



Treasury
Republic of Latvia

The Treasury Public Report for 2021

2021

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Units of Measurement

Abbreviations Used in the Report

2021

EUR	euro, official currency of the European Union	COVID-19	Disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
		ERDF	European Regional Development Fund
		EU	European Union
		EUROSTAT	Statistical Office of the European Union
		ESF	European Social Fund
		GDP	Gross domestic product
		CF	Cohesion Fund
		LOC	Latvian Olympic Committee
		AML/CFTP	Anti-Money Laundering and Combating Financing of Terrorism and Proliferation
		SURE	European instrument for temporary support to mitigate unemployment risks in an emergency is available to EU Member States which have to mobilise substantial financial resources to fight the negative economic and social consequences of the COVID-19 infection outbreak in their territory.

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The Treasurer's Statement

2021



By moving strategically to modern and effective services, using modern technologies and digital transformation possibilities, data-based analysis, the year 2021 for the Treasury was a year of structural reform. Although, in order to mitigate the risk of spreading of COVID-19, we continued our work remotely for the second year in a row, the timely and regularly monitored risk management measures allowed us to not only ensure the fulfilment of the Treasury's functions and tasks to high standards but also to implement a range of development measures.

By facilitating the digital development of the finance and public administration sector while ensuring innovative and swift settlements for public service recipients, the Treasury joined the instant payment infrastructure maintained by the Bank of Latvia. Thus, public settlements with the State have become instant – payments arrive to the central government budget within a few seconds 24 hours a day, as well as on weekends and public holidays. In order to ensure a high State reputation and implementation of safe financial management, we also introduced automated payment monitoring tools.

In December 2021, for the first time in the country's history, we issued sustainable Eurobonds to support the development of Latvia and attract financing for measures and priorities directed towards mitigating the negative climate change impact, transition to climate neutrality and raising of wellbeing. Latvia became the first among the Baltic and Scandinavian countries to issue sustainable bonds. The transaction gained international recognition and received positive feedback from financial market participants, securities investors and counterparties of the Treasury. The established sustainable bonds framework will also allow one to issue such bonds in the future by attracting new investors, which is one of the conditions for the attraction of financial resources on favourable terms in the future as well.

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The continuation of the COVID-19 pandemic and the measures imposed to limit it in 2021 continued to negatively affect the fiscal indicators, with the State deficit increasing substantially and causing the need to also ensure financial coverage in 2021 for support measures for the national economy to mitigate the consequences of COVID-19, which increased substantially in 2021. In 2021, we attracted funds in financial markets and from international institutions for covering the total financing need – for financing the central government budget and State loans, incl. mitigation of the impact of the COVID-19 outbreak and economic support and fulfilment of the central government budget commitments. Financial markets were faced with marked fluctuations and uncertainty, which, in the second half of the year, was aggravated by the sharp rise in energy prices and the rising inflation. Despite the prolonged instability in financial markets, the Treasury made use of favourable times for borrowing transactions to attract resources on favourable terms by fixing low central government debt servicing costs in the long term.

The beginning of 2022, with Russia's invasion of Ukraine, marks further uncertainty about future events and substantially affects both the geopolitical situation and the global and Latvian economy. With many risks and a high probability of the need for new State support measures existing, we continue to ensure the functions of the Treasury and measures for the fulfilment of national commitments and provision of financing.

In these times full of challenges, I am grateful to every employee of the Treasury for their responsibility, professionalism and integrity in the fulfilment of their obligations in caring for effective, development-orientated and safe public financial management.

Treasurer
Kaspars Āboliņš

Riga, 25 April 2022

Legal Status, Structure, Structural Reform of the Treasury

2021

Legal Status

The Treasury is an institution of direct administration under the control of the Ministry of Finance, the purpose of activity of which is the effective implementation of State administration functions in the field of State financial management. The activity of the Treasury is 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 defined in Cabinet Regulation No. 677 of 3 August 2004 "Regulations of the Treasury".

For the adoption of a single decision the following committees continued their operation in 2021:

- 1) Audit Committee;
- 2) Information System Change Management Committee (liquidated on 12 November 2021 – in connection with the structural reform, information system change application management and the process of planning of development initiatives, evaluation and decision adoption were changed);
- 3) Credit Committee;
- 4) Crisis Management Committee;
- 5) Quality and Risk Management Committee;
- 6) Debt and Funds Management Committee;
- 7) Resource Liquidity Committee;
- 8) Management Committee;
- 9) Central Government Budget Accounting Committee.

Structure and Structural Reform

In 2021, the reform of the Treasury was concluded within the framework of the existing financing and number of positions, thereby continuing the strategic direction of the Treasury towards innovative and effective services by using modern technologies and digital transformation possibilities, incl. by strengthening data-based process analysis.

Within the framework of the strategic reform:

- 1) for methodological management of the development project portfolio, management of the synergy between development initiatives, research of

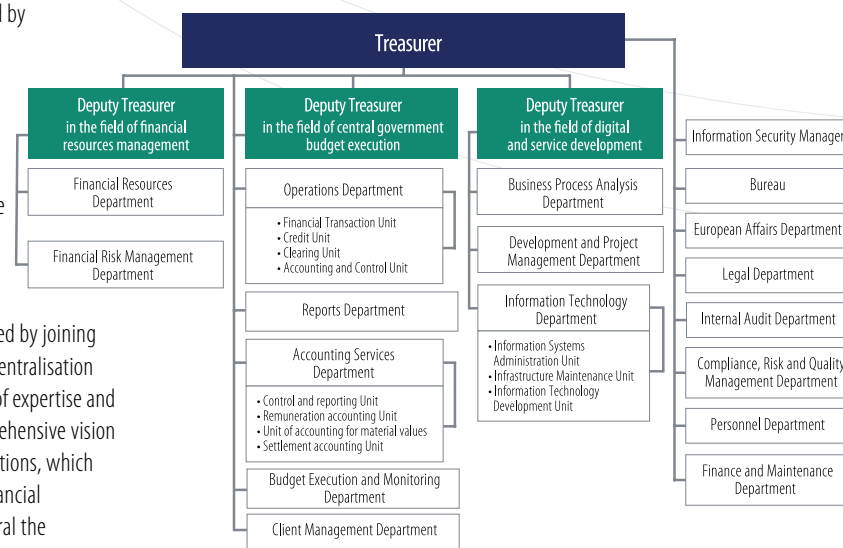
innovative solutions under the subordination of the Deputy Treasurer for Digital and Service Development, a Development and Project Management Department was created by reorganising the Customer Service and Services Development Department;

- 2) for operational process analysis of the Treasury and evaluation of the possibilities of digitalisation thereof by suggesting the most effective solutions, and preparation of reports for business needs under the subordination of the Deputy Treasurer for Digital and Service Development, an Operational Process Analysis Department was created;
- 3) the accountability and name of the Informatics Department was changed (to Information Technology Department): accountability to the Deputy Treasurer for Digital and Service Development was established, by maintaining the functions of the department and establishing close cooperation with the departments under the subordination of the Deputy Treasurer for Digital and Service Development in the fulfilment of the functions thereof;
- 4) the Financing Department was reorganised by transferring its functions in the field of customer service to the Customer Management Department;
- 5) under the subordination of the Deputy Treasurer for Central Government Budget Implementation a Customer Management Department was created by reorganising the Customer Service Division of the Customer Service and Services Development Department and transferring positions from the reorganised Financing Department, thereby ensuring customer service at one place;
- 6) to the Financial Risk Management Department, the functions of the reorganised Financing Department were transferred in the field of State loans and implementation of the guarantee policy;
- 7) the Forecasting and Financial Planning Department was reorganised by joining it with the Financial Risk Management Department to ensure the centralisation of analytical functions within one unit, thereby facilitating the use of expertise and competence base of both units and a uniform approach and comprehensive vision in the execution of financial risk management and forecasting functions, which will ensure the analytical support necessary for the adoption of financial management decisions of high quality, thereby facilitating in general the

achievement of the purposes of the Central Government and Cash Management strategy and creating a possibility for experts of both units to create common information technology solutions (incl. forecasting models, business intelligence solutions, databases, etc.) within the framework of the Treasury's project "Digital Transformation of the Central Government Debt and Cash Management Process";

- 8) since the coordination and implementation of the requirements in the field of international and national sanctions and AML/CFTP is of ever more importance in the operation of the Quality and Risk Management Department, and, at the same time, the Department is responsible for risk management, business continuity and crisis management fields, as well as for the maintenance and improvement of the quality management system, as from 1 September 2021, the name of the Quality and Risk Management Department was changed to Compliance, Risk and Quality Management Department;
- 9) in order to prevent, in accordance with the internal audit recommendation, the risk of conflicts of interest of international and national sanctions and AML/CFTP and information security and personal data processing functions and to reinforce the independence of the Information Security Manager, direct subordination of this position to the Treasurer was established.

