



The Treasury Public Report for

2018

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Abbreviations Used in the Report

2018



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

Units of Measurement

EUR	<i>Euro</i> , the official currency unit of the European Union
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The Treasurer's Statement

2018

2018 in the Latvian economy has made its name in history with stable growth and a constant policy direction, ensured by Latvia's participation in the European Union, Eurozone and NATO.

In 2018, the activities of the Treasury, just like the public financial sector at large, was affected by the crisis to the reputation of the Latvian financial sector, which could damage the confidence of markets in the creditworthiness of the country. To limit the potential adverse effects of the referred to events on the country's credit ratings, the representatives of the Treasury, jointly with the experts from the Ministry of Finance, the Bank of Latvia, the Financial and Capital Market Commission explained and provided information to the cooperation partners, investors and credit rating agencies regarding the developments in the financial sector, their impact on the Latvian economy and measures for improvement of the situation. In 2018, the credit rating of the state of Latvia remained stable in the rating group "A", as well as increases in the credit ratings were received from the Japanese credit rating agency *R&I* and international credit rating agency *S&P Global*.

In the favourable situation in the financial market with beneficial borrowing interest rates, ensuring low and foreseeable debt servicing costs in the long term, the foreign borrowing plan for 2018 has been successfully implemented. As the Treasury issued Eurobonds in the amount of EUR 1 billion, the previously assumed central government debt liabilities with low interest rates have been refinanced and a significant saving of the central government budget means for servicing of the central government debt in the long term has been ensured, including, in 2019 – in the amount of EUR 16 million. At the same time, a significant strategic objective has also been achieved – increased liquidity of debt securities, facilitating more active trading of such securities in the secondary market.

In cash management, by developing new instruments and ensuring financially beneficial cash contributions, the new method has been used for the first time – redemption of the domestic borrowing securities.

To ensure high-level conformity of the financial statements to the guidelines of the international and international public sector accounting standards, a priority measure was implemented *Ensuring the standardisation of financial accounting processes at central and local government institutions (2015-2018)*: the legal framework, accounting and bookkeeping handbooks and guidelines for the preparation of the annual report have been developed, training organised for the employees in the field of central government and local government finance, single discount rates have been determined for 2019, discounting calculators have been developed. Overall, the regulation will facilitate the disclosure of

more complete and clearer information in the financial statements regarding the financial condition of the state in accordance with the best international practice.

The efficiency of the central government budget implementation process has been improved, by optimising and simplifying the granting of central government budget allocations, thus considerably reducing the administrative burden for all central government budget authorities, by providing the possibility to more effectively use administrative resources for the planning and analysis of implementation of the central government budget.

Introduction of a new strategic approach to granting and servicing of the state loans has been commenced, to simplify the receipt of the state loan for the state loan applicants for the implementation of investment projects, making it more comfortable for the clients to receive state loans and to cooperate with the Treasury in the digital environment. The project is expected to be accomplished within the period of the next three years. In 2018, the possibilities for enhancement of the loan granting service and technical provision for the automation thereof have been assessed, as well as the legal regulation for the purposes of optimisation of the process.

By implementing a significant public administration reform pilot project for centralisation of the functions of the accounting of the central government budget authorities, starting from 2018, the Treasury provides an accounting and bookkeeping service 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, as well as continues providing the service to the subordinate authorities of the Ministry of Finance – the Procurement Monitoring Bureau, the Lotteries and Gambling Supervisory Inspection and the Treasury, as well as to the Fiscal Discipline Council. Measures have been taken, which, in 2019, also ensure the provision of the accounting service to the Ministry of Finance.

For the purposes of supporting the functions there is a stable, integrated set of national importance information systems created in the Treasury, meeting the safety requirements. To ensure and develop quality e-services provided during the time when information security, cyber-attacks and technological risks are increasing considerably, an external interdependent assessment of the solutions of information technologies of the Treasury has been organised, according to which the *Treasury's Information Technologies Strategy for 2019-2021* has been developed, laying down new principles for the introduction of information systems, modernisation of infrastructure of computer networks and technical resources, directions and guidelines for staff development, to ensure information technology

solutions that are convenient to use and secure for both internal and external users.

Measures have been implemented for the purposes of closing the 2009–2014 European Economic Area and the Norwegian Financial Mechanism programmes, establishment of the management and control system for 2014–2021 European Economic Area and the Norwegian Financial Mechanism, and the timely and high-quality preparation of European Union funds payment applications and account closure and the submission thereof to the European Commission has been ensured, as well. The Audit Authority has acknowledged that the European Union funds management and control system established by the Treasury for the preparation of the payment application and account closure is effectively operating.

External auditors have given a positive assessment regarding the activities of the Treasury in 2018 – in February 2019 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 Treasury expresses gratitude to every employee for their professionalism, awareness and interest in the provision, development and enhancement of the institution's processes, serving as a guarantee for the achievement of strategic objectives and quality performance of everyday tasks.

Riga, 26 April 2019



Treasurer
Kasparis Āboliņš

Legal Status and Structure of the Treasury

The Treasury is a direct administrative authority under the Ministry of Finance designed to effectively implement the functions of public administration in the area of public financial management. The operations of the Treasury are managed by the Treasurer, who is appointed and removed from office by the Minister of Finance.

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. To minimise the financial risks, the structure of the Treasury is established according to the principle of separation of functions (similar to the best practice of financial institutions and European debt management bodies):

- 1) client service and financial transactions;
- 2) financial risk management;
- 3) settlements, accounting and reporting.

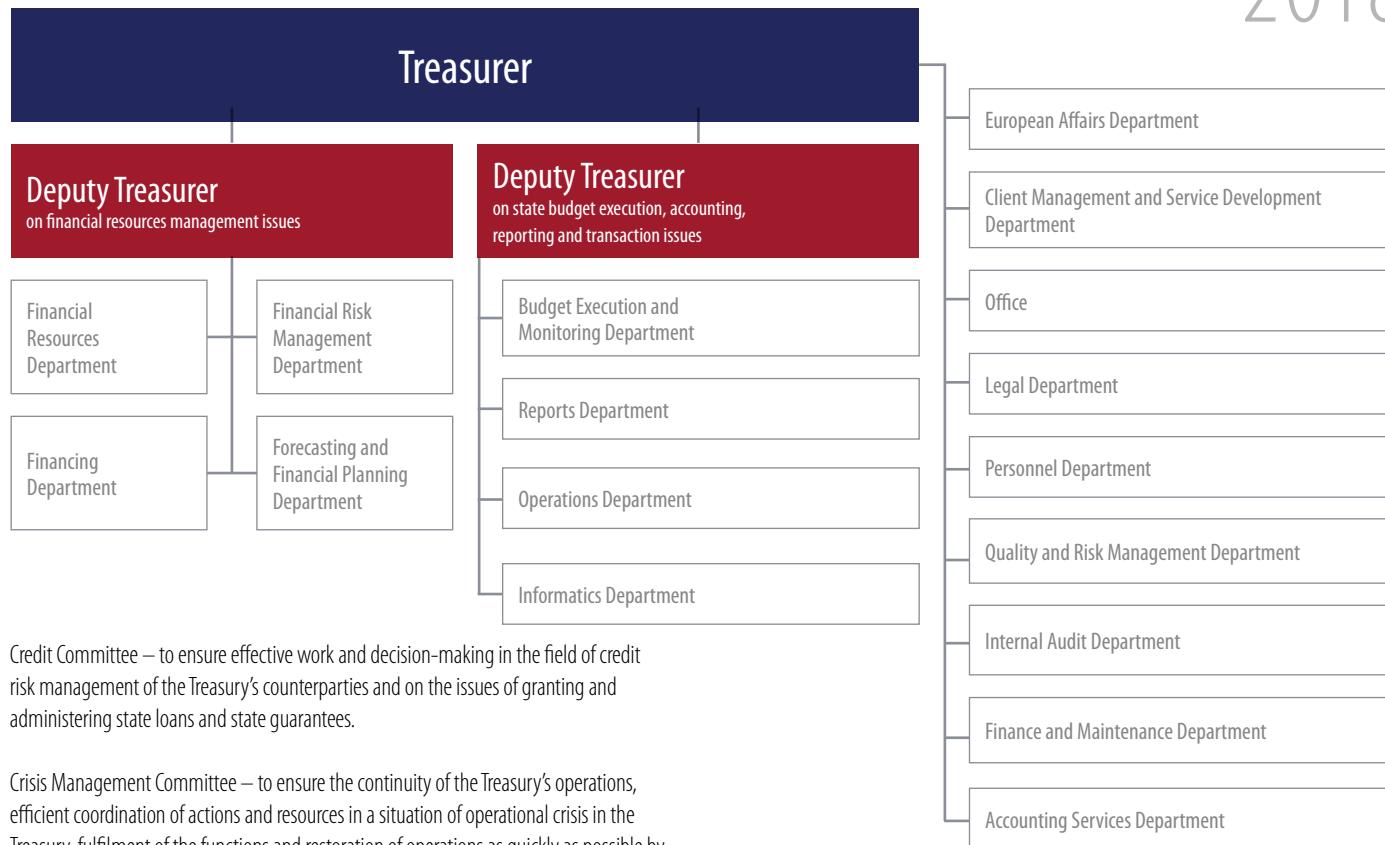
By way of ensuring the measures for the introduction of the public administration reforms, as well as by implementing a significant public administration pilot project for centralisation of the functions of the accounting and bookkeeping of the central public authorities, the Treasury optimised and raised the effectiveness of the processes and carried out structural changes (at the beginning of 2018, as a result of separating the accounting and bookkeeping function from the financial planning function, the Accounting Services Department and the Finance and Maintenance Department were formed and starting from October 2018, by uniting the Financial Resources Department and the International Cooperation Department, the Financial Resources Department was formed).

To ensure unified decision-making, the following committees remained active in 2018:

Audit Committee – to facilitate effective implementation of the internal audit functions and to improve the internal control system with a view to ensuring the achievement of the Treasury's strategic goals, safeguarding its resources and establishing and maintaining effective control measures.

Information Systems Change Management Committee – to ensure the coordinated change management of the Treasury's information systems.

Figure 1. Organisational Chart of the Treasury



2018

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.

The overriding strategic goal of the Treasury – sound and effective financial management in the public interest.



Operational directions of the Treasury:

- 1) implementation of the central government budget, ensuring efficient and economical budget implementation and the compliance of the services provided by the Treasury with the best financial management practices;
- 2) the central government debt and cash management, by ensuring, in a timely manner, the availability of financial resources for covering the funding needs of the central government debt at low service costs in the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market;
- 3) management of the state loans and guarantees, by ensuring the availability of financial resources (incl. long term) for candidates to central government loans in the form of a government loan on financially favourable terms through quality service, as well as ensuring a timely government guarantee process, while limiting the credit risks of central government loans and guarantees;
- 4) implementation of the functions of the EU Funds and Foreign Financial Assistance Payment and Certifying Authority, by organising and standardising the performance of the functions of Payment and Certifying Authorities in a manner that ensures compliance with the requirements of the Granting Authorities and laws and regulations of the republic of Latvia and timely receipt of funds from Granting Authorities, and minimises the acceptable risk of ineligible expenditure being declared;
- 5) accounting and bookkeeping service, by providing an effective and high-quality accounting and bookkeeping service to public administration institutions.

