting EUR 11.5 million from the Financial Mechanism Office, and one closure report – regarding the programme "NGO Fund", requesting EUR 0.2 million. Payments for the submitted interim reports were received in full amount, whereas the requested sum for the submitted closure report has not yet been received, because the Financial Mechanism Office continues analysing information contained in the closure report.

#### 4.6. 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 9**

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 2017	
		Projected	Projected
A positive assessment <sup>45</sup> of the Certifying Authority's management and control system by external auditors.	Assessment of the Certifying Authority's management and control system by external auditors is not below '2'.	2	2

<sup>45</sup> Rating categories in compliance with the laws and regulations governing the management of European Union Funds ('1' – works well, no or minor weaknesses identified; '2' – works, but certain improvements are needed; '3' – works partially and substantial improvements are needed; '4' – not working, major weaknesses identified).

# Activities of the Treasury in 2017

## 5. Accounting Services

### 5.1. Operational Principles and Areas of Development

In central government budget expenditure review process conducted in line with the move towards a small and efficient public administration, a possibility was identified to achieve a more appropriate work organisation of the accounting function by outsourcing accounting services of the central government and their subordinate institutions. The efficiency improvement model supported by the Cabinet in 2016 provides for a gradual centralisation of accounting functions at the said institutions and their delegation to the Treasury, which already keeps accounts of subordinate institutions of the Ministry of Finance – the Procurement Monitoring Bureau and Fiscal Discipline Council – and accounts and human resources management records of Lotteries and Gambling Supervision Inspection, and has gained special competences in both the development of accounting requirements and practical application of those requirements and service provision, and also keeps the accounts and the Centralised Human Resources Management System of the Ministry of Finance.

Laws and regulations define the accounting methods and fundamental principles, however, the development of standardised arrangements for accounting and financial reporting is complicated due to both keeping records of the diverse transactions and the heterogeneity of information required for government level decision-making, since alongside laws and regulations governing accounting, institutions issue their own internal regulations that affect the standardised accounting arrangements and information system support. Likewise, there are no uniform human resources management processes linked to accounting in place, and institutions have different approaches to their implementation, which makes the creation of a single information and document flow and its incorporation into the information system difficult. By equalising and standardising the accounting process, the Treasury will ensure its continuity, a high quality of accounting data, and preparation of financial statements in compliance with uniform fundamental principles of accounting, and will maintain a system of personnel records and the operational exchange of information to provide the service.

Implementation of the measure is intended in stages, by gradually extending the range of service recipients.

### 5.2. Pilot Project of the Accounting Services

In 2017, the legal framework of the provision of the service has been developed, as well as a uniform accounting and bookkeeping processes and procedure, uniform personnel management processes related to the bookkeeping of remuneration, the technical solution has been assessed and introduced and an interinstitutional agreement has been concluded regarding the provision, and starting from 2018, the accounting and bookkeeping and the personnel management information system services to the authorities involved in the pilot project – the State Chancellery, the School of Public Administration, the Cross-Sectoral Coordination Centre and the National Electronic Mass Media Council. On 28 December 2017, an informative note was submitted to the Cabinet of Ministers "On Informative Note "On the Course of the Implementation of the Pilot Project of the Accounting Services"".

### 5.3. Performance indicators of the Operational Targets for Accounting Services as Defined in the Operational Strategy of the Treasury

**Table 10**

Performance indicators of the operational targets for the Accounting Services  
pakalpojuma sniegšanā

Result formulation	Performance indicators	Numeric values of performance indicators in 2017	
		Projected	Projected
1. Accounting services to state budget institutions provided.	1. State budget institutions receiving the accounting services provided by the Treasury (number).	4	4
2. Treasury client expectations identified and the services provided improved accordingly.	2. Satisfaction with the quality of the accounting services received is not lower than 85% (% of clients surveyed <sup>46</sup> ).	85	47

<sup>46</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a particular service, or satisfaction within and needs of a particular client segment are carried out as necessary.

<sup>47</sup> In 2017, the need for organising the survey was not identified, because the performance indicator of the client survey organised by the Treasury in 2016 regarding the quality of the provided accounting and bookkeeping service achieved 100%.

# Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

### 6.1. 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 2017, 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) Programme "State Budget Loans and Repayments Thereof";
- 4) Sub-Programme "Technical Assistance for the Absorption of the European Regional Development Fund (ERDF) (2014-2020)";
- 5) Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism";
- 6) Programme "Grant to the Local Government Finance Equalisation Fund";
- 7) Programme 99.00.00 "Use of Funds for Unforeseen Events".