Figure 1. Structure of the Treasury



The operation and the strategic direction of the Treasury have been implemented in accordance with the strategic aims set out in the Operational Strategy of the Treasury 2020–2022 approved by the Minister of Finance in the field of operation of the Treasury, as well as in accordance with the functions and tasks provided for in the Regulations of the Treasury and the financing planned for the execution thereof.

The overarching strategic goal of the Treasury – safe and effective State financing management in public interest.

Operational directions of the Treasury:

- 1) implementation of the central government budget by ensuring an effective and economic implementation of the budget and conformity of the services provided by the Treasury to the financial management best practice;
- 2) the central government debt and cash management by ensuring timely availability of financial resources for covering need for financing at low central government debt servicing costs in the long term by limiting financial risks and, at the same time, facilitating the development of the internal financial market;
- 3) management of State loans and guarantees by ensuring access of State loan applicants to financial resources (incl. long term) in the form of a State loan on financially favourable terms, by providing a quality service, as well as ensuring of the State guarantee supervision process while limiting the State loan and State guarantee risk;
- 4) execution of the functions of the EU funds and foreign financial assistance certification institution by organising and standardising the execution of the functions of the certification institution in such a way so as to ensure the fulfilment of the requirements of laws and regulations of the Republic of Latvia, timely receipt of funds from granting authorities and to minimisation of the allowed risk for declaring irregular expenditure;
- 5) bookkeeping and accounting services by establishing, in accordance with the EU Member State best practice and the decision of the Cabinet, a single service centre in the medium term for the provision of standardised bookkeeping and staff accounting services to central government budget institutions by using an integrated staff accounting, bookkeeping and budget implementation information system thereby ensuring the effective and rational use of resources and reliable, qualitative and re-usable data;
- 6) management of the institution by creating a modern State administration authority with professional, innovative, self-development and cooperation-orientated staff in an appropriate working environment for reaching the strategic aims of the Treasury.

The strategic priorities of the Treasury are as follows:

- 1) effective management of human resources by facilitating leadership of managers and the development and involvement of employees of all levels in the achievement of the aims of the Treasury by continuously improving the qualification and digital skills of the employees;
- 2) continuous improvement of the quality and availability of the services provided by the Treasury by using information technology possibilities;
- 3) safe and effective management and supervision of the State financial management processes in the public interest.

Activities of the Treasury in 2021

2021

1. Central Government Budget Implementation

1.1. Organisation of the Implementation of the Central Government Budget of 2021

Within the framework of the State financial management cycle, the Treasury organises the implementation of the central government budget, bookkeeping and accounting of the general government and performs the financial accounting of the central government budget.

The Treasury provides budget execution services to customers in the form of electronic services (*ePlāni, eTāmes, eKase* and *ePārskati*) – it awards assignments and grants from the general revenue, provides payment services, prepares State and municipal budget execution reports, as well as provides information to institutions administering budget payments on taxes, fees paid and other State budget revenue.

The execution of the central government budget is organised within a single funds account, which is recognised in global practice as the most effective financial management method.

Granting and Execution of Assignations

In 2021, to ensure the execution of the State budget, the Treasury granted assignations in the amount of EUR 13 043.3 million: EUR 9 806.6 million for the basic budget and EUR 3 236.7 million for the special budget. Assignations were granted to 172 central government budget institutions.

In 2021, the Treasury opened 2 342 basic budget expenditure accounts. Compared to 2020, the number of accounts increased by 127, since, in addition, an appropriation for COVID-19 mitigation measures was granted from funds for unforeseen events, as well as the involvement of central government budget authorities in the implementation of EU and foreign financial assistance projects increased.

Customer and Counterparty Analysis

In the provision of financial services it is important to receive and analyse information on customers and counterparties, their activity and implemented transactions while identifying and managing the risks related to financial crime. The Treasury controls the provided financial services provided by improving the institution's internal control system in the field of international and national sanctions and AML/CFTP, as well as fraud and corruption, and it also carries out monitoring of the liabilities and transactions of the customers and partners.

In view of improving the Treasury's internal control system in the field of international and national sanctions and AML/CFTP, in 2021, an automated payment online control tool was acquired, data exchange with payment systems and external State information systems was ensured, the tool's conformity to personal data protection requirements was evaluated and ensured, as well as processes were revised and internal regulatory acts were improved. The project is implemented in order to provide the possibility to prevent service provision possibilities to sanctioned persons or beneficial owners thereof and, within the competence of the Treasury, to detect signs of suspicious or unusual transactions in which proceeds of crime or funds related to terrorism financing might be involved, with the aim of achieving a high reputation and the implementation of safe State financial management.

Accounting and Reporting

By using central government budget implementation data and summarising accounting data of central and local government budget institutions, the Treasury prepares monthly and quarterly budget implementation reports, as well as a financial year report on the implementation of the central government budget and on local government budgets, which is audited by the State Audit Office whose opinion certifies the completeness and reliability of the information contained in the reports to users. The reports prepared by the Treasury and those received from authorities are available on the Treasury's website.

The Treasury supports the European Commission's initiative to improve the quality of accounting data and conformity of financial reports to guidelines of accounting standards of the public sector, so that decision takers, the public, investors and

international credit rating agency receive qualitative and internationally comparable information (reports) on the State's financial position according to best practice. By organising a uniform accounting of the State's finances, the Treasury develops regulatory enactments in the field of accounting of central and local government budget institutions and preparation of financial reports while evaluating the requirements of accounting standards of the public sector according to the possibilities of Latvia. In 2021, the Treasury jointed two Cabinet regulations thereby reducing the fragmentation of information and the administrative burden on users, and, on 28 September 2021, the Cabinet issued Regulations No 652 "Procedures for Preparing Annual Financial Statement". The Regulations were drafted in accordance with the delegation in the Law on Budget and Financial Management, and the aim thereof is to establish a uniform regulation for budget institutions in preparing annual reports and consolidated financial year reports. The Law on Budget and Financial Management provides for the shortening of report preparation deadlines from 1 May to 1 April. The draft Regulations will enter into force on 1 January 2023 and will be applicable for the first time in 2024 when preparing reports of 2023.

By regularly working on the regulatory base in the field of accounting and preparation of reports, taking the practice established in Latvia into account and evaluating the possibilities of reducing the administrative burden, in the European Commission (Eurostat) study on the level of development of accounting of EU Member State governments in accordance with the International Public Sector Accounting Standards (IPSAS), Latvia has achieved a conformity score of 89%, while for the support of related information technologies for the provision of full accrual basis information – 91%. For comparison, the EU average is 63% and 65% respectively. The above indicators show that the basic accounting principles of the public sector of Latvia conform, to a large extent, to the internationally recognised best practice, and, after the introduction of the European Public Sector Accounting Standards (EPSAS), there will be less changes needed in Latvia than on average in the EU.

By continuing the practice established during the previous years, the Treasury not only provides advice in the field of accounting and preparation of reports but also supports financial management, supervision and control initiatives of other budget authorities by providing support to their implementation using *ePārskati* solutions.

Activities of the Treasury in 2021

1. Central Government Budget Implementation

Introduction of E-invoices

The Treasury, by expanding the provision of the accounting service to central government budget institutions, facilitates the centralisation of budget institution support functions by moving to an integrated budget planning, execution and accounting process and using standardised and uniform basic accounting principles as well as uniform technical solutions in the country. The use of structured e-invoices increases the efficiency of the process of payment for received services substantially and creates preconditions for robotisation thereof.

In order to provide the authorities receiving an accounting service with the possibility to receive and send structured electronic invoices in the PEPPOL format and a human-readable format, the Treasury entered into a contract with the e-invoicing operator "Unifiedpost AS" and agreements on the provision of the service with most of the authorities to whom the Treasury provides an accounting service. With the introduction of e-invoicing solutions, the level of automation is increased in the authorities by replacing paper-form invoices with structured digital data. This allows for the more operational and effective processing and archiving of invoices, which facilitates the reduction of the administrative burden (invoice data don't need to be entered manually in the system anymore), as well as the scope for error and fraud.