Strategic priorities of the Treasury are:

- 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.

Activities of the Treasury in 2018

1. Implementation of Central Government Budget

1.1. Operational Principles and Areas of Development

The Treasury organises implementation of the central government budget and arranges for the accounts of the central government budgetary means throughout the full public financial management cycle.

The Treasury provides services to discharge bodies in the e-environment: holds accounts for clients, records central government budget revenues on the basis of annual central government budget appropriations and financial plans registered with the Treasury, assigns appropriations and grants from general revenue, 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 the 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 *Ensuring standardisation of financial accounting processes at central and local government institutions (2015-2018)*. 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. 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 2018

Granting and Implementing Allocations

In 2018, the Treasury implemented the measures for increasing the effectiveness of the central government budget implementation process and minimising the administrative burden, starting from 2019, shifting to granting allocations and subsidies from general revenue for state budget institutions in the amount of the annual sum. Up to now, assignations or the authority to incur expenditures in a certain amount was granted for a month, and the budget implementers, due to objective reasons, as the expenditure forecasts changed, had to introduce corrections and this re-planning created an administrative burden.

In 2018, for ensuring the central government budget implementation, the Treasury allocated expenditures worth EUR 9,672.46 million: EUR 6,848.58 million for the basic budget and EUR 2,823.88 million for the special budget. Allocations were granted to 178 state budget institutions.

In 2018, 2,018 basic budget expenditure accounts were opened. As compared to 2017, the number of accounts increased by 102 accounts, because the activities of

the 2014-2020 Programming Period of the EU Funds and other projects financed by the EU policy mechanisms have been implemented.

Accounting and Reporting

Pursuant to the regulatory enactments, the Treasury prepares official daily, monthly and quarterly reports and the Economic Annual Report on the Central Government and Local Government Budget Implementation (the monthly reports are available on the Treasury's website, the Economic Annual Report is published 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 the Treasury's 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 2018, the annual report on the performance in 2017 was prepared by consolidating the consolidated annual reports of 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.

2018

Activities of the Treasury in 2018

1. Implementation of Central Government Budget

To ensure high-level conformity of the financial statements to the guidelines of the international and international public sector accounting standards, the Treasury implemented a priority measure *Ensuring the standardisation of financial accounting processes at central and local government institutions* (2015–2018): the legal framework, accounting and bookkeeping handbooks and guidelines for the preparation of the annual report have been developed, training organised for the employees in the field of central government and local government finance, single discount rates have been determined for 2019, discounting calculators have been developed. The 13 February 2018 Cabinet of Ministers Regulation No. 87 *Procedures for Accounting and Bookkeeping in Budget Institutions* and the 19 June 2018 Cabinet of Ministers Regulation No. 344 *Procedures for Preparation of the Annual Report* were issued, adjusting, in line with the requirements of the international public sector accounting standards, the scope of the annual report, financial statements, confirmation on the authenticity of information provided by the annual report, structured form of explanations (notes) to the items of the annual report. The 19 June 2018 Cabinet of Ministers Regulation No. 344 Procedures for Preparation of the Annual Report also incorporates the liability for introducing and maintaining the internal control system, while the Internal Control System Guidelines developed by the Treasury inform local governments regarding the key principles of the internal control system, ensure the uniform understanding thereof, provide recommendations for the assessment of the internal control system. On the whole, the regulation will facilitate the disclosure of more complete, uniform and clearer information in the financial statements regarding the financial condition of the state and they will conform to the best international practice and international public sector accounting standards insofar as it will be relevant to Latvia's situation, including with respect to the accounting of the central government budget revenue administered by the State Revenue Service. Latvia's current assessment in accordance with the EUROSTAT survey of 2012 regarding the conformance of the countries to the international public sector accounting standards is 64%. Applying the aforementioned Cabinet of Ministers Regulations, the assessment is expected to achieve 88% conformance by 2021.

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 preparing and submitting the proposals for the performance indicators to be achieved by the project

Introduction of the accruals principles in the central and local government budget revenue accounting and reduction of the number of the central government budget payment accounts and the risk register, and by assessing the issues on arranging the state budget non-tax revenue accounting, data structure necessary for aggregating information has been prepared for the performance of the state budget non-tax revenue analysis, as well as information provided by the institutions regarding the state budget non-tax revenue has been aggregated.

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

For the purposes of supporting the functions there is a stable, integrated set of national importance information systems created in the Treasury, meeting the safety requirements. To ensure and develop quality e-services provided during the time when information security, cyber-attacks and technological risks are increasing considerably, an external interdependent assessment of the solutions of information technologies of the Treasury has been organised, according to which the *Treasury's Information Technologies Strategy for 2019–2021* has been developed, laying down new principles for the introduction of information systems, modernisation of infrastructure of computer networks and technical resources, directions and guidelines for staff development, to ensure information technology solutions that are convenient to use and secure for both internal and external users.

To ensure quality e-services at a technologically high level, in 2018, the Treasury continued investment for information systems to support them: optimising the processes, taking measures to stabilise, secure and ensure the continuity of operations of the systems, standardise budget execution procedures, reduce the administrative burden for clients and residents. In 2018, within the scope of a multi-annual project *Modernisation of Accessibility and Usability of the Treasury's E-Services (2016–2020)*, the access of clients to e-services has been ensured, by means of a uniform application ([Latvija.lv](#)) and the visual and functional enhancement of the usability of e-services has been commenced.

In 2018, 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 government budget management cycle: from budget planning to the implementation thereof and 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 processes of the Treasury and central government budget institutions in the system, e.g., account creation, the process of 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 subsidies 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 ensures the generation of reports on the implementation of the central government budget according to the central government budget structure.

Single Electronic Data Exchange System

eReports (ePārskati)

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 mutual administrative and time savings. In 2018, there were 4,300 users registered in the system on average.

2018

Activities of the Treasury in 2018

1. Implementation of Central Government Budget

The solution offered by the *ePārskati* system for the submission, summarising and verification of reports, to ensure the process of supervision and control over the allocation of the central government budget means, is used by eight ministries and central government institutions: Ministry of Finance, Ministry of Education and Science, Ministry of Culture, Ministry of Welfare, Ministry of Transport, Ministry of Environmental Protection and Regional Development, the State Chancellery and the Central Election Commission.

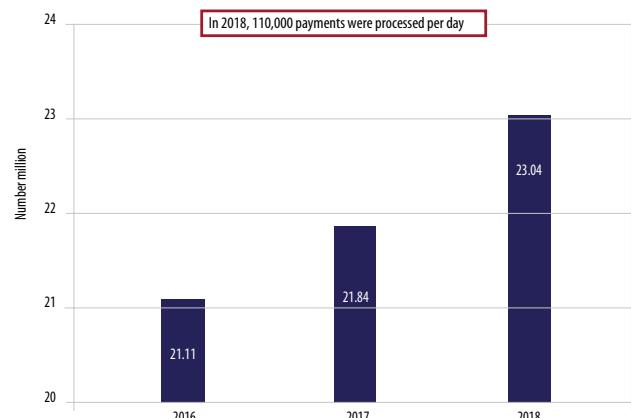
ePlans (ePlāni)

Ministries or their subordinate bodies use the *ePlāni* system to prepare, approve and submit financing plan projects to the Treasury, based on which the Treasury issues allocations and grants from the general revenue. In 2018, 440 users were registered, and 8,760 basic budget and special budget financing plans were processed in the system.

eEstimates (eTāmes)

In 2018, a new e-Service has been developed, ensuring a single, centralised environment for all central government institutions for entering and signing the estimates of the budgetary programmes, sub-programmes and events. The central government budget institutions started using the e-Service in 2019.

Figure 2. Number of payments processed in the Treasury (2016-2018)



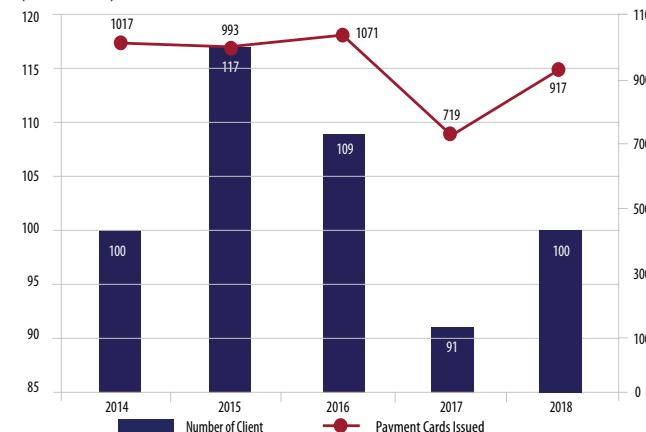
eKase, Budget Electronic Payment System

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*.

Payment cards tied to Treasury accounts

In cooperation with AS *Citadele Banka*, the Treasury provides the possibility for the state budget institutions to perform payments with the payment cards tied 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.

Figure 3. Dynamics of the service of payment cards pegged to Treasury accounts (2014-2018)



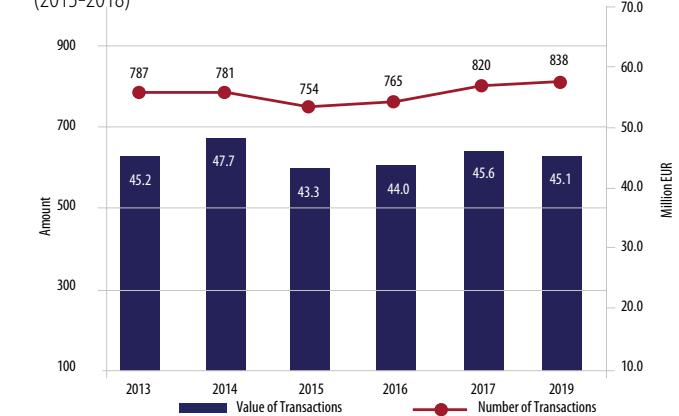
In 2018, the service of payment cards tied to Treasury accounts was used by 100 state budget institution, and a total of 917 credit cards were issued to such institutions.

Acceptance of Payment Cards in the Collection of Government Budget Payments

The Treasury provides the payment card acceptance service via AS *Citadele banka* to the central government and local government institutions, providing for the possibility to pay for the services provided by the institution, using *VISA Electron*, *MasterCard* and *Maestro* payment cards in a payment card acceptance terminal or another alternative system.

In 2018, the service provided by the Treasury was used by 114 clients of the Treasury, including 30 local governments. Over the year 2018, 837,922 transactions with a total value of EUR 45,051,168 were made with payment cards at the 1008 payment card terminals installed at the central government and local government institutions.