The objective of the Sub-Programme "Central Government Budget Implementation" is effective organisation and supervision of the process of implementation of the total central government budget.

The objective of the Sub-Programme "Central Government Debt Management" is to ensure financial resources for covering the funding need with the most favourable terms possible, by hedging the financial risks and taking into account the macroeconomic development and integration of the financial market of the state of

Latvia into the common financial market of the Eurozone, as well as to ensure the implementation of the process of granting guarantees on behalf of the state and to ensure financially efficient and safe cash management, hedging and monitoring the financial risks, ensuring timely and full availability of cash for the fulfilment of the financial liabilities 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 Programme "State Budget Loans and Repayments Thereof" is to ensure effective issuance and servicing of the state loans, taking into account the need to achieve macroeconomic stability and development objectives in the medium term.

The objective of the Sub-Programme "Technical Assistance for the Absorption of the European Regional Development Fund (ERDF) (2014-2020)", is to support and enhance the implementation monitoring of the projects of the 2014-2020 Programming Period of the EU structural funds and the CF. Within the framework of the Sub-Programme, the ERDF technical assistance project "Technical Assistance for the Performance of the Functions of the Treasury as a Certifying Authority" has been implemented. The objective of the project is to ensure the efficient and quality performance of the functions of the Certifying Authority prescribed in the *Law On the Management of European Union Structural Funds and the Cohesion Fund for the 2014-2020 Programming Period* by implementing the action "Supervision of European Union Funds", as well as to ensure the actions under the competence of the institution for the closure of the 2007-2013 Programming Period of EU funds by implementing the action "Ensuring Follow-Ups on the 2007-2013 Programming Period of EU Funds".

The objective of the Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism" is to ensure the management and effectiveness of the implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism and, in line with that which is stated in the international agreement, to ensure the fulfilment of the functions of the national focal point of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism. Within the scope of the Sub-Programme, the Treasury takes part in the implementation of the technical assistance projects of the Ministry of Finance "Technical Assistance Fund for 2011-2017".

Programme "Grants for the Local Government Finance Equalisation Fund". The funds planned for the Programme represent the funding for the Local Government Finance Equalisation Fund, in order to ensure the fulfilment of the norms of the Law on Local Government Finance Equalisation. The Local Government Finance Equalisation Fund implements the equalisation of both revenue capacity and the expenditure need. Grant for the Local Government Finance equalisation Fund is intended to ensure the amount of grants to be disbursed to local government from the Fund, comprised of the contributions of local government into the Funds and the state budget grant. The funding is also intended for the transfer of the grant to local government for the persons institutionalised in social care institutions - orphanages, retirement homes and centres - by 1 January 1998.

Within the scope of the Programme "Use of Funds for Unforeseen Events", the compensation payment was performed in accordance with Sub-clause 6.2 of the 22 December 2009 Cabinet of Ministers Regulation No. 1644 *Procedures by which Funds from the Budget Programme "Funds for Unforeseen Events" shall be Requested and Used* - disbursement of compensation to politically repressed persons, whose administrative exile from the Latvian SSR has been recognised as unjustified, and to persons subject to increased taxes and duties, followed by the deprivation of property, eviction from houses or apartments, or who were avoiding the political repression of the communist regime, if the political repression prepared against them is documentarily proven.

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 11**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>353 679 975</b>	<b>353 147 499</b>	<b>347 458 768</b>
1.1.	grants	349 727 960	349 369 280	343 523 761
1.2.	chargeable services and other own revenues	3 905 215	3 731 419	3 888 207
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>307 907 320</b>	<b>307 970 060</b>	<b>301 757 342</b>
2.1.	maintenance costs (total)	307 395 778	307 233 302	301 034 101
2.1.1.	running costs	9 770 522	9 702 937	9 029 483
2.1.2.	interest expense	260 992 921	260 901 299	255 482 652
2.1.3.	subsidies, grants and social benefits	49 635	48 183	48 183
2.1.4.	regular payments into the European Community budget and international cooperation	117 906	101 500	96 666
2.1.5.	maintenance cost transfers	36 464 794	36 479 383	36 377 117
2.2.	expenditure for capital investments	511 542	736 758	723 241
<b>3.</b>	<b>Financial balance</b>	<b>45 772 655</b>	<b>45 177 439</b>	<b>45 701 426</b>
4.	Financing	-45 772 655	-45 177 439	-45 701 426
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	819 018	1 467 253	943 256
4.2.	Shares and other holdings in the equity of economic operators	-46 591 673	-46 644 692	-46 644 691