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

For functional support, a robust, integrated set of information systems of national significance, which meets safety requirements, has been established in the Treasury. The competence in the introduction and maintenance of information systems provides the possibility to handle State resources economically and to use the possibilities provided by the information systems rationally. The Treasury develops electronic services on the basis of proven technologies, by facilitating, to the extent possible, exchange of standardised and structured data between the Treasury and the customer thereby ensuring a high degree of electronisation and effective use of data.

With the purpose of ensuring qualitative e-services, in 2021, the Treasury continued investing in the supporting information systems: by optimising processes and carrying out measures for stabilisation of the operation, security and operational continuity of the systems, standardisation of budget implementation procedures, reduction of the administrative burden on customers and the public.

In 2021, the Treasury maintained and continued to develop the following services and information systems:

Unified State Budget Planning and Execution Information System The Unified State Budget Planning and Execution Information System (developed on the basis of the software product SAP) ensures a full budget management cycle – from budget planning to its execution and monitoring of the execution). The Unified State Budget Planning and Execution Information System is developed for both the support of the planning functions of the Ministry of Finance and the execution of the budget of the central government budget institutions.

In 2021, migration of the SAP ERP database from Oracle to HANA was performed, which was the first step in migration to the SAP ERP latest version SAP S/4HANA. In the Treasury, the Unified State Budget Planning and Execution Information System is used for ensuring central government budget payments, which means that, within the framework of the System, it is necessary to ensure the checking of matching of payments with sanction lists, which is a resource-intensive process not only from the side of the staff involved in the process but also in terms of the technical resources of the System; therefore, in order to ensure that the time of processing and execution of payments does not increase substantially, it was necessary to increase the performance of the System. The measures taken ensure a 23% shorter payment processing time and reduce the time of execution of individual reports by 97%.

In 2021, the Treasury continued to implement measures for its preparedness for transition of the European Central Bank's *Target2* and *Target2-Securities* systems to the ISO 20022 standard format in the processing of payments, which is envisaged in November 2022. The planned amount of works has been performed to adapt the Unified State Budget Planning and Execution Information System to SWIFT ISO 20022 report processing.

Unified Treasury's E-services Portal The Treasury's E-services Portal ensures easy user authentication with electronic identification means supported by *Latvija.lv*, uniform navigation between the e-services and a modern design meeting the requirements of usability. In 2021, improvement of availability and modernisation of usability of e-services of the Treasury continued, incl. ensuring of availability of the Treasury's e-services to users 24 hours a day seven days a week.

ePārskati (eReports) The e-service *ePārskati* is provided for managing financial and budget execution reports of budget authorities. Monthly, quarterly and annual reports of budget institutions are signed by submitters electronically online in *ePārskati*, thereby ensuring the mutual economy of administrative and time resources. In 2021, on average 3 976 users were registered in *ePārskati*.

Eight ministries and State central authorities used the *ePārskati* solution for the submission, summarising and checking of reports in order to ensure monitoring and control of use of central government budget resources: Ministry of Finance, Ministry of Science and Education, Ministry

of Culture, Ministry of Welfare, Ministry of Transport, Ministry of Environmental Protection and Regional Development, State Chancellery and the Central Election Commission.

ePlāni (ePlans) Ministries or authorities subordinated thereto use the e-service *ePlāni* for the preparation, approval and submission of draft financing plans to the Treasury, on the basis of which the Treasury grants assignments and grants from the general revenue. In 2021, there were 684 registered users in *ePlāni*, and 2 356 basic budget and special budget financing plans were processed.

eTāmes (eEstimates) The e-service *eTāmes* ensures a unified centralised environment for all central government budget institutions for the entering and signing of estimates of budget programmes, sub-programmes and measures. In 2021, there were 864 registered users in *eTāmes*, and 2 356 basic budget and special budget estimates were processed.

eAizņēmumi (eLoans) The e-service *eAizņēmumi* provides for the possibility to apply remotely for receiving a State loan, electronically process a loan application and remotely manage the loan, as well as automatic repayment of the principal loan amount and deduction of interest from the customer's account to the Treasury. In 2021, there were 702 registered users in *eAizņēmumi*.

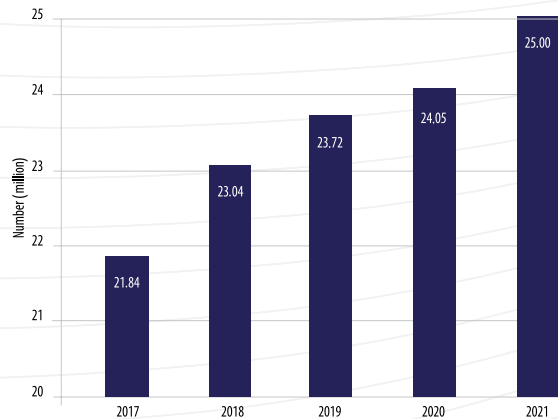
Payments The Treasury ensures the provision of payment services electronically by using the e-service *Payments* and its online data exchange module. Within the framework of the service, the Treasury provides customers with the possibility to execute payment orders, see payment order execution results, as well as to receive financial information offered by the Treasury, i.e., account position (balance), account turnover extracts and a summary on revenue and expenditure or resources for covering expenditure. The online data exchange module of *Payments* ensures automated information exchange on payment data (payment status statement and account statement) between the Treasury and the customer, as well as ensures the sending of payment orders for execution.

In 2021, modernisation of *Payments* continued – it takes place gradually and will be completed in 2022 by providing the possibility for users to start using the new functionality sooner and get used to changes and the new design. In spring of 2021, the *Payments* statement section became available in a new, modern form, while in autumn, *Payments* entry forms *New payment*, *Cash payout*, *Transaction carry-over* and *Code correction* became available, as well as the *procedure for Transaction carry-over* and *Code correction* was changed. Measures were taken to ensure that at the beginning of 2022, the payment *File import* functionality is available to customers in a new visual design.

As from January 2021, the Treasury ensures availability of the previous day's account statement to customers starting from 7. a.m. of the next day.

1. Central Government Budget Implementation

Figure 2. Number of payments processed by the Treasury (2017-2021)

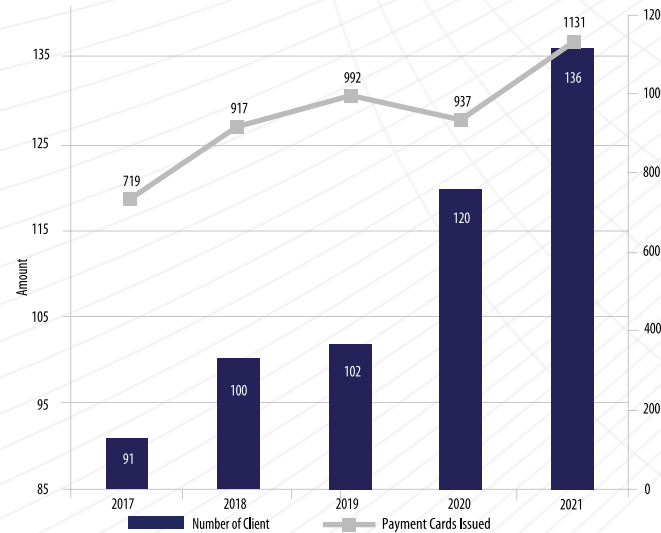


Payment cards tied to the Treasury's accounts

In cooperation with AS Citadele banka the Treasury provides the possibility for State and municipal authorities to make payments with payments cards attached to the Treasury's accounts. The payment card service is envisaged for the making of staff mission, business trip and operating expenditure: employees of central government budget institutions are provided with the possibility during missions to make non-cash settlements by observing the requirement of the Law on Budget And Financial Management to the effect that central government budget fund expenditure is to be made from accounts opened with the Treasury.

In 2021, 136 authorities used the service of payment cards tied to the accounts of the Treasury, and 1 131 cards were issued in total

Figure 3. Dynamics of the payment card service tied to the accounts of the Treasury (2017-2021)

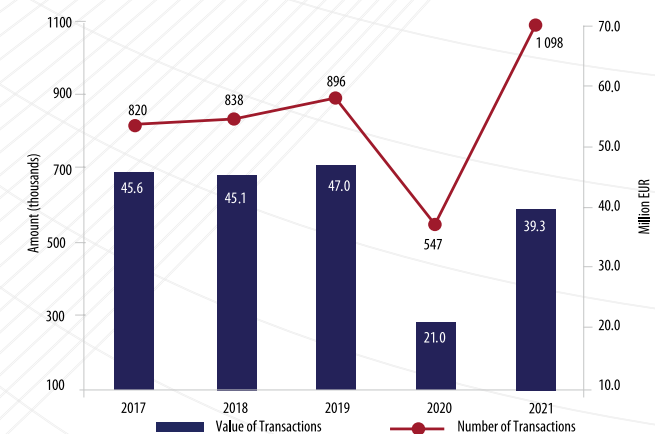


Acceptance of payment cards when collecting central government budget payments

The Treasury, via AS Citadele bank, ensures an acceptance service of payment cards to State and municipal authorities by providing for the possibility to pay for the services provided by it using *VISA Electron*, *MasterCard* and *Maestro* payment cards in a payment card acceptance terminal or another alternative system.