Figure 4. Dynamics of the payment card (*VISA* and *MasterCard*) acceptance service (2013-2018)



Activities of the Treasury in 2018

1. Implementation of Central Government Budget

2018

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 indicator	Numerical values of the performance indicator in 2018	
		Plānotais	Izpilde
1. Uniform budget implementation, budget cash flow accounting and implementation principles developed and approved and a positive assessment of the quality of budget implementation process, effective accounting, timely and adequate control received from external auditors and counterparts.	1.1. Conformity of the financial statements with the main principles of international and international public sector accounting standards (%).	63	63
	1.2. Conformity of the financial statements with the requirements of the European Statistics Code of Practice within the framework of the national statistical information programme (as % of the European Statistics Code of Practice performance requirements referable to the Treasury).	75	100 ¹
2. The Treasury's client expectations have been identified, and the provided 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 ²).	85	_3
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

1.5. Public Services Performance Indicators for Private Individuals in the Central Government Budget Implementation

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 Procedures for Accounting, Quality Control and Provision of the Public Administration Service, in the central government budget implementation the Treasury provides two public administration services to private individuals⁴ – maintenance of accounts and payment service.

Applications from 1,290 private individuals have been received within the scope of the account maintenance service (out of which 679 service applications have been received electronically, 611 – in paper application form). Electronic payments of 281,208 private individuals have been received and performed, within the scope of the payment service. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received.

¹ In accordance with the request and instructions of the Central Statistical Bureau (CSB), on 15 June 2018, the Treasury submitted the CSB the updated self-assessment questionnaire, where the conformity of all indicators of the requirements of the European Statistics Code of Practice (ESCP) is specified as implemented (i.e., 100% conformity). The indicator is met, by exceeding the projected value thereof (by 33.3%), as defined at the initial stage of implementation of the ESCP, applying the primary statistical requirements to the Treasury.

² 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 certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

³ The Treasury's client survey will be carried out in 2019.

⁴ Legal entity of private law (associations, foundations, religious organisations, commercial companies and other legal entities of private law, having an account opened in the Treasury).

Activities of the Treasury in 2018

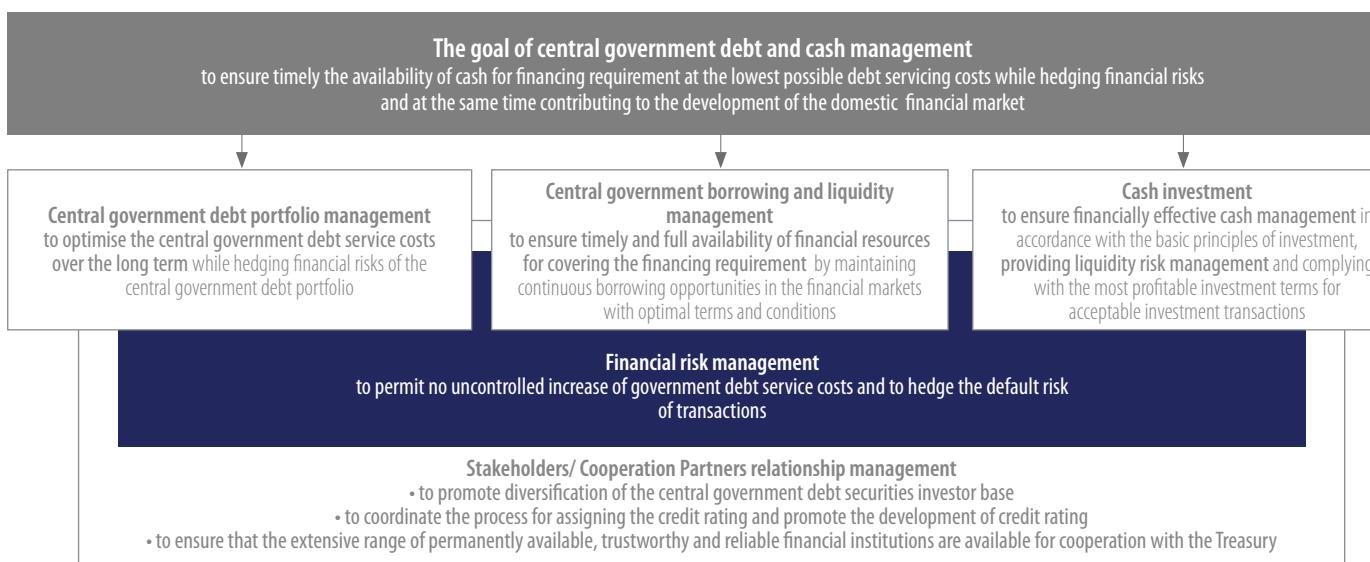
2. Central Government Debt and Cash Management

2018

2.1. Operational Principles and Areas of Development

In 2018, the activities of the Treasury in the field of central government debt and cash management were determined by the Central Government Debt and Cash Management Strategy approved by the Minister for Finance (see Figure 5).

Figure 5. Central Government Debt and Cash Management Strategy



- 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 2018

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 36% of GDP at the end of 2018. Latvian general government debt is still one of the lowest of the EU member states, and also well below the average indicator in the EU (see Figure 6).

The level of general government debt is mainly affected by central government debt⁶, which, at the end of 2018, according to the operational data of the Treasury, comprised EUR 10.2 billion at nominal value (see Figure 7), growing by EUR 0.5 billion since the end of 2017. At the beginning of 2018, Eurobonds issued in 2008 in the amount of EUR 0.4 billion were repaid and the domestic borrowing bonds in the amount of EUR 220.9 billion were discharged, by means of resources of Eurobonds issued in the international financial markets in 2017. In 2018, Eurobonds were issued in the sum total of EUR 1.0 billion, ensuring the resources for covering the funding needs of both the current year and the next year, including for the repayment of the central government debt planned in the first half of 2019 (for the purposes of maturity of the domestic borrowing bonds in February in the amount of EUR 229.8 million and repayment of the European Commission loan in April in the amount of EUR 500 million). In turn, in 2018, bonds in the amount of EUR 330.0 million were issued in the domestic financial market.

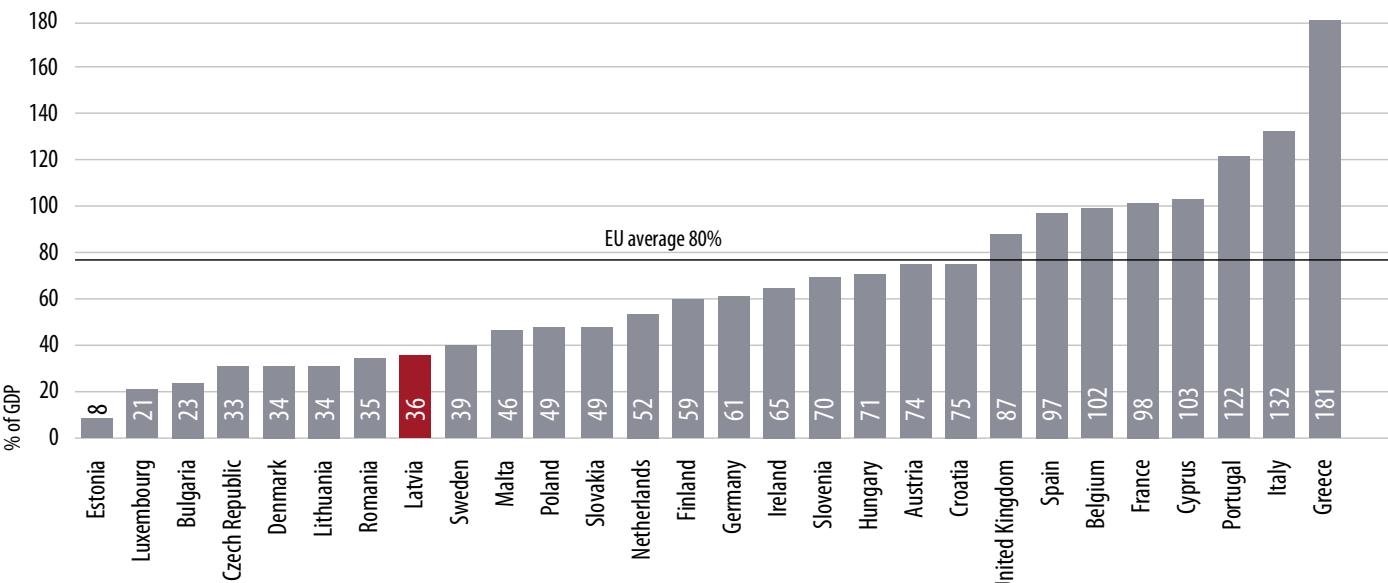


Figure 6.
General government debt at the end of 2018
(% of GDP) under the ESA 2010 methodology⁵
(Source: EUROSTAT)

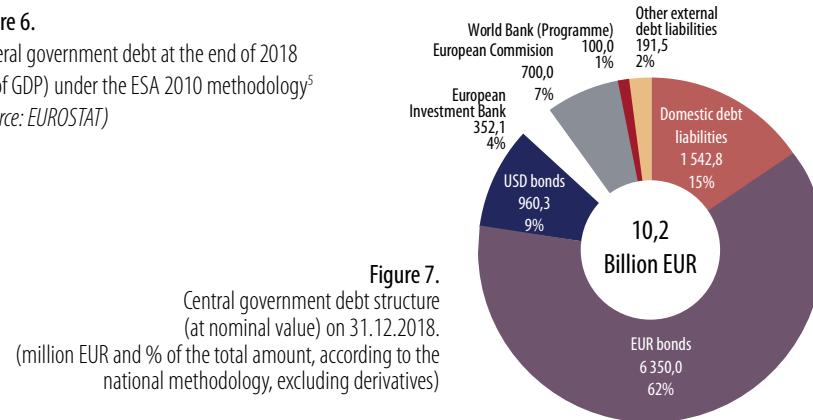


Figure 7.
Central government debt structure
(at nominal value) on 31.12.2018.
(million EUR and % of the total amount, according to the
national methodology, excluding derivatives)

⁵ The general government debt is valued according to the common methodology of the 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.

⁶ 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.

Activities of the Treasury in 2018

2. Central Government Debt and Cash Management

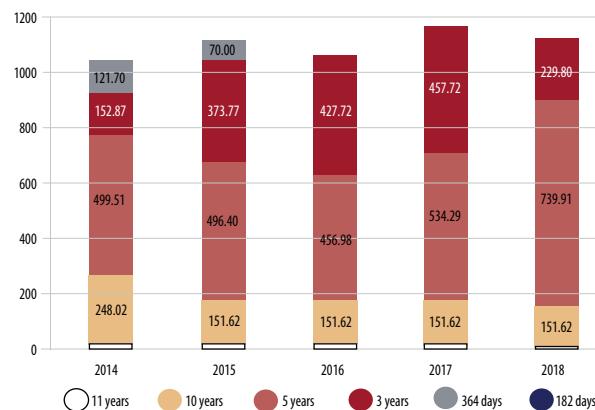
2.3. Central Government Borrowing Management

2.3.1. Borrowing in the Domestic Financial Market

At the end of 2018, the largest share of the central government domestic debt was formed by domestic debt securities issued by the Treasury, which were basically purchased by domestic financial market operators (credit institutions, pension funds, insurance companies, etc.). The total amount of government domestic debt securities of Latvia in circulation at the end of 2018 was EUR 1,126 billion – EUR 41.99 million less than a year before (see Figure 8). Considering the favourable market situation, especially because the European Central Bank continued economic stimulation measures and, generally, positively influenced the borrowing costs in the Eurozone, low interest rates were recorded in Latvia's domestic debt securities auctions.