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 12**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>270 299 002</b>	<b>269 694 023</b>	<b>264 114 520</b>
1.1.	grants	266 346 987	265 915 804	260 179 513
1.2.	chargeable services and other own revenues	3 905 215	3 731 419	3 888 207
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>271 118 020</b>	<b>271 161 276</b>	<b>265 057 785</b>
2.1.	maintenance costs (total)	270 606 478	270 424 518	264 334 544
2.1.1.	running costs	9 613 557	9 523 219	8 851 892
2.1.2.	interest expense	260 992 921	260 901 299	255 482 652
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	511 542	736 758	723 241
<b>3.</b>	<b>Financial balance</b>	<b>-819 018</b>	<b>-1 467 253</b>	<b>-943 265</b>
4.	Financing	819 018	1 467 253	943 265
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	819 018	1 467 253	943 265

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 13**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>6 449 087</b>	<b>6 057 330</b>	<b>6 213 774</b>
1.1.	grants	2 543 872	2 325 911	2 325 567
1.2.	chargeable services and other own revenues	3 905 215	3 731 419	3 888 207
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>7 268 105</b>	<b>7 524 583</b>	<b>7 157 039</b>
2.1.	maintenance costs (total)	6 756 563	6 787 825	6 433 798
2.1.1.	running costs	6 756 563	6 787 825	6 433 798
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	511 542	736 758	723 241
<b>3.</b>	<b>Financial balance</b>	<b>-819 018</b>	<b>-1 467 253</b>	<b>-943 265</b>
4.	Financing	819 018	1 467 253	943 265
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	819 018	1 467 253	943 265

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 14**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>263 849 915</b>	<b>263 636 693</b>	<b>257 900 746</b>
1.1.	grants	263 803 115	263 589 893	257 853 946
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>263 849 915</b>	<b>263 636 693</b>	<b>257 900 746</b>
2.1.	maintenance costs (total)	263 849 915	263 636 693	257 900 746
2.1.1.	running costs	2 856 994	2 735 394	2 418 094
2.1.2.	interest expense	260 992 921	260 901 299	255 482 652
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 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 15**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>46 709 579</b>	<b>46 746 192</b>	<b>46 741 357</b>
1.1.	grants	46 709 579	46 746 192	46 741 357
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>117 906</b>	<b>101 500</b>	<b>96 666</b>
2.1.	maintenance costs (total)	117 906	101 500	96 666
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	117 906	101 500	96 666
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
<b>3.</b>	<b>Financial balance</b>	<b>46 591 673</b>	<b>46 644 692</b>	<b>46 644 691</b>
4.	Financing	-46 591 673	-46 644 692	-46 644 691
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-46 591 673	-46 644 692	-46 644 691

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 16**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>49 635</b>	-	-
1.1.	grants	49 635	-	-
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>49 635</b>	-	-
2.1.	maintenance costs (total)	49 635	-	-
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	49 635	-	-
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 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 17**  
Central government budget financing and  
spending for the general budget Sub-Programme  
“Technical Assistance for the Absorption of the European Regional  
Development Fund (ERDF) (2014–2020)” (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	approved by law
1.	<b>Financial resources for covering expenditures (total)</b>	<b>36 464 794</b>	<b>36 479 383</b>	<b>36 377 117</b>
1.1.	grants	36 464 794	36 479 383	36 377 117
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	<b>Expenditure (total)</b>	<b>36 464 794</b>	<b>36 479 383</b>	<b>36 377 117</b>
2.1.	<b>maintenance costs (total)</b>	<b>36 464 794</b>	<b>36 479 383</b>	<b>36 377 117</b>
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	36 464 794	36 479 383	36 377 117
2.2.	expenditure for capital investments	-	-	-

## Activities of the Treasury in 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 18**  
Central government budget financing and  
spending for the general budget Sub-Programme  
“Technical Assistance for the Absorption of the European Regional  
Development Fund (ERDF) (2014–2020)” (EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>141 068</b>	<b>163 333</b>	<b>162 623</b>
1.1.	grants	141 068	163 333	162 623
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>141 068</b>	<b>163 333</b>	<b>162 623</b>
2.1.	maintenance costs (total)	141 068	163 333	162 623
2.1.1.	running costs	141 068	163 333	162 623
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 2017

## 6. Governance of the Treasury as a Public Administration Institution

**Table 19**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>15 897</b>	<b>16 385</b>	<b>14 968</b>
1.1.	grants	15 897	16 385	14 968
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>15 897</b>	<b>16 385</b>	<b>14 968</b>
2.1.	maintenance costs (total)	15 897	16 385	14 968
2.1.1.	running costs	15 897	16 385	14 968
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 2017