In 2021, this service provided by the Treasury was used by 115 customers. In 2021, in 1 275 payment card terminals installed in State and municipal authorities 1 098 268 transactions were performed for a total amount of EUR 39 292 112. The increase in the number of transactions and hence also of the amount of transactions in 2021 is related to a periodic reduction of COVID-19 limitation measures established in the country, as a result of which the number of service transactions paid for on-site with payments cards, as well as the trend to move away from transactions in cash by using card payments also increased instead.

Figure 4. Payment card (*VISA* and *MasterCard*) acceptance service dynamics (2017-2021)



Instant payments

In order to facilitate the digital development of the financial sector and the state administration, the Treasury completed the task provided for in the Financial Sector Development Plan 2021-2023, namely, to join the instant payment and related service infrastructure maintained by the Bank of Latvia to provide for the possibility for tax and non-tax payers to make payments to the budget swiftly and in a contemporary manner. The Treasury, by taking measures to join to the instant payment and related service infrastructure of the Bank of Latvia as from 1 February 2022, has ensured access to innovative payment services. With instant payments, it is possible to make payments to the budget – accounts of the Treasury – within seconds 24 hours a day, seven days a week and 365 days a year, also on weekends and public holidays. During the first month of the introduction of instant payments (February 2022), around 30% of payments incoming to the central government budget were made by payers using this service.

1. Central Government Budget Implementation

1.3. Information Regarding Utilisation of Central Government Budget Funds for COVID-19 Crisis Prevention Measures

In order to provide transparent and current information to the public regarding the utilisation of central government budget funds granted for COVID-19 crisis prevention measures, the Treasury, in cooperation with the State Chancellery, provides a technical solution for reporting where central government budget institutions provide operational budget implementation information in *ePārskati*.

1.4. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury in the implementation of the Central Government Budget

Table 1.
Performance indicators of operational targets in the implementation of the central government budget

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

In accordance with what is stated in Cabinet Regulation No. 399 of 4 July 2017 "Procedures for Accounting, Quality Control and the Provision of Public Administration Services", in the State budget execution the Treasury provides two public administration services to private individuals⁶ – maintenance of accounts and payment service.

Applications from 1 265 private individuals were received, within the scope of the account maintenance service. Electronic payments of 335 556 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 customer complaints have been received.

Result	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. Uniform principles for the preparation of accounting and financial statements of budget institutions developed and approved, and an assessment from Eurostat received.	1.1 Conformity to the guidelines of international and international public sector accounting standards in the field of accounting and annual reporting (%).	90	90.1
2. The usability and availability of the Treasury's electronic services – <i>eKase</i> , <i>ePlāni</i> , <i>ePārskati</i> , <i>eTāmes</i> – has been modernised.	2.1. Satisfaction with the quality of the electronic services received is not lower than 85% (% of customers surveyed ¹)	85	The client survey will be carried out in 2022
3. Submission of service applications has been improved by introducing a structured, electronic application data submission solution.	3.1. Number of incorrectly submitted service applications (% of total applications).	5	18 ²
	3.2. The time required to fill in service applications has been reduced (%).	30	Was not measured ³
	3.3. Average time required to process one service application (minutes) ⁴ .	5	Was not measured ⁵
4. SAP ERP database Oracle was changed to HANA.	4.1. SAP ERP production environment data base was migrated to HANA.	1	1

¹ In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

² Planned implementation of the performance indicator in 2021 was not achieved, because, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2022.

³ Planned implementation of the performance indicator in 2021 was not achieved, because, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2022.

⁴ Measurement was performed for the processing of the electronic service applications.

⁵ Planned implementation of the performance indicator in 2021 was not achieved, because, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2022.

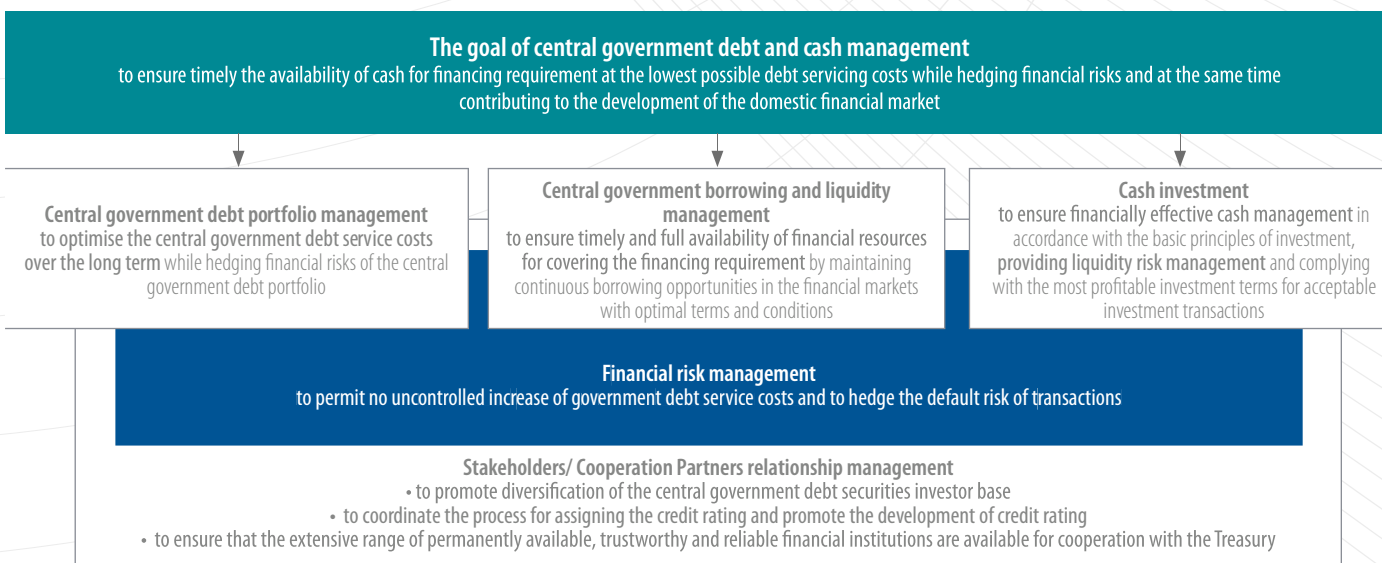
⁶ Legal entity of private law (associations, foundations, religious organisations, commercial companies and other legal entities of private law; having an account opened with the Treasury).

2. Central Government Debt and Cash Management

2.1. Operational Principles and Development Trends

In 2021, 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 priorities:

- 1) ensure 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 on favourable terms;
- 2) promote the development of the domestic financial 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 internal financial market, in order to make better use of the borrowing potential of the internal market and facilitate its functioning;
- 3) ensure safe and financially effective cash management;
- 4) 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 counterparties, facilitating active participation and competition of investors from various global regions in the primary placement of external government debt securities;
- 5) 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;
- 6) maintain and develop long-term cooperation with the existing and new counterparties, ensuring a constantly available range of partners for the conclusion of financial transactions.

The digital transformation of the central government debt and cash management process was continued, within the scope of which improvement of the central government debt and cash management process is planned by implementing BI (*business intelligence*) tools with automated data loading, processing and visualisation solutions for an in-depth data analysis and data analysis-based adoption of operational and strategic financial management decisions, as well as improvement of the contents and quality of the information to be provided to users and available publicly regarding the management of the central government debt.

Activities of the Treasury in 2021

2. Central Government Debt and Cash Management

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

At the end of 2021, Latvian general government debt⁴ accounted for 44.8% of GDP. 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 debt⁸, which, at the end of 2021, according to the operational data of the Treasury, comprised EUR 15.3 billion at nominal value, growing by EUR 2.8 billion since the end of 2020.