Figure 8.

Government domestic debt securities in circulation by initial maturity at the end of 2014–2018, in EUR million



Gross issue volume in the domestic market in 2018 was EUR 330 million and the government securities were discharged in the amount of EUR 372 million. In 2018, two new five-year bond programmes were launched. The five-year bond programme

launched in January, at the end of 2018 became the most liquid government domestic securities programme in circulation up to now, comprising EUR 250 million, but the new five-year bond programme launched in November, at the end of 2018, achieved EUR 80 million and also continues in 2019. Liquid volume securities programmes in circulation promote the circulation of securities in the secondary market, which, in turn, positively influences the pricing of securities in the primary market.

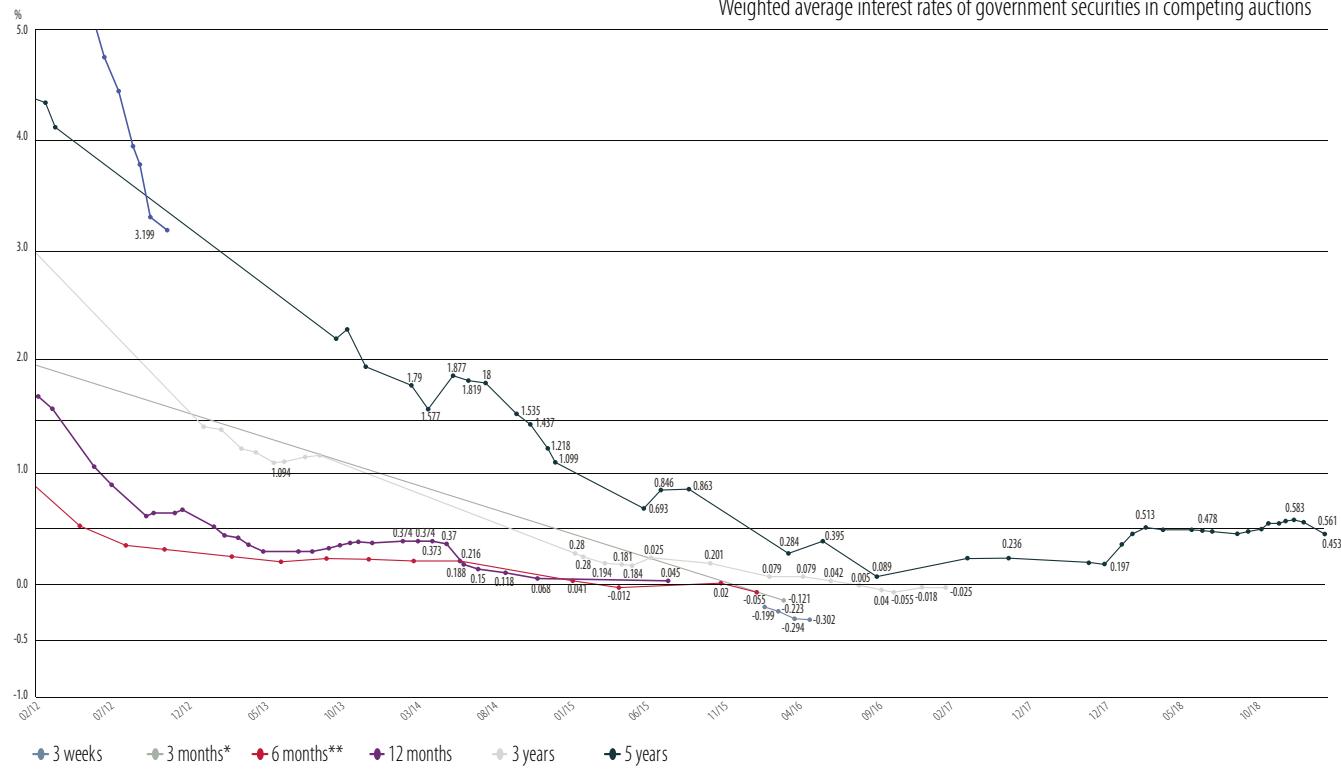
Notwithstanding that the number of primary dealers reduced by one, in 2018, the demand for the central government domestic borrowing securities of Latvia remained high, thus the investor competition (characterised by the supply/demand proportion) in all auctions ensured the attraction of resources under financially beneficial terms.

On average, the aggregate demand in competitive multi-price auctions exceeded the supply 4.2 times.

The rates of securities in the auctions remained around the historically lowest levels, with moderate growth at the end of the year, reflecting the general trends of the financial market rates in 2018. 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 the continuation of the European Central Bank's securities purchase programme by the end of 2018.

Figure 9.

Weighted average interest rates of government securities in competing 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

Activities of the Treasury in 2018

2. Central Government Debt and Cash Management

2.3.1.1. Primary Dealer System

The Primary Dealer System is aimed at facilitating the development and activity of the government securities market by promoting the emergence of new borrowing 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 the following credit institutions: AS *Citadele banka*, Luminor Bank AB, AS *SEB bankas* and AS *Swedbank*.

The Treasury communicates with Primary Dealers on a regular basis regarding the situation in the financial market, auction plans and results, as well as matters related to the secondary market of government securities. In 2018, considering smaller borrowing volumes, the total turnover of trade with government securities of primary dealers in the secondary market also indicated a slight decrease.

2.3.1.2. Savings Bonds

The Treasury continues maintaining the savings bonds offer (on the website www.krajobligacijas.lv and at post service points of the state joint-stock company Latvijas Pasts). The objective of savings bonds is to provide private individuals with a convenient and secure investment opportunity in classic and secure financial instruments, facilitating public confidence in the financial market and the effective depositing of cash savings, broadening their practical experience of residents in investing.

In 2018, residents were offered six-month and 12-month, as well as five-year and 10-year savings bonds. 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.

Since the introduction of the savings bonds, the residents have mainly elected the long-term investments, and, at the end of 2018, the 10-year savings bonds made up 93% of the volume of the savings bonds. At the end of 2018, the volume of savings bonds at the disposal of residents amounted to EUR 5.144 million. As compared to 2017, in 2018 a slight increase in the volume of the savings bonds issues was observed, which is, probably, attributable to the maturity of the five-year savings bonds issued in 2013, as well as to the fact that the supply of 10-year term deposits was quite limited in the credit institutions segment.

2.3.1.3. Interest-Free Bonds

The Treasury continues ensuring the issue of interest-free bonds, which 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 and pays EUR 38,000 into the central government budget. In 2018, five interest-free bond issues took place, and the total nominal value of interest-free bonds at the end of the year amounted to EUR 9.5 million.

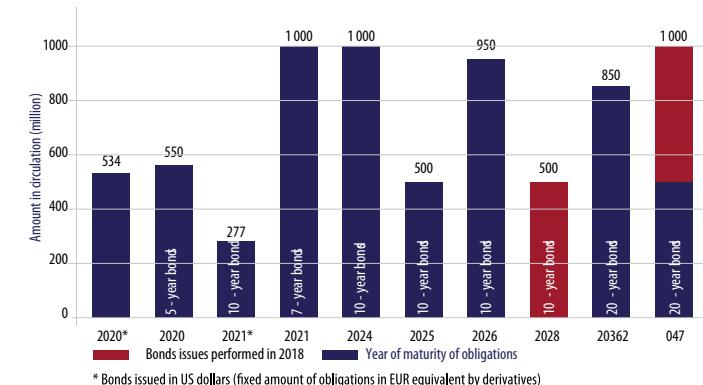
2.3.2. Borrowing in International Financial Markets

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 are stable 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), which allows the Treasury to efficiently exploit favourable conditions in international financial markets, as well as issue government securities in different currencies. The GMTN framework also provides for the possibility of issuing 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 10.

Issued bonds traded in international financial markets



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 2018, ensured the possibility to attract resources in the international financial markets on favourable terms.

Activities of the Treasury in 2018

2. Central Government Debt and Cash Management

As the Treasury issued Eurobonds in the amount of EUR 1 billion, the external borrowing plan for 2018 has been successfully implemented, thus refinancing the previously assumed central government debt liabilities with low interest rates and ensuring significant saving of the central government budget means for the central government debt servicing in the long term, including, in 2019 – in the amount of EUR 16 million. Concurrently with the issues, the liquidity of these securities also grew, namely, both the outstanding traded amount has grown and more active trade in the secondary market has been promoted (see Table 2).

Table 2.
Characteristic values of the Eurobonds issued in 2018 in international financial markets

	New issue and additional issue of 10-year Eurobonds		Additional issue of 30-year Eurobonds	
Maturity term	30 May 2028		15 February 2047	
Scope	350 million EUR (in May)	150 million EUR (in September)	300 million EUR (in May)	200 million EUR (in September)
TOTAL: 1 billion EUR				
Fixed income rate (coupon)	1,125%		2,250%	
Profitability	1,148%	0,997%	1,938%	1,861%

2.3.3. Counterparty Relationship Management

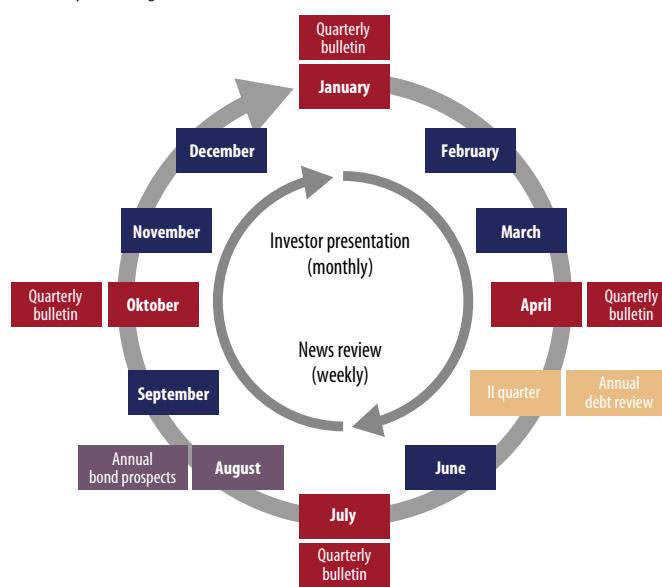
The aim of managing relationships with collaborating financial institutions is to regularly ensure the widest, safest and most reliable range of financial institutions possible for collaboration with the Treasury, which ensures competitive terms for the performance of financial transactions.

Both as members of the Latvian delegation during the Annual Meeting of the World Bank and the International Monetary Fund, and also organising face-to-face meetings, incl. at various conferences and seminars, the representatives of the

Treasury hold meetings with investors of government debt securities, representatives of foreign investment banks and credit rating agencies and provide the most up-to-date information about the situation in the Latvian economy, financial market, as well as the national borrowing strategy thereby also ensuring the dissemination and explanation of information to the investor community, which resolves on contributions into government securities. On 22 May 2018, the Treasury organised a teleconference for investors of securities (*Global Investor Call*), during which it provided information about the topicalities in the Latvian financial sector, general economic condition, as well as explained the current developments in the Latvian banking sector.