### 6. Governance of the Treasury as a Public Administration Institution

**Table 20**  
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	approved by law
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	-	<b>48 183</b>	<b>48 183</b>
1.1.	grants	-	48 183	48 183
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	-	<b>48 183</b>	<b>48 183</b>
2.1.	maintenance costs (total)	-	48 183	48 183
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	48 183	48 183
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	-	-	-

#### State Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, negotiated procedure or a procurement procedure pursuant to Section 9 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 2017, the Treasury undertook 12 procurements (excluding procurements valued under EUR 10,000) and awarded contracts worth EUR 3,176,146, excluding VAT.

## Activities of the Treasury in 2017

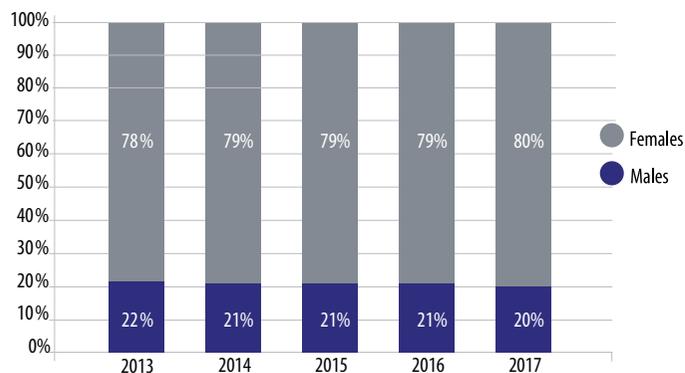
### 6. Governance of the Treasury as a Public Administration Institution

#### 6.2. Personnel and Personnel Management

There were 191 official positions at the Treasury in 2017: 175 civil service positions and 16 staff positions. In 2017, the average number of employees was 192 (including employees on a long-term leave of absence): 176 civil servants and 16 staff.

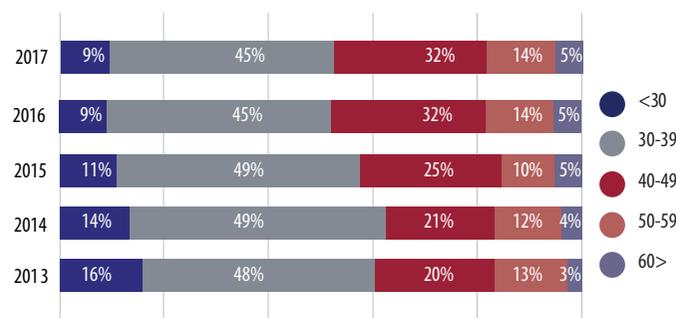
In 2017, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 24 and 25).

**Figure 24.**  
Breakdown of the Treasury personnel by gender, 2013 to 2017 (%)



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 2017, the percentage of personnel turnover was 10% of the actually working employees, which, as compared to 2016, has considerably grown, which can be explained by the difficulties in keeping and attracting highly skilled specialists for work in the Treasury, especially in the field of financial management, due to non-competitive remuneration in public administration (see Figure 26).

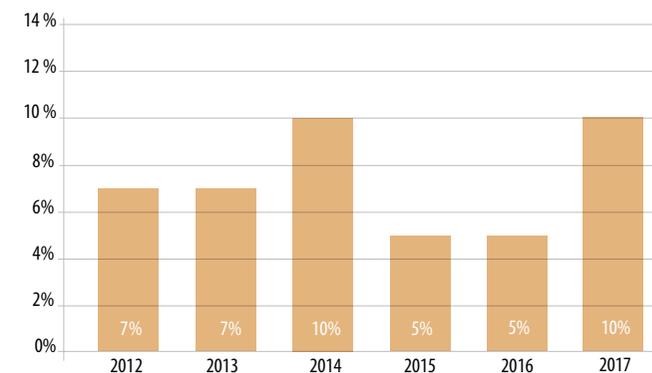
**Figure 25.**  
Breakdown of the Treasury personnel by age, 2013 to 2017 (%)



The greatest asset of the Treasury is its highly educated and professional personnel. 96% of the personnel hold university degrees (of those, 60% 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, by providing training adjusted for larger groups of the Treasury's employees, as well as offering individual training options.