A significant increase in central government debt was caused by the need to expeditiously provide financial coverage for covering the total financing need, incl. measures to mitigate the effects of the COVID-19 outbreak and economy support measures, by borrowing in the domestic and international finance markets, as well as by using the possibilities to borrow from the Northern Investment Bank and within the framework of the European Commission's financing instrument SURE. The total amount of COVID-19 support measures in 2021 accounted for EUR 2.3 billion or 7.0% of the projected GDP. The largest share of the support measures was made up of support to the health and transport sectors, lockdown and one-off benefits to the population (incl. families with children, pensioners and the poor), as well as support for companies in the form of loans, guarantees and grants.

In the structure of central government, external debt makes up the greatest share reaching 81% of the total central government debt. The largest share of external debt (68% of the total central government debt) is made from bonds issued in international financial markets (see Figure 7).

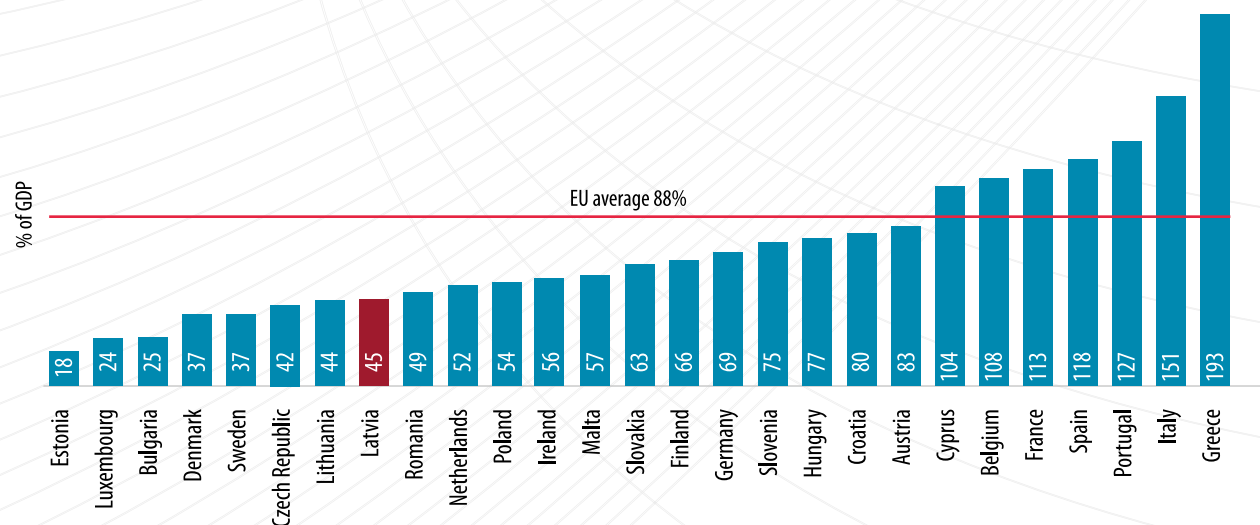


Figure 6. General government debt as at the end of 2021 (% of GDP) according to the ESA 2010 methodology⁷ (Source: EUROSTAT)

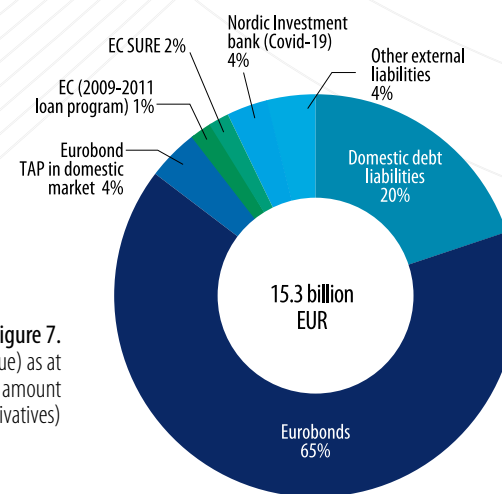


Figure 7. Central government debt structure (at nominal value) as at 31 December 2021 (million EUR and % of the total amount based on national methodology, excluding derivatives)

⁷ The general government debt is evaluated 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.

⁸ 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, customer deposits and balances of current accounts placed in the Treasury.

2. Central Government Debt and Cash Management

2.3. Central Government Borrowing Management

The biggest challenges for all financial market participants, incl. the Treasury, in 2021 were the sharp fluctuations and the rather large uncertainty driven by the novel COVID-19 virus strains, negative effects caused by the global pandemics on national economies, as well as market participants' views on normalisation of the monetary policies in the Eurozone and elsewhere in the world.

The established COVID-19 mitigation measures in 2021 continued to affect the development and fiscal indicators of the Latvian economy by increasing substantially the central government deficit and causing the need to continue to provide also in 2021 a financial coverage for decisions of the government and the Saeima for mitigating the effect of the COVID-19 outbreak and economic support. The government's support measures for the national economy for mitigating the consequences of the COVID-19 pandemic created a substantial increase in the financing need and hence also the amount of borrowings.

Therefore, in 2021, the Treasury attracted funds both in financial markets and from international institutions for covering the total financing need – for financing of the central government budget deficit, provision of State loans and fulfilment of sovereign debt commitments, incl. mitigation of the impact of the COVID-19 outbreak and economic support.

Considering the country's stable credit rating of "A" rating group, high evaluation from investors and confidence on the development of Latvia in the long-term, as well as maintaining of Euro base rates and securities credit risk premium of the Eurozone states at a low level, thanks to the incentivising monetary policy implemented by the European Central Bank, in 2021, the Treasury attracted the necessary funds in financial markets on favourable terms.

2.3.1. Borrowing in the Domestic Financial Market

In 2021, the Treasury organised regular securities auctions in the internal financial market, by including a variety of liquid financial instruments in the offer, which ensured a possibility for investors to invest in Latvian government securities. Borrowing measures in the internal market were organised by using additional tranches of Eurobonds in circulation in Latvia, i.e., Eurobonds with maturities in 2025, 2026, 2028, 2029 and 2031.

In 2021, the total amount of the country's securities issues in the internal market was EUR 622.25 million, whereas the state securities redemption amount was EUR 87.08 million. As a result, at the end of 2021, the total amount in circulation of the state borrowing securities issued in the internal financial market was almost EUR 2.235 billion, which is EUR 495.2 million more than a year before (see Figure 8).

Figure 8. Government domestic debt securities in circulation (as at the end of the respective year, million EUR)

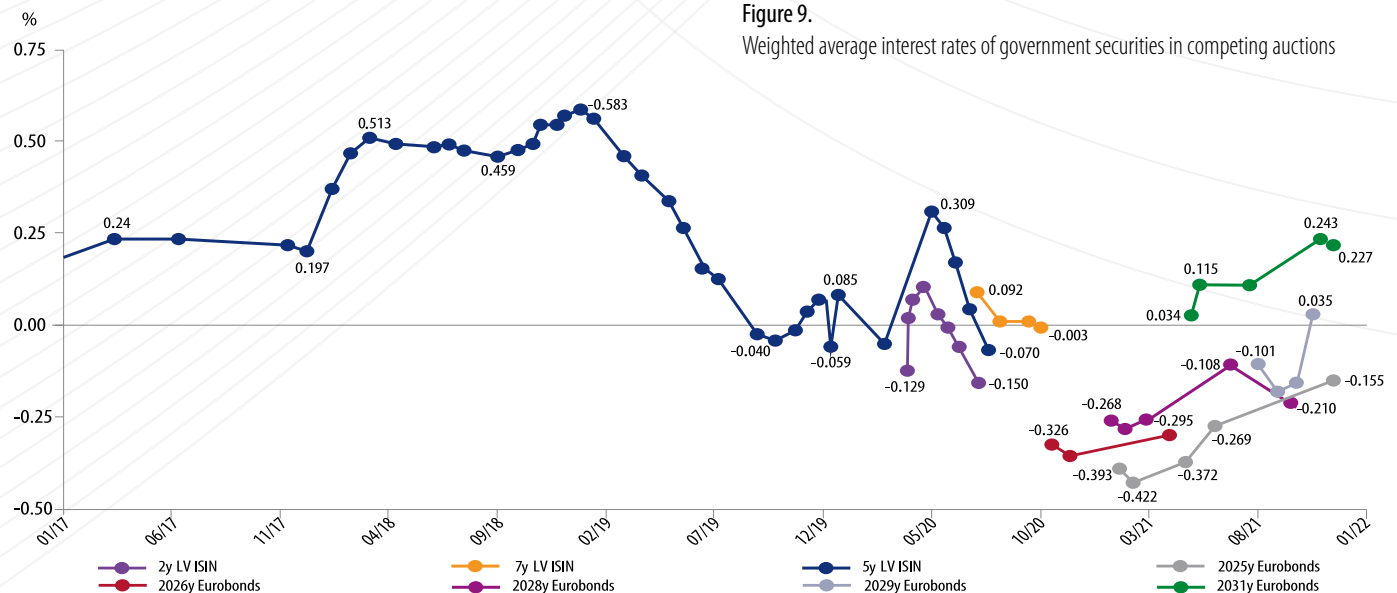
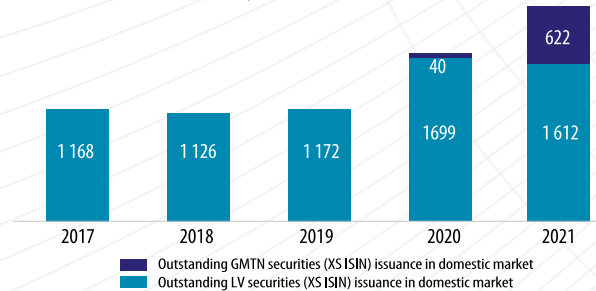