The Treasury also organises the regular preparation of analytical materials and the operational provision of information to counterparties, by implementing the set of purposeful and structured communication measures, allowing one to reach the task of diversifying the debt securities investor base set in the Operational Strategy of the Treasury.

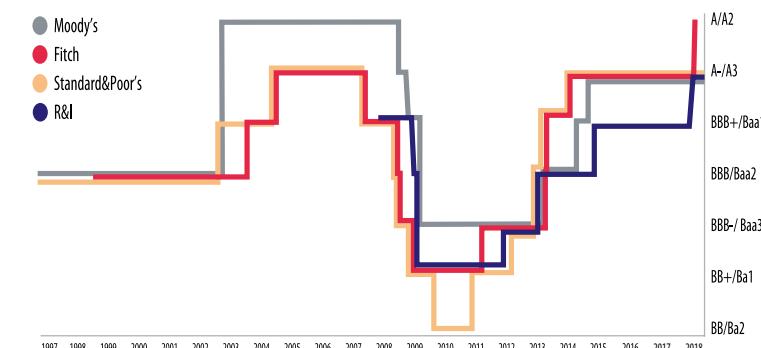
Figure 11.
Annual Cycle of Regular Communication Events



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,

Figure 12.
Credit Rating Development of the Republic of Latvia



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 country's 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 a 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 2018

2. Central Government Debt and Cash Management

Also in 2018, the credit rating of Latvia remained at a stable position in the "A" credit rating group: five credit rating re-affirmations have been received regarding holding the credit rating at the existing level, as well as the credit rating increases from the Japanese credit rating agency *R&I* (in January) and the international credit rating agency *S&P Global* (in September). The agencies have also published six comments (publications) regarding the assessment of Latvia's creditworthiness.

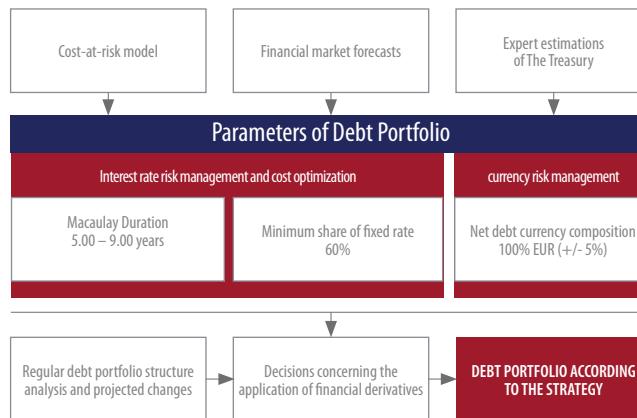
At the end of 2018, Latvia's credit rating for long-term liabilities in foreign currency was "A3" (with a stable outlook), as determined by *Moody's Investors Service*, "A-" (with a stable outlook), as determined by *Fitch Ratings*, "A-" (with a stable outlook), as determined by *S&P Global* and "BBB+" (with a positive outlook), received from *R&I*.

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

2.4. 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 13) are determined. Whereas for currency risk management an optimal currency structure of net debt is determined and monitored by considering the financial market forecasts and the assessment of the Treasury's experts, and it allows compliance with the balance of assets and liabilities in foreign currencies, thus avoiding the impact caused by exchange rate fluctuations.

Figure 13.
Basic principles of central government debt portfolio management



In 2018, all the indicators of the debt structure as defined in the Central Government Debt and Cash Management Strategy have been complied with (see Table 3).

Table 3

Compliance of the parameters of the central government debt structure with the parameters of the central government debt portfolio structure defined in the Central Government Debt and Cash Management Strategy

PARAMETERS	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2017		ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2018		DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY	
Amount of domestic debt securities ⁷ at the end of the year	EUR 1 168.07 million		EUR 1 126.08 million		not less than outstanding at the end of the preceding year ⁸	
Maturity profile (%) of central government debt	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
	13.1%	36.4%	13.4%	40.5%	≤ 25%	≤ 50%
Minimum share ⁹ of fixed interest rate	90.5%		90.1%		≥ 60%	
Weighted average fixed period of the interest rates in years	5.86		6.49		5.0 – 9.0	
Net debt currency composition	EUR 99.89		EUR 100.07		EUR 100% (+/- 5%)	

⁷ The amount of securities in circulation which were issued under Latvian law.

⁸ 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.

⁹ Central government debt with a fixed interest rate and with remaining maturity that is longer than one year.

2018

Activities of the Treasury in 2018

2. Central Government Debt and Cash Management

2.5. Cash Management

In 2018, cash management was ensured in accordance with the *Central Government Debt and Cash Management Strategy*, promoting secure and financially effective cash investment with possibly beneficial conditions. In 2018, cash investment and liquidity management were ensured under the circumstances of the negative short-term euro interests rates, because the European Central bank continued applying negative rates (minus 0.40%) to the Euro-system deposit possibilities.

In 2018, the Treasury placed the temporarily available cash in Latvian and foreign credit institutions and deposited them into fixed-income debt securities. Financial risks in cash investment transactions have been hedged in accordance with the cooperation limits set for counterparties, ensuring the diversification of the cash investment portfolio.

In cash management, by developing new instruments and ensuring financially beneficial cash contributions, the new method has been used for the first time – redemption of the domestic borrowing securities. On 26 September 2018, the Treasury made an offer to investors to redeem, by auction method, the three-year bonds in their ownership. An organised competitive multi-price auction resulted in a financially beneficial transaction, by redeeming bonds in the amount of EUR 7.01 million at nominal value. The redeemed government securities, the initial maturity whereof was planned on 1 February 2019, were discharged before maturity, namely, in September 2018, reducing the central government debt amount at the end of 2018 and ensuring the saving of the central government budget for the placing of cash up to the planned maturity.

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

¹⁰ 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).

¹¹ The value of the ratio is established as a percentage by dividing the interest expense of the sub-programme 31.02 "Central Government Debt Management" in year n (reduced by the general budget revenue result from financial derivative instruments, the premium fixed at the issuance of securities, and revenue from borrowings with negative interest) by the amount of consolidated debt as at the end of year N-1 (by adding the currency result of financial derivative instruments linked to external borrowings and debt securities administered by the Treasury). ¹¹ The value of the ratio is established as a percentage by dividing the interest expense of the sub-programme 31.02 "Central Government Debt Management" in year n (reduced by the general budget revenue result from financial derivative instruments, the premium fixed at the issuance of securities, and revenue from borrowings with negative interest) by the amount of consolidated debt as at the end of year N-1 (by adding the currency result of financial derivative instruments linked to external borrowings and debt securities administered by the Treasury).

¹² 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 expense in the medium and long term are effected within the central government debt management during the year concerned.

¹³ Performance indicator has been achieved, because in 2018 it has decreased, compared to the indicator of 2017. In accordance with the Central Government Debt and Cash Management Strategy approved by the Minister of Finance, when performing the borrowing transactions larger flexibility is possibly retained in relation to choosing the conditions for borrowings in financial markets (borrowing time, currency, amount, maturity), for the purposes of long-term hedging of financial risks, as well as for ensuring the attraction of resources with possibly more favourable and beneficial conditions. In 2017 and 2018, the choices of the borrowing time, amount, etc. conditions were mainly affected by the situation in the financial markets – policy implemented by the central banks, interest rate trends, readiness of investors to make contributions in the government securities.

¹⁴ Funding required for the liquidity reserve of the relevant month, which, in compliance with the applicable Cash Management Strategy, is constituted by liquid funds and liquidity-providing operations (e.g. issue of 21-day T-bills, short-term borrowings to be made within the relevant month).

¹⁵ Amount of funding required to ensure the implementation of the central government budget and performance of obligations within a calendar month.

¹⁶ The indicator is met, by considerably exceeding the projected value thereof, which was defined in accordance with the minimum permissible level (100%). The excess of the indicator has been triggered by the increase in the balance of resources available in the accounts of the Treasury following the Eurobond issues performed in the international financial markets in the amount of EUR 1 billion, inter alia, attracting EUR 650 million in May 2018 and EUR 350 million in September 2018.

¹⁷ Government securities distributed among domestic financial market investors through initial placement.

¹⁸ 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.

¹⁹ Met, considering the permissible derogation of the performance indicator. In 2018, regular government securities auctions have been ensured, offering investors two five-year bond programmes. In total, government securities of EUR 330 million at nominal have been issued in the domestic market, comprising EUR 42 million less than the amount of the domestic borrowing securities discharged in 2018. Correspondingly, considering the Central Government Debt and Cash Management Strategy approved by the Minister of Finance, in 2019, the offer of domestic borrowing securities will be increased by this difference (EUR 42 million).

Table 4

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

Result formulation	Performance indicator	Numerical values of the performance indicator in 2018	
		Projected	Implemented
1. Availability of financial resources to cover funding needs at low debt servicing costs in the long term while ensuring the hedging of financial risks.	1.1. The indirect interest rate of Latvian general government debt ¹⁰ 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	-84
	1.2. Interest expense of the current year to the preceding year's central government debt ratio ¹¹ does not exceed the relevant indicator of the preceding year by more than 30 basis points (deviation from the preceding year in basis points). ¹²	30	-73 ¹³
	1.3. Liquidity provisions ¹⁴ are not lower than the liquidity reserve (annual average (%)) determined as a ratio of the amount of liquidity provisions of each month against the liquidity reserve of the relevant month ¹⁵ .	100	240 ¹⁶
2. Offer of government securities to domestic financial market participants has been maintained.	2. Outstanding amount of domestic debt securities ¹⁷ 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). ¹⁸	0	-42 ¹⁹

Activities of the Treasury in 2018

2. Central Government Debt and Cash Management

2018

2.7. Public Services Performance Indicators for Private Individuals in Central Government Debt and Cash Management

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 Procedures for Accounting, Quality Control and Provision of the Public Administration Service, in central government debt and cash management the Treasury provides two public administration services to private individuals²⁰ – issues of savings bonds and investing of balances of funds²¹.

In 2018, 54 savings bonds issues have been fulfilled. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received. In 2018, no applications for investments of funds from private individuals were received.



²⁰ Natural persons (investor, being a natural person of at least 18 years of age).

²¹ Legal entity of private law.

Activities of the Treasury in 2018

3. State loan and guarantee management

3.1. Operational Principles and Areas of Development

Candidates for central government loans meeting the eligibility criteria defined by the Law on Budget and Financial Management and whose projects comply with the objectives of the Law, may operationally receive central government loans within the limits set by the Central Government Annual Budget Law.²² According to the Cabinet Regulation 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, the Treasury grants and services state loans, and, if necessary, carries out measures for ensuring the proper performance of state loan commitments. By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the loan portfolio, the Treasury provides suggestions to the Minister of Finance on a regular basis regarding future actions for supervision of the loan portfolio.

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 European Union on financially favourable terms, thus reducing the 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.

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.