**Figure 26.**  
Personnel turnover, 2012 to 2017 (%)



For the development of the Operational Strategy of the Treasury the Strategic Management and Planning Seminar has been organised and led by moderators, by identifying the possible new courses of strategic action of the Treasury, impact factors, trends in the field of technologies affecting the financial sector, trends in the field of services, by revising the mission and vision of the Treasury and summarising the recommendations for further steps in the strategic progress of the Treasury.

Same as in previous years, training organised by the employees themselves has been of relevance as well: on information security, continuity of operation, network application safety for programmers and test specialists. During the Newcomer Days, employees become acquainted with the functions of the Treasury, its strategic direction, risk management and information security policy, as well as other information necessary for work.

## Activities of the Treasury in 2017

### 6. Governance of the Treasury as a Public Administration Institution

#### 6.3. 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". Over these years, the Treasury has introduced and efficiently maintained process management and monitoring, planning and reaching of goals, monitoring of external and internal factor influences, risk management, organised communication processes, identification of stakeholders and inclusion of their requirements in the institution's processes of operation, as well as employee professionalism, engagement and awareness of management decisions. 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 identification of risks and the reduction thereof to an acceptable level, the use of potential opportunities and the facilitating of conformity with good management principles.

In order to ensure that the services provided by the Treasury are of high quality and secure, 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 February 2017, the integrated quality management and information safety administration systems have been certified in accordance with the requirements of the standard ISO 27001:2013 and ISO 9001:2015, inter alia, the Accounting and Bookkeeping Service and the development thereof has been assessed for the first time.

In February 2018, the supervisory audit of the integrated management system of the Treasury has been performed successfully. The auditors specifically emphasised that the implemented management system is being effectively maintained and monitored, the monitoring of the impact of external and internal factors and risk management is being carried out, the internal audits are being planned and organised in accordance with the plan.

All of the basic fields of activity of the Treasury have been certified: central government budget implementation, central government debt and cash management, state loan and guarantee management, implementation of the functions of the paying and certifying authority of EU funds and the accounting service.

#### 6.4. 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 2017, 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 2017

## Public Communication

### Measures for Public Information and Education

The Treasury's image is built by professional teamwork, jointly developing a trusted and appreciated institution.

Considering the functions delegated to the Treasury, the Treasury's communication focuses primarily on rendering inter-institutional services, informing of clients and other interested parties<sup>48</sup>, as well as targeted counterparty relationship management – provision of information to foreign and international financial institutions, credit rating agencies, and investors who use the information provided by the Treasury on central government 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.

To ensure the planning of operational and successful activities, create and maintain a favourable internal communication environment in the Treasury and to develop the image of the Treasury through complementary activities in external communication, the Communication Plan of the Treasury for 2017 has been developed and fulfilled.

In 2017, the Treasury put a website into operation corresponding to state of the art communication. [www.kase.gov.lv](http://www.kase.gov.lv). Information about the institution and its functions is available therein, 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 in electronic form. 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](http://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 2017, the Treasury performed a survey of *ePlāni* users, in order to enhance both the information system of processing funding plans *ePlāni* and the process of granting allocations. The results of the survey were indicative of the need to continue minimising the administrative burden, by revising the allocation of resources and expenditures of the funding plans and the requirements for providing justifications for amendments. 87.5% of the respondents admitted that the process of funding plans and granting allocations in the Treasury is effective (12.5% of the respondents had no opinion). On the basis of the survey results and the proposals provided by the clients, at the end of 2017 the Treasury introduced a number of updates into its *ePlāni* system, as well as started developing proposals for enhancement of the budget implementation process in the field of granting and fulfilling allocations.

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.

<sup>48</sup> 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.

## The Treasury's Development Priorities for 2018

- 1) To implement measures for introducing the public administration reforms in the Treasury – to raise the effectiveness of and to optimise the processes.
- 2) To organise an independent external evaluation of possibilities to develop and maintain Treasury information technology solutions and develop a medium-term Treasury information technology strategy.
- 3) To provide an accounting centralisation service and a technical solution for personnel management for the institutions included in the pilot project in accordance with uniform basic accounting principles by optimising the use of financial information technologies and human resources.
- 4) To complete the implementation of the priority measure “Development of Latvia’s Public Sector Accounting Guidelines and their Implementation Manual (2015–2018)” to ensure the harmonisation of the accounting and report preparation requirements of the public sector of Latvia with international standards.
- 5) To carry out the tasks in the field of accounting and financial reporting, as well as in the implementation of a single tax account, which are delegated in the project of the Ministry of Finance on the implementation of the accrual principle in accounting.
- 6) To gradually implement a new strategic approach to granting and servicing State loans.