Figure 9. Weighted average interest rates of government securities in competing auctions

Overall, in 2021, the demand, or investors' competition, for Latvian government securities in the internal market was still high. In competitive multi-price auctions the demand on average exceeds 3.2 times the amount of securities traded by the Treasury. Hence, the possibility to borrow on favourable terms was facilitated by not only the supportive monetary policy implemented by the European Central Bank in 2021 and launched in the previous years but also the investors' large competition for the possibility to purchase sovereign securities. For example, in the auction of February 2021, a record low level of yield was recorded (-0.422%) when auctioning one of the Eurobond additional tranches of 2025 (see Figure 9). Overall, Euro's key interest rates in 2021 were at low levels, however, in the second half of the year, an increase of the rates was driven by the sharp rise in the global energy prices and the growing inflation.

Activities of the Treasury in 2021

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. The Treasury communicates with Primary Dealers on a regular basis regarding the situation in the financial market, demand trends, as well as matters related to the secondary market of government securities.

As part of the Primary Dealer System, credit institutions that have entered into a primary dealer agreement with the Treasury may take part in government security auctions. As at 19 January 2021, to the group of Primary Dealers consisting at that time of four credit institutions – AS Citadele banka, Luminor Bank AB, AS SEB banka, AS Swedbank, a new member joined – Erste Group Bank AG. The participation of a new primary dealer facilitated higher competition in auctions and trade in government securities in the secondary market.

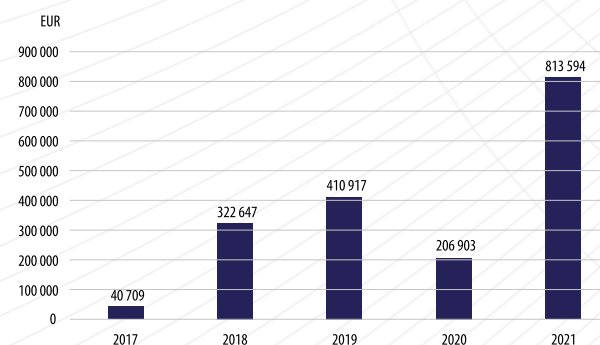
2.3.1.2. Savings Bonds

In 2021, the Treasury continued maintaining the savings bonds offer (on the website www.krajobligacijas.lv and at the post service points of the VAS Latvijas Pastis). 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 broadening their practical experience of residents in investing.

In 2021, 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 selected long-term investments, and, in 2021, 10-year savings bonds made up 88% of the volume thereof. At the end of 2021, the volume of savings bonds at the disposal of residents amounted to EUR 5.5 million. As compared to the year before, the volume of traded savings bonds has not changed considerably.

Figure 10.
Issued volume of savings bonds in 2017–2021 (nominal value)



2.3.1.3. Interest-Free Bonds

The Treasury continued 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 2021, 12 interest-free bond issues took place, and the total nominal value of interest-free bonds for which the maturity had not yet come at the end of the year amounted to EUR 8.25 million.

2.3.2. Borrowing in International Financial Markets

Under the circumstances of global financial 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 in order to attract funds for covering the total financing needs on favourable terms by fixing very low central government debt servicing costs and without creating an additional expenditure burden on the central government budget in the long term.

In 2021, the Treasury raised funds in international financial markets in the amount of EUR 2.350 billion by issuing 10-year Eurobonds in the amount of EUR 1.250 billion, 7-year bonds in the amount of EUR 0.500 billion, as well as the first sustainable bonds in the amount of EUR 600 million. In the 7-year and 10-year Eurobond issues an interest (coupon) rate of 0.000% per annum was fixed, which is the historically lowest coupon level of such a long term ever achieved in Latvian debt securities emissions in international markets (see Table 2).

Table 2.

Characteristic values of Eurobonds issued in 2021 in international financial markets

	Issue of new 10-year Eurobonds	Issue of new 7-year Eurobonds	Issue of new 8-year sustainable Eurobonds
Maturity	17.03.2031.	24.01.2029.	23.01.2030
Amount	EUR 1 250 million	EUR 500 million	EUR 600 million
	TOTAL: EUR 2.350 billion		
Fixed income rate (coupon)	0.000 %	0.000 %	0.250%
Yield	0.105 %	0.003 %	0.263 %

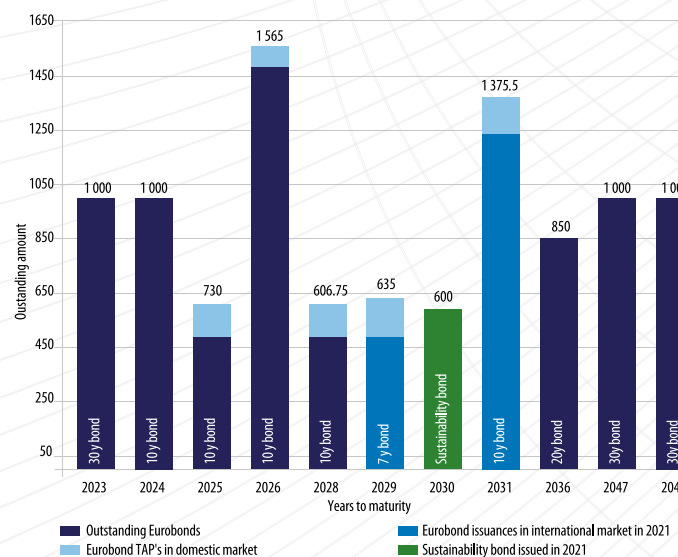
2. Central Government Debt and Cash Management

During recent years, the global market of “green” and “social” financial instruments has grown steadily and is becoming ever more important in financial management. Sustainability issues are integrated in the financial system risk management and included in the monetary policy. In order to promote the development of the financial sector in the field of sustainable finances and to confirm internationally the strong commitment of Latvia to achieve the set targets for mitigation of effects of climate change and ensuring climate neutrality, as well as to reduce the income and opportunity inequality, in December 2021, the Treasury, for the first time in the Latvian history, issued sustainable government Eurobonds with a maturity of eight years by raising financing in the amount of EUR 600 million with the yield of 0.263% and fixing a coupon rate of 0.250%. The bonds were issued to support the sustainable development of Latvia and attract financing for measures and priorities directed towards mitigating the negative climate change impact, transition to climate neutrality and raising of wellbeing. Latvia is the first of the Baltic and Scandinavian countries to issue sustainable bonds.

For issuing the securities, a Sustainable Government Securities Framework was established. Its development was ensured by a working group led by the Ministry of Finance, in which, apart from the Ministry of Finance and the Treasury, several sectoral ministries (Ministry of Environmental Protection and Regional Development, Ministry of Economics, Ministry of Agriculture, Ministry of Transport, Ministry of Welfare, Ministry of the Interior, Ministry of Education and Science), as well as the Cross-Sectoral Coordination Centre, are represented. Taking into account the fact that, for achieving Latvia's sustainable development goals, long-term solutions and financing will be needed, the Sustainable Securities Framework will allow one to issue both green, social and sustainable bonds in the future as well by attracting ever new investors, which is one of the pre-conditions for the attraction of financial resources on favourable terms in the future as well.

For borrowing in international financial markets, the Treasury uses the legal framework of external government securities (Eurobonds) 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 11.
Nominal value and maturity of Eurobonds in circulation (million EUR)



2.3.3. Borrowings from International Financial Institutions

For borrowing in international financial markets, the Treasury uses the legal framework of external government securities (Eurobonds) 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.