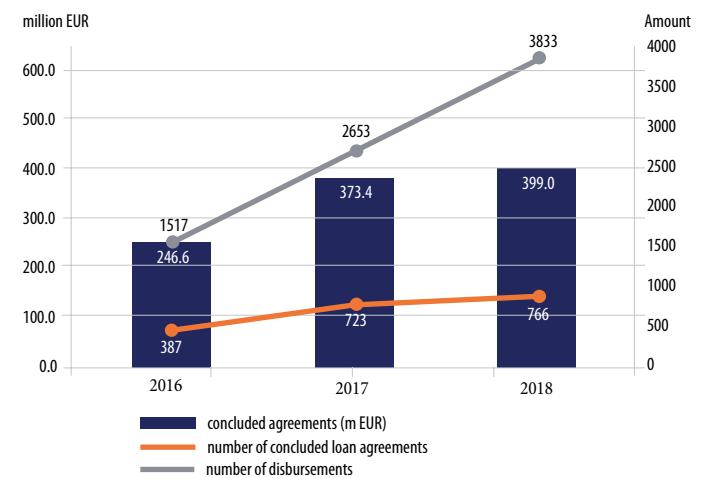
According to the procedure prescribed by the Cabinet, the Treasury takes part in the process of providing state guarantees, by assessing and monitoring the risks related to the issuing of guarantees, organising the conclusion of guarantee agreements and handling the commitment of accounting for state-issued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

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 the Cabinet Regulation 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.

In 2018, by commencing the gradual introduction of a new strategic approach to the granting and servicing of state loans, the Treasury assessed the process of issuance and servicing of the state loans, technical provision for the automation thereof, legal regulation for the purposes of optimisation of the process and impact on the client, determined the measures to be taken: updating of the statutory regulation and development of the technical solution for automation of the process. The aim of the performed activities is to reduce the administrative burden, thus ensuring more accessible state loan receipt for a particular circle of the state loan applicants for the implementation of investment projects, ensuring the development of the new e-service and enhancement of digitisation, making it simpler for the client to receive the state loan service and to cooperate with the Treasury, as well as reducing the workload contributed by the human resources of the Treasury.

In 2018, the Treasury also commenced consolidating the agreements on the issued state loans (29 novation agreement have been concluded, consolidating 1,024 agreements) Thus, the administrative burden has been reduced for the local government, the Treasury and the Ministry of Finance, the transparency of the monthly reports on the amount of liabilities of the local governments has been ensured with a smaller probability of errors.

Figure 14.
Dynamics of State Loans (2016–2018)



The Treasury ensured successful participation in the Credit register of the bank of Latvia, by generating and submitting general, periodic and infringement files.

²² 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 2018

2018

3. State loan and guarantee management

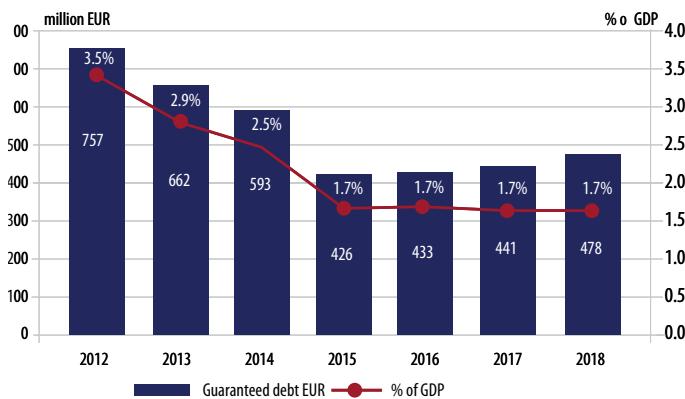
3.2. State-Issued Guarantees

In 2018, state-issued guarantees provided for in the annual state budget law totalling EUR 7.0 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 2018*.

The state guaranteed debt outstanding at the end of 2018 amounted to EUR 477.6 million, which is EUR 37.0 million more than at the end of 2017.

Figure 15.

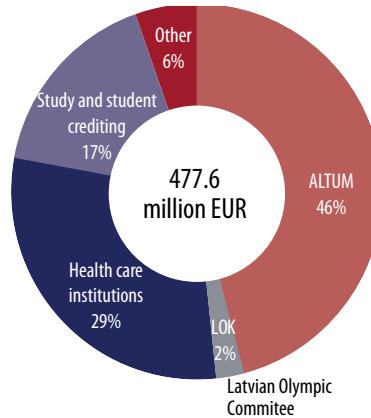
State Guaranteed Debt Outstanding, EUR million



The largest share of the state-issued guarantee portfolio by the borrower – 46%, 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* (Latvian Development Financial Institution *Altum*) for the implementation of state aid programmes small and medium-sized enterprises, agriculture, start-ups, etc.), 29% – for the obligations assumed by health care institutions and state-issued guarantees for ensuring the study and student loan programme – 17%.

Figure 16.

State-issued guarantee portfolio, by borrower on 31.12.2018



3.3. State Loans

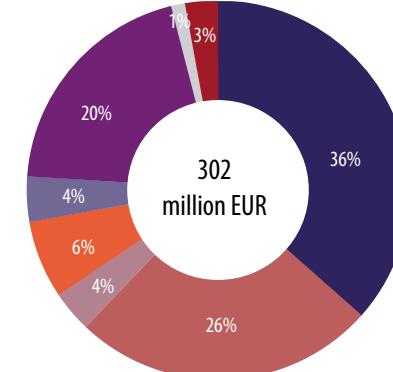
The overall increase of state loans in the annual state budget was set at EUR 334 million. In turn, the total permissible amount of state loans to be granted in 2018 was EUR 466 million, including the total increase of EUR 334 million in state loans determined by the annual State Budget Law, and the planned repayment of state loans issued during previous years in the amount of EUR 132 million.

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

In 2018, the largest amount of state loans at EUR 302.8 million was granted to local government bodies (95.4% of total state loans issued in 2018), which, compared to 31 December 2017, has increased by EUR 100.5 million and is related to the successful implementation of projects co-financed from EU funds.

Figure 17.

State loans issued to local governments in 2018, by purpose



In 2018, 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 6 million (or 1.8% of the total volume of the state loans) are granted to economic operators controlled and financed by public bodies²³ – the state joint-stock company *Attīstības finanšu institūcija Altum* for the implementation of state aid programmes.

3.3.3. State Loans to Non-Financial Economic Operators²⁴

State loans in the amount of EUR 9 million or 2.8% of the sum total of the state loans are issued to non-financial economic operators, mainly, for the implementation of the project co-financed by the European Union.

²³ 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.

²⁴ 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 2018

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

Public Administration Service, in state loan and guarantee management the Treasury provides two public administration services to private individuals – state loan management and guarantee issuance and supervision.

In 2018, 27 loan applications have been received from private individuals²⁷ (out of which 16 applications have been received electronically, 11 – in paper form).

Result formulation	Performance indicator	Numerical values of the performance indicator in 2018	
		Projected	Projected
1. A client-orientated central government lending and monitoring process on financially favourable terms ensured.	1.1. The amount of central government 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 central government lending process is not lower than 85% (% of clients surveyed ²⁵).	85	²⁶
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 central government loan portfolio for the preceding quarter is sufficient or exceeds the amount actually unpaid in the current quarter (provisions as % of receivables).	100	100

3.5. Public Services Performance Indicators for Private Individuals in State Loan and Guarantee Management

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 *Procedures for Accounting, Quality Control and Provision of the*

Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received. In 2018, state-issued guarantees were granted with respect to 1,380 study and student loans.

²⁵ 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.

²⁶ The treasury's client survey will be carried out in 2019.

²⁷ Legal entity of public law, legal entity of private law (capital companies, the shareholding of the central or local government in the share capital whereof separately or in total exceeds 50%, and the capital companies established by several local governments, with the shareholding of local governments in the share capital in total exceeding 65%, higher education institutions and scientific institutes (derived public persons), port authorities.



Activities of the Treasury in 2018

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

2018

4.1. Operational Principles and Areas of Development

The Treasury, in line with the provisions of laws and regulations, performs the functions of the Certifying Authority for the European Social Fund and the Cohesion Fund, for the European Economic Area Financial Mechanism and Norwegian Financial Mechanism.

As the Paying and Certifying Authority, the Treasury ensures accounting of the resources received and spent, prepares and submits statements to the Granting Authority confirming that the declared expenses have been spent in compliance with the applicable laws and regulations, and performs other duties related to financial management. Before confirming the expenditure to be declared, to obtain the necessary confidence, the Treasury, based on the risk assessment, carries out the verifications prescribed by the regulatory enactments, as well as analyses and takes note of the information at its disposal (verifications, audits, irregularities detected during the audits, etc.).

4.2. Functions of the Certifying and Paying Authority in the 2007–2013 Programming Period of the EU Funds

The 2017–2013 Programming Period of the EU funds, 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, already successfully completed in March 2007, along with the submission of the closing expenditure declarations to the European Commission. In 2018, the European Commission approved the concluding documentation of the European Regional Development Fund and Cohesion Fund and transferred the closing payment, thereby Latvia has received the entire claimed community financing for the 2007–2013 Programming Period of the EU funds from the European Commission (the closing payment for the European Social Fund has already been received at the end of 2017).

Table 6.

Community financing receives within the scope of the 2007–2013 Programming Period of the EU funds EUR thousand

Operational programme	Sum total of community financing received		incl., closing payment received in 2017	incl., closing payment received in 2018
	EU financing	% of EU financing allocation		
1. Operational programme (ESF):	583 104	100	29 155	0
2. Operational programme (ERDF)	696 282	100	0	34 814
3. Operational programme	3 251 063	100	0	162 553
<i>incl. ERDF</i>	1 711 286	100	0	85 564
<i>incl. Cohesion Fund</i>	1 539 777	100	0	76 989
Total	4 530 449	100	29 155	197 367

Source: The Treasury, EU SFCFSIS²⁸

²⁸ Unified Information System of the EU Structural Funds and the Cohesion Fund.

Activities of the Treasury in 2018

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

2018

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

In this programming period, regulatory enactments of the European Commission²⁹ (hereinafter – Regulation No. 1303/2013) foresee the annual closing procedure, therewith the 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 2018, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. To ensure meeting of the financial target set by the EC (N+3) for each fund, at the end of 2018 the payment applications have been submitted to the European Commission within a shorter term as provided for (by the internal regularity enactment). The amount of expenditures to be declared, as compared to 2017 has considerably grown, indicative of a steep increase in investment amount in the projects; please refer to Table 7 and 8 for more detailed information.

On 13 February 2018, the set of account closure documentation was submitted to the European Commission for the accounting year from 1 January 2016 till 30 June 2017:

- 1) The closure of accounts prepared by the Treasury as the certifying authority³⁰;
- 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 authority³¹.

The concluding documentation has been approved on the part of the European Commission without objections, thus successfully closing the above-mentioned accounting year.

Table 7.

Declared expenditures and refunds/advances received from the European Commission in 2018, EUR thousand

Fund	Total ³² eligible expenditure declared in payment applications	incl. in the 4th accounting year	incl. in the 5th accounting year	Payments received from the European Commission	incl. annual advances received from the European Commission for the 4th accounting year	incl. refunds for the 4th accounting year	incl. refunds for the 5th accounting year	Planned balance payment 33 for the 4th accounting year
(1)	(2)=(3)+(4)	(3)	(4)	(5)=(6)+(7)	(6)	(7)	(8)	(9)
ESF (incl. YEL ³⁴)	108 720	38 314	70 406	77 082	16 782	29 950	30 350	-11 884
ERDF	327 366	77 402	249 964	272 425	62 072	83 973	126 380	-52 122
CF ³⁵	113 122	33 997	79 125	96 596	34 882	26 008	35 706	-29 497
Total	549 208	149 713	399 495	446 103	113 736	139 931	192 436	-93 503

Source: The Treasury, CP MIS³⁶

Table 8.