2.3.3. Borrowings from International Financial Institutions

In addition to borrowings made in the financial markets, in 2021, for the financing of measures of mitigation and management of COVID-19 consequences, the following borrowings from international financial institutions were made on favourable terms within the framework of the existing contracts: from the Northern Investment Bank in the amount of EUR 250 million and from the European Commission's SURE financing instrument in the amount of EUR 185 million.

2.3.4. Counterparty Relationship Management

The aim of relationship management 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 would ensure competitive terms for the performance of financial transactions. Therefore, the Treasury organises the regular preparation of analytical materials and operational provision of information to counterparties, by implementing a set of targeted and structured communication measures.

Considering the spread of COVID-19 infection, in 2021, the Treasury together with counterparties, credit rating agencies and investors continued to communicate remotely by providing the most up-to-date information about the situation in the Latvian economy, financial market, public finances, as well as the national borrowing strategy, thereby also ensuring the dissemination and explanation of information to the investor community, which decides on investments into government securities.

2.3.5. 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 influences the price of the borrowed resources. Within the scope of central government debt management, the Treasury organises the credit rating assessment of the Republic of Latvia, using the three largest international credit rating agencies: *Fitch Ratings*, *S&P Global* and *Moody's Investors Service*, as well as the Japanese rating agency *R&I*. In 2021, the Treasury continued to provide credit rating agencies with regular, proactive, comprehensive and relevant information, to facilitate 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. 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.

Also in 2021, the credit rating of Latvia remained at a stable position in the “A” credit rating group: *Moody's Investors Services*, *S&P Global* and *Fitch Ratings* confirmed the credit rating of Latvia at the previous level and maintained an unchanged (stable) credit rating outlook. The Japanese credit rating agency *R&I* also maintained Latvia's credit rating and its outlook without changes.

Activities of the Treasury in 2021

2. Central Government Debt and Cash Management

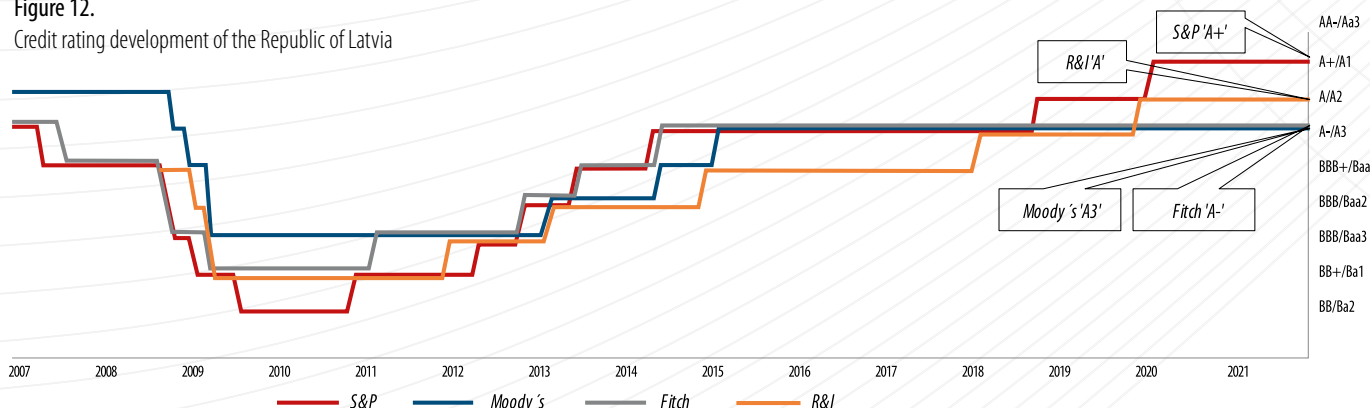
Latvia's credit rating in group "A" is maintained by:

- 1) a flexible and development-orientated economy which has shown resilience to the negative effects of the COVID-19 pandemic and external shocks;
- 2) economy growth indicators projected by the agencies after the reduction of the effects of the COVID-19 pandemic;
- 3) a relatively low central government debt level to GDP and the low burden of debt servicing costs as compared to the average indicators of the countries with the credit rating "A";
- 4) institutional strength substantiated with membership in the EU and the Eurozone;
- 5) the government's work in putting the financial sector into order.

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 an optimum 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.

In 2021, 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).

Figure 12.
Credit rating development of the Republic of Latvia



2.4. Central Government Debt Portfolio Management

The goal of 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

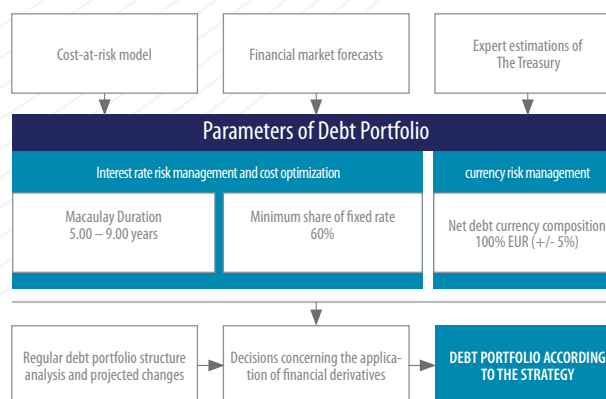


Figure 13.
Basic principles of central government debt portfolio management

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 31.12.2020	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2021	DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY
Amount of central government securities distributed for initial placement for domestic financial market investors at the end of the year	EUR 1 739.30 million	EUR 2 274.47 million	The amount in circulation at the end of 2025 is not less than the amount at the end of 2019 ⁹
Maturity profile (%) of central government debt portfolio	≤ 1 year: 18.8% ≤ 3 years: 37.2%	≤ 1 year: 13.4% ≤ 3 years: 32.0%	≤ 1 year: ≤ 25% ≤ 3 years: ≤ 50%
Minimum share of fixed interest rate ¹⁰ in the central government debt portfolio	82.1%	80.4%	≥ 60%
Weighted average fixed duration of the interest rates in years	6.62	6.55	5.00 – 9.00
Net debt currency composition	EUR 100.08%	EUR 100.10%	EUR 100% (+/- 5%)

For the introduction of hedge accounting, calculation of efficiency of derivatives, accounting and showing on financial statements, has been introduced in the Treasury in accordance with the best practice. It will be possible to apply hedge accounting to derivatives transactions in effect on 31 December 2021 and concluded thereafter. Taking into account the fact that treasury notes are traded publicly, reconciliation of financial statements with the requirements of the international standard (IFRS) will allow one to ensure the provision of even more transparent data to investors and credit rating agencies and comprehensibility of financial statements.

⁹ Amount in circulation of central government securities traded in the internal markets in the initial placement at the end of 2019: EUR 1 172.24 million

¹⁰ Central government debt with a fixed interest rate and with a remaining maturity that is longer than one year.

Activities of the Treasury in 2021

2. Central Government Debt and Cash Management

2.5. Cash Management

In 2021, the Treasury ensured cash management in accordance with the Central Government Debt and Cash Management Strategy, promoting secure and financially effective cash investment with the most beneficial conditions possible, ensuring liquidity risk management and considering the most favourable investment conditions for permissible investment transactions. Cash funds are managed by the Treasury only, and the transfer of this function to another fund manager is not permitted.

Cash and liquidity management in 2021 was still implemented in highly uncertain circumstances related to the prolonged impact of the global COVID-19 pandemic. The European Central Bank continued economy stimulation measures for fighting the impact of the COVID-19 pandemic by maintaining the rate of overnight deposits with the Eurosystem at the level of minus 0.50% and increasing the scope of securities purchase programmes, as a result of which the Euro cash market interest rates in 2021 became even more negative. In order to ensure financial coverage for support measures for mitigating the consequences of the COVID-19 outbreak, and with uncertainty and risks existing due to the negative effect of COVID-19, also in 2021 the Treasury maintained a reserve of resources in its accounts with the Bank of Latvia and the European Central Bank by limiting financial risks to a maximum extent and ensuring the expeditious availability of liquid resources for covering the financing need.

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

Table 4.