Declared expenditures in 2018, as compared to 2017, EUR thousand

Fund	Total financing allocation ³⁷	allocation 37 Total declared expenditures ³⁸	incl. declared expenditures in 2017	incl. declared expenditures in 2018
ESF (incl. YEL)	780 252	193 281	54 719	108 720
ERDF	2 825 003	527 882	122 926	327 366
Cohesion Fund	1 587 547	291 756	73 411	113 122
Total	5 192 802	1 012 919	251 056	549 208

²⁹ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the ERDF, the ESF, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

³⁰ Annex 12 to Regulation (EU) No. 1011/2014 - Report on Transactions Included in the Payment Application to the European Commission (PAEC).

³¹ 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).

³² EU financing, national public financing and private financing

³³ Planned amount of resources to be received from the European Commission/to be repaid to the European Commission for the 3rd 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).

³⁴ Youth Employment Initiative

³⁵ Cohesion Fund

³⁶ Cohesion Policy Funds Management Information System

³⁷ Total with national co-financing.

³⁸ Total declared expenditures in 2016–2018³⁹ Kopējie deklarētie izdevumi 2016.–2018.gadā.

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

During the reporting period, the Treasury assessed the possibility to accelerate the verification and submission of payment applications to the European Commission and made surveys in other Member States as to the applicable practices, to identify whether all the controls to be performed are attributed to the verification of payment applications (namely, it is not possible to approve the payment application, before the performance of control). Having assessed the requirements of regulatory enactments, survey results, as well as having discussed possible changes with the audit authority, a decision was taken that, starting from the 6th accounting year, it is only possible to perform overriding controls within the scope of the entire accounting year, without attributing them directly to the verification of each payment application, but ensuring the necessary fulfilment of the amount by the submission of the final payment application to the European Commission, thus accelerating the process of approval of the payment application.

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

In the 2009–2014 Programming Period, within the scope of the European Economic Area and the Norwegian Financial Mechanism, Latvia implements seven programmes and a technical assistance project. In 2018, according to the procedure and terms determined in the documents governing its quality management system, the Certifying Authority verified and submitted the Financial Mechanism Office closure reports of six programmes and a technical assistance project, requesting in total EUR 2.37 million; in turn, for one programme Latvia would have to perform a refund to the Financial Mechanism Office in the amount of EUR 1.2 million (due to the failure to achieve the project objective). With respect to three programmes, the closing payments in the amount of EUR 0.72 million have also been received. The remaining closure reports continue to be analysed by the Financial Mechanism Office. Taking into account that the programme operators, when carrying out follow-ups, may detect irregularities, as well as that there are separate findings of the audit authority, with respect whereto the Treasury carries out additional assessment and consultations with competent authorities, the amount to be received from the Financial Mechanism office may be subject to adjustment.

4.5. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for 2014–2021

The allocation for Latvia, within the scope of this period, comprises EUR 94.4 million (incl. EUR 9 million to be administered by the Financial Mechanism Office and *Innovation Norway*). Latvia implements six programmes, as well as a technical Assistance Project and the Fund for Bilateral Relations. In 2018, the donor states and the national focal point have signed the Technical Assistance Project Contract and the Contract on the Fund for Bilateral Relations. Submission of the first financial reports is planned in 2019. By way of preparing for the introduction of the new programming period, in accordance with the requirements of the regulatory enactments of the donor states, in 2018, the Treasury as the Certifying Authority provided the necessary assistance to the Ministry of Finance in preparation of the management and control system description, development of regulatory enactments, as well as commenced drafting the documents governing the quality management systems. To ensure the observance of uniform main principles, the Treasury developed the guidelines for programme operators, laying down the procedures for the submission of the programme's financial reports to the Certifying Authority.

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 Funds and Foreign Financial Assistance

Result formulation	Performance indicator	Numerical values of the performance indicator in 2018	
		Projected	Implemented
A positive rating ³⁹ 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

Table 9.

Performance indicators of the operational targets for the implementation of the functions of the Paying and Certifying Authority of the EU Funds and Foreign Financial Assistance

³⁹ 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).

5. Accounting service

5.1. Operational Principles and Areas of Development

In the 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 rational work organisation of the accounting function by outsourcing accounting service of the central government and their subordinate institutions. The efficiency improvement model supported by the Cabinet in 2016 provides for a gradual delegation to the Treasury of accounting functions at the said institutions.

Laws and regulations define the accounting methods and fundamental principles, however, the different approach of the institutions to the implementation of similar processes and accounting of similar transactions, lack of heterogeneity of information required for government level decision-making, different data quality and solutions of information systems used, as well as the lack of uniform human resources management processes in the institutions, makes it difficult to develop uniform accounting processes and their incorporation into the information system. By equalising the accounting process, the Treasury facilitates its continuity and enhancement, preparation of financial statements in compliance with uniform fundamental principles of accounting, as well as maintains an information system of personnel records and the operational exchange of information.

5.2. Provision of the Accounting Service

By implementing a significant public administration reform pilot project for centralisation of the functions of the accounting of the central government budget authorities, starting from 2018, the Treasury provides an accounting service 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, as well as continues providing the service to the subordinate authorities of the Ministry of Finance – the Procurement Monitoring Bureau, the Lotteries and Gambling Supervisory Inspection and the Treasury, as well as to the Fiscal Discipline Council.

As a result of the project, in 2018:

- 1) the accounting and personnel records information system service has been standardised;
- 2) clients have been released from the performance of the support functions not characteristic to their basic activities;
- 3) uniform accounting process has been developed;
- 4) structural reform of the Treasury has been carried out;
- 5) measures have been taken, which ensure the provision of the accounting service to the Ministry of Finance, starting from 1 January 2019;
- 6) internal regulations of the Ministry of Finance have been issued laying down uniform accounting processes and cooperation principles with the sectoral institutions of the ministry, whom the accounting and bookkeeping service is provided to, and the Fiscal Discipline Council.

5.3. Performance Indicators of the Operational Targets for the Provision of the Accounting Service as Defined in the Operational Strategy of the Treasury

Table 10.

Performance indicators of the operational targets for the provision of the accounting service

Result formulation	Performance indicator	Numerical values of the performance indicator in 2018	
		Projected	Implemented
1. Accounting service to state budget institutions provided.	1. State budget institutions receiving the accounting service provided by the Treasury (number).	8	8
2. The Treasury's client expectations have been identified, and the provided services have been improved accordingly.	2. Satisfaction with the quality of the accounting service received is not lower than 85% (% of clients surveyed ⁴⁰).	85	⁴¹

⁴⁰ 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 certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

⁴¹ The Treasury's client survey will be carried out in 2019.

2018

Activities of the Treasury in 2018

6. Governance of the Treasury as a Public Administration Institution

6.1. Funding of the Treasury and the Spending Thereof

The Treasury's funding 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.
- 3) central government basic budget transfer.

In 2018, the Treasury implemented the following basic 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 Government Bilateral Financial Mechanism";
- 6) Programme "Grant to the Local Government Financial Equalisation Fund";
- 7) Programme "Use of Funds for Unforeseen Events".

The objective of the Sub-Programme "Central Government Budget Implementation" is to ensure efficient and economical central government general budget implementation and supervision, and the compliance of the services provided by the Treasury with the best financial management practice.

The objective of the Sub-Programme "Central Government Debt Management" is to ensure, in a timely manner, the availability of financial resources for covering the funding needs of the central government debt at low service costs in the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market.

The objective of the Sub-Programme "Contributions to International Organisations" is to ensure the fulfilment of the financial obligations of the Republic of Latvia, by performing, in a timely manner and to a full extent, the annual membership fees to the international financial organisations, as well as performing the payments into the capital and/or reserves of such international financial institutions, where the Republic of Latvia is the holder of the capital shares, ensuring the fulfilment of the assumed obligations.

The objective of the Programme "State Budget Loans and Repayments Thereof" is to ensure the availability of financial resources (incl. long term) for candidates to central government loans in the form of a government loan on financially favourable terms through quality service, while hedging the credit risk of the state loan.

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 Cohesion Fund. 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. In 2018, the Treasury took part in the

implementation of the technical assistance projects of the Ministry of Finance "Technical Assistance Fund for 2011-2017" and the "Technical Assistance Fund for 2018-2025".

The planned funds of the Programme "Grant to the Local Government Financial Equalisation Fund" represent the funding for the Local Government Financial Equalisation Fund, in order to ensure the fulfilment of the norms of the *Law on Local Government Financial Equalisation*. The Local Government Financial Equalisation Fund implements the equalisation of both revenue capacity and the expenditure need. Grant for the Local Government Financial 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 was paid in accordance with Sub-clause 6.2 of the 22 December 2009 Cabinet of Ministers Regulation No. 1644 Funds for Unforeseen Events and Sub-clause 45.2 of the 17 July 2018 Cabinet of Ministers No. 421 *Procedures for the Introduction of Amendments to the Appropriation Prescribed by the Annual State Budget Law – 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 political repression of the communist regime, if the political repression prepared against them is documentarily proven*.

In 2018, the Treasury implemented the priority measure Ensuring the standardisation of financial accounting processes at central and local government institutions, for which under the budgetary Sub-Programme 31.01.00 funding in the amount of EUR 344,336 has been granted and the amount of EUR 316,327 has actually been spent (as planned).

2018

6. Governance of the Treasury as a Public Administration Institution

2018

Table 11.
Central Government Basic Budget Financing and the Spending Thereof
 (summary by all programmes, EUR)

Item No.	Finansiālie rāditāji	In the previous year (actual implementation)	In the reporting year	
			approved by law	factual implementation
1.	Financial resources for covering expenditures (total)	347 458 768	347 451 843	345 513 330
1.1.	grants	343 523 761	343 717 047	341 418 585
1.2.	chargeable services and other own revenues	3 888 207	3 687 996	4 047 945
1.3	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	301 757 342	303 599 519	301 268 293
2.1.	maintenance costs (total)	301 034 101	302 772 943	300 516 102
2.1.1.	running costs	9 029 483	9 867 129	9 330 627
2.1.2.	interest expense	255 482 652	234 144 882	232 506 303
2.1.3.	subsidies, grants and social benefits	48 183	133 903	133 901
2.1.4.	regular payments into the European Community budget and international cooperation	96 666	321 447	316 193
2.1.5.	maintenance cost transfers	36 377 117	58 305 582	58 229 078
2.2.	expenditure for capital investments	723 241	826 576	752 191
3.	Financial balance	45 701 426	43 852 324	44 245 037
4.	Financing	-45 701 426	-43 852 324	-44 245 037
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	943 256	1 360 676	967 963
4.2.	Shares and other holdings in the equity of economic operators	-46 644 691	-45 213 000	-45 213 000

Table 12.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Programme "Central Government Budget
Implementation and Central Government Debt Management" (EUR)

Item No.	Financial indicators	Financial indicators	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	264 114 520	243 277 533	241 421 950
1.1.	grants	260 179 513	239 542 737	237 327 205
1.2.	chargeable services and other own revenues	3 888 207	3 687 996	4 047 945
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	265 057 785	244 638 209	242 389 913
2.1.	maintenance costs (total)	264 334 544	243 811 633	241 637 722
2.1.1.	running costs	8 851 892	9 666 751	9 131 419
2.1.2.	interest expense	255 482 652	234 144 882	232 506 303
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	723 241	826 576	752 191
3.	Financial balance	-943 265	-1 360 676	-967 963
4.	Financing	943 265	1 360 676	967 963
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	943 265	1 360 676	967 963

Table 13.
**Central Government Basic Budget Financing and the Spending Thereof
 for the Basic Budget Sub-Programme "Central Government Budget
 Implementation" (EUR)**

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	6 213 774	6 388 219	6 676 171
1.1.	grants	2 325 567	2 700 223	2 628 226
1.2.	chargeable services and other own revenues	3 888 207	3 687 996	4 047 945
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	7 157 039	7 748 895	7 644 134
2.1.	maintenance costs (total)	6 433 798	6 922 319	6 891 943
2.1.1.	running costs	6 433 798	6 922 319	6 891 943
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	723 241	826 576	752 191
3.	Financial balance	-943 265	-1 360 676	-967 963
4.	Financing	943 265	1 360 676	967 963
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	943 265	1 360 676	967 963

Activities of the Treasury in 2018

6. Governance of the Treasury as a Public Administration Institution

2018

Table 14.
**Central Government Basic Budget Financing and the Spending Thereof
 for the Basic Budget Sub-Programme "Central Government Debt
 Management" (EUR)**

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	257 900 746	236 889 314	234 745 779
1.1.	grants	257 853 946	236 842 514	234 698 979
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	-	-	-
2.	Expenditure (total)	257 900 746	236 889 314	234 745 779
2.1.	maintenance costs (total)	257 900 746	236 889 314	234 745 779
2.1.1.	running costs	2 418 094	2 744 432	2 239 476
2.1.2.	interest expense	255 482 652	234 144 882	232 506 303
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 2018

6. Governance of the Treasury as a Public Administration Institution

2018

Table 15.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Sub-Programme "Contributions to International Organisations" (EUR)

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	46 741 357	45 534 447	45 529 193
1.1.	grants	46 741 357	45 534 447	46 741 357
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	96 666	321 447	316 193
2.1.	maintenance costs (total)	96 666	321 447	316 193
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	96 666	321 447	316 193
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
3.	Financial balance	46 644 691	45 213 000	45 213 000
4.	Financing	-46 644 691	-45 213 000	-45 213 000
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-46 644 691	-45 213 000	-45 213 000

Activities of the Treasury in 2018

6. Governance of the Treasury as a Public Administration Institution

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Table 16.
**Central Government Basic Budget Financing and the Spending Thereof
 for the Basic Budget Programme “Grant to the Local Government
 Financial Equalisation Fund” (EUR)**

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	36 377 117	58 305 582	58 229 078
1.1.	grants	36 377 117	58 305 582	58 229 078
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	36 377 117	58 305 582	58 229 078
2.1.	maintenance costs (total)	36 377 117	58 305 582	58 229 078
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	36 377 117	58 305 582	58 229 078
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2018

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2018

Table 17.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Sub-Programme "Technical Assistance for the
Absorption of the European Regional Development Fund (ERDF)
(2014-2020)" (EUR)

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	162 623	170 433	170 032
1.1.	grants	162 623	170 433	170 032
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	162 623	170 433	170 032
2.1.	maintenance costs (total)	162 623	170 433	170 032
2.1.1.	running costs	162 623	170 433	170 032
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 2018

6. Governance of the Treasury as a Public Administration Institution

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Table 18.
**Central Government Basic Budget Financing and the Spending Thereof
 for the Basic Budget Sub-Programme "Technical Assistance for the
 Absorption of the European Economic Area Financial Mechanism and
 the Norwegian Government Bilateral Financial Mechanism" (EUR)**

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	14 968	29 945	29 176
1.1.	grants	14 968	29 945	129 176
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	14 968	29 945	29 176
2.1.	maintenance costs (total)	14 968	29 945	29 176
2.1.1.	running costs	14 968	29 945	29 176
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	-	-	-

Table 19.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Programme "Use of Funds for Unforeseen Events"
(EUR)

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	Financial resources for covering expenditures (total)	48 183	133 903	133 901
1.1.	grants	48 183	133 903	133 901
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	48 183	133 903	133 901
2.1.	maintenance costs (total)	48 183	133 903	133 901
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	48 183	133 903	133 901
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 and 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 2018, the Treasury undertook seven procurements (excluding procurements valued under EUR 10,000 and procurements undertaken via the electronic Procurement System sub-system "e-orders") and, as a result thereof, awarded contracts worth EUR 520,591, excluding VAT.

Activities of the Treasury in 2018

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6.2. Personnel and Personnel Management

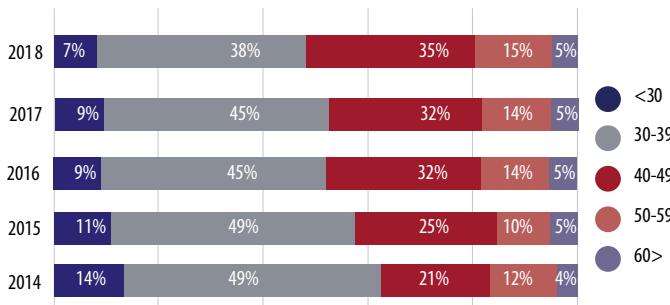
At the beginning of 2018, there were 191 official positions in the Treasury, including 175 civil service positions and 16 staff positions. By implementing the number of structural reforms in accordance with that which is laid down in the 24 November 2017 Cabinet of Ministers Decree No. 701 *On the Public Administration Reforms Plan 2020* and concurrently ensuring the expansion of the accounting and bookkeeping service function, the total number of official positions remained unchanged at the end of the year – 191, with the changes only in the proportion of the civil service and staff positions, namely: 170 and 21. In 2018, the average number of employees, including civil servants and employees on a long-term leave of absence, comprised 187, incl. 170 civil servants and 17 employees.

In 2018, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 18 and 19).

Figure 18.
Breakdown of the Treasury personnel by gender, 2014 to 2018 (%)

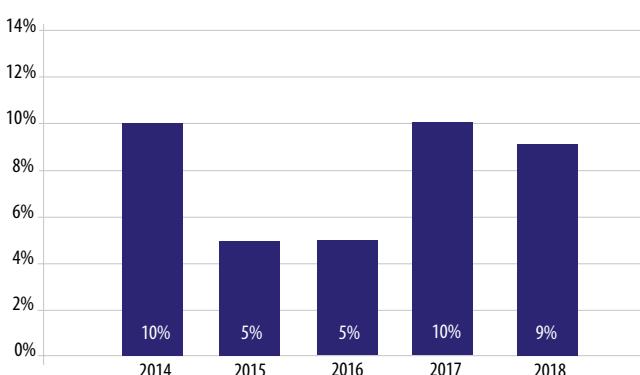


Figure 19.
Breakdown of the Treasury personnel by age, 2014 to 2018 (%)



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. In general, the personnel of the Treasury can be characterised by a long length of service, which speaks of the employees' loyalty to the Treasury as a workplace. In 2018, the percentage of the dismissed personnel was 9% of those actually working, which, as compared to 2017, is slightly less (see Figure 20), nevertheless,

Figure 20.
Percentage of the dismissed personnel of the actually working employees (2014 -2018) (%)



there are still difficulties present 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. The Treasury focusses considerably on promoting the professional development of the colleagues, ensuring both horizontal and vertical career growth possibilities within the scope of the institution as far as possible, for example, by transferring employees to another position, engaging in the implementation of the development projects, etc.

The greatest asset of the Treasury is its highly educated and professional personnel. 97% of the personnel hold university degrees. 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 well-structured criteria for assessing the candidates (scoring system) and arranging practical tests and interviews in several rounds.

At the time of approving the training plan for the current year, the Treasury assesses and determines the training needs 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 continues seeking the best solutions for the professional development and enhancement of the competencies of its employees, by organising training adjusted for larger groups of the Treasury's employees, as well as offering individual training options.

The same as in previous years, joint colleague training organised by the Treasury has been of relevance in the following fields: requirements of the General Data Protection Regulations, information security management, prevention of corruption and conflict of interests, and professional ethics of public officials, virtualisation of applications, application of requirements of laws and regulations on accounting bookkeeping and reporting in the budget institutions, as well as media cooperation. During the Newcomer Days, civil servants and employees become acquainted with the functions of the Treasury, its strategic direction, quality and risk management, information security policy, as well as other information necessary for work.

Activities of the Treasury in 2018

6. Governance of the Treasury as a Public Administration Institution

2018

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, the 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, information security management is one of the Treasury's constant priorities.

Integrated Treasury's Quality Management and Information Security Management Systems are certified in accordance with the requirements of the standard ISO 9001:2015 and ISO 27001:2013.

In February 2019, the supervisory audit of the integrated management system of the Treasury has been performed successfully. The auditors of Bureau Veritas Latvia recognised that the Treasury organises well-functioning internal communication and cooperation between structural units, reviewing issues at the committees, involving as many stakeholders and involved parties as possible, and special appreciation should also be given to the information available on the website of the Treasury, containing a detailed explanation of the services, posted forms and instructions.

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 a 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 monitors the internal control system by applying the process management approach, measuring the process performance indicators, 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 2018, 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 2018

Public Communication

2018

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 focusses primarily on rendering inter-institutional services, informing of clients and other interested parties⁴², as well as targeted management of counterparty relations – provision of information to foreign and international financial institutions, credit rating agencies, and securities' investors who use the information provided by the Treasury on public debt management, performance indicators and future trends, and current developments in the Latvian financial sector.

The communication processes of the Treasury are significantly influenced by the national socio-political and economic conditions: the Treasury remains at the epicentre of events, and the interest of mass media and the public regarding the Treasury's operations, functions and responsibilities is 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 2018 has been developed and fulfilled. On the website of the Treasury www.kase.gov.lv information about the institution and its functions is available, 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 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. The Treasury thanks its clients for their opinion, which is very important to the Treasury. The received information is used in order to develop and improve quality and diverse services in accordance with good management and client servicing standards. The Treasury's client survey will be carried out in 2019.

⁴² 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 2019

2018

- 1) Optimisation and automation of the Treasury's processes by maximising the functionality of standard information technologies solutions, also considering the possibility of changing existing Treasury's processes and applicable laws and regulations.
- 2) To develop an accounting and bookkeeping service and a technical solution for personnel management in accordance with uniform basic accounting principles by optimising the use of financial information technologies and human resources.
- 3) To purposefully implement the *Treasury's Information Technology Development Strategy 2019-2021*.
- 4) To enhance the internal control system of the Treasury in the field of international and national sanctions and anti-money laundering and counter-terrorism financing.