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

Result	Performance indicator	Numerical values of the performance indicator in 2021	
		Planned	Implemented
1. Availability of financial resources to cover the financing need 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 ¹¹ 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	-27 ¹²
	1.2 Interest expense of the current year to the preceding year's central government debt ratio ¹³ does not exceed the relevant indicator of the preceding year by more than 20 basis points (deviation from the preceding year in basis points). ¹⁴	20	-52 ¹⁵
2. Regular offer of government securities in the internal financial market has been maintained.	2.1. Outstanding amount of government securities, which at the initial placement were issued in the domestic financial market at the end of the five-year period, is not less than the amount at the beginning of the five-year period (minimum difference between the outstanding amount of securities at the end of the relevant year and beginning of 2020, EUR million). ¹⁶	0	1062 ¹⁷
3. Digital transformation of the government debt and cash management process has been ensured.	3.1. At the end of 2022, the level of technological maturity of the central government debt and cash management process is at least one degree higher compared to the assessment at the end of 2019 (level at the end of the year ¹⁸).	Will not be measured	Was not measured

¹¹ 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).

¹² The indirect interest rate of Latvian general government debt was 1.3% in 2021, which is 27 basis points lower than the average of euro area countries with a similar and one grade higher credit rating for the year concerned.

¹³ 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).

¹⁴ 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 referred to in footnote 3 of the Operational Strategy of the Treasury. 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.

¹⁵ The indicator is met. The global fight with the COVID-19 pandemic during the whole of 2021 also meant that a high level of uncertainty in financial markets was maintained. At the end of the year, it was accompanied by a sharp rise in energy prices in the second half of the year and, together with the decisions of monetary authorities on extraordinary support for financial and securities markets, interest rates increased to a large extent with small exceptions in certain periods. The Treasury accordingly took advantage of these individual favourable stages of market stabilisation and issued new securities with low (close to zero) interest rates.

¹⁶ During the five-year period (2020-2024), negative numerical values of the performance indicator are allowed in certain years, provided that the performance indicator is fulfilled at the end of the five-year period, i.e. at the end of 2024.

¹⁷ The indicator is met. The global fight with the COVID-19 pandemic during the whole of 2021 also meant that a high level of uncertainty in financial markets was maintained. At the end of the year, it was accompanied by a sharp rise in energy prices in the second half of the year and, together with the decisions of monetary authorities on extraordinary support for financial and securities markets, interest rates increased to a large extent with small exceptions in certain periods. The Treasury accordingly took advantage of these individual favourable stages of market stabilisation and issued new securities with low (close to zero) interest rates.

¹⁸ In accordance with the technological maturity evaluation model according to which the level of technological maturity of the Treasury central government debt and debt and cash management process was assessed within the framework of the project "Digital Transformation of the Central Government Debt and Cash Management Process in the Treasury of the Republic of Latvia" implemented with the support of the European Commission Structural Reform Support Programme.

Activities of the Treasury in 2021

2. Central Government Debt and Cash Management

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

In accordance with what is stated in Cabinet Regulation No. 399 of 4 July 2017 “Procedures for Accounting, Quality Control and the Provision of Public Administration Services”, in central government debt and cash management the Treasury provides two public administration services to private individuals – issues of savings bonds¹⁹ and investing of balances of funds²⁰.

In 2021, 33 savings bonds issues were fulfilled and five applications for investments of funds from private individuals were received. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place, and no customer complaints have been received.

¹⁹ Natural persons (investor, being a natural person of at least 18 years of age).

²⁰ Legal entity of private law.

Activities of the Treasury in 2021

2021

3. State Loan and Guarantee Management

3.1. Description of the Situation and Development Trends

Candidates for state loans meeting the eligibility criteria defined by the Law on Budget and Financial Management²¹ and whose projects comply with the objectives of the Law, may operationally receive State loans within the limits set by the Central Government Annual Budget Law. The Treasury grants and services State loans, incl., supervises the proper performance of commitments, in line with Cabinet Regulations on the issue and servicing of State loans. By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the state loan portfolio, the Treasury provides suggestions to the Minister of Finance on a regular basis regarding future actions for the supervision of the state 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 EU 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. Local governments, in turn, in order to promote the implementation of economically significant investment projects co-financed by the EU and to ensure the availability of the services, issue guarantees on liabilities of their capital companies.

For the purpose of the further automation and digitisation of the State loan granting and service process, in order to improve the issue, supervision and service of State loans, in 2021, the functionality of the Treasury's e-service *eAizņēmumi* was improved by ensuring to the customers the possibility to apply electronically for a State loan. In the *eAizņēmumi* system, also further processing of loan applications from local governments was implemented by reducing manual operations, and saving of the decision adopted by the Local Government Borrowing and Guarantee Control and Supervision Council was ensured, which is a precondition for further automation of the process. The changes made have been introduced in the Cabinet Regulation No 888 of 21 December 2021 "Procedure Whereby Ministries and Other Central Government Authorities Include State Loan Requests in the Annual State Budget Draft Law, and Procedure for Issuing and Servicing State Loans".

According to the procedure prescribed by the Cabinet, the Treasury takes part in the provision of State-issued 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.

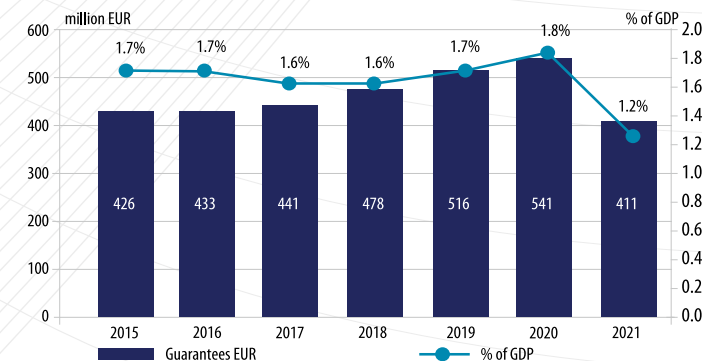
When issuing State guarantees, factually all risks and their management are carried by the State. However, despite the financial risk management measures implemented by the Treasury, part of the risks are managed by the credit institution and the Treasury has no direct influence on their management, which in some cases may materialise as unforeseen central government budget expenditures. Therefore, to minimise the financial risks, the State loan is the primary financial instrument for ensuring the implementation of regionally and nationally significant projects. In turn, the State-issued support mechanism is to only be used for the loans issued by such international financial institutions, where the Republic of Latvia is a member State.

3.2. State-Issued Guarantees

The annual State Budget Law did not provide for granting new state-issued guarantees; however, at the same time, it prescribed that, in line with the Law on Agriculture and Rural Development and Development Financial Institution Law, the State, in the amount of EUR 270.0 million, shall be liable for the guarantees issued by the AS Attīstības finanšu institūcija Altum. Furthermore, to ensure that, in the event of a crisis caused by the Covid-19 infection, the population has the opportunity to retain jobs and employers to retain professionals on the basis of the Law on Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of Covid-19, a guarantee was issued by the Republic of Latvia to the European Commission on participation in the EU support instrument to mitigate unemployment risks in the emergency (SURE) in the amount of EUR 57.1 million.

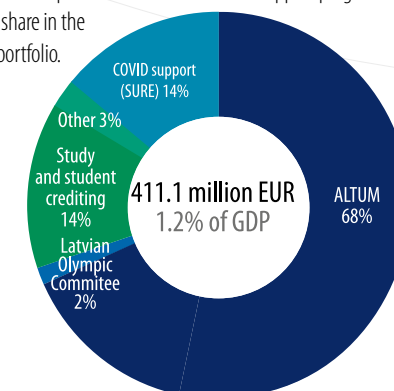
The total state guaranteed debt outstanding at the end of 2021 amounted to EUR 411.1 million, which was EUR 130 million less than in 2020. The reduction of the outstanding State guaranteed loans was mainly influenced by the fact that in 2021, State guaranteed loan commitments of medical treatment authorities in the amount of EUR 128.7 million were taken over and executed in full. Hence, the share of State guarantees to GDP in 2021 decreased to 1.2%.

Figure 14. State guaranteed loans outstanding, EUR million



Similar to the previous years, also in 2021 the largest share in the State issued guarantee portfolio was made up by guarantees to the AS Attīstības finanšu institūcija Altum for its issued guarantees to credit institutions for farmers borrowings (over-guarantees), guarantees to the European Investment Bank for loans issued by the AS Attīstības finanšu institūcija Altum within the framework of the business competitiveness improvement support programme and crediting the development of small and medium enterprises of Latvia (EUR 280.4 million), guarantees for crediting of studies and students (EUR 57.7 million), as well as, on the basis of the Law on Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19, a guarantee to the European Commission in the amount of EUR 57.1 million for Latvia's participation in the EU SURE instrument. In the future, it is expected that support to small and medium enterprises and implementation of other State support programmes will comprise an even larger share in the State-issued guarantee portfolio.

Figure 15. State-issued guarantee portfolio, by borrower on 31.12.2021



²¹In 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 2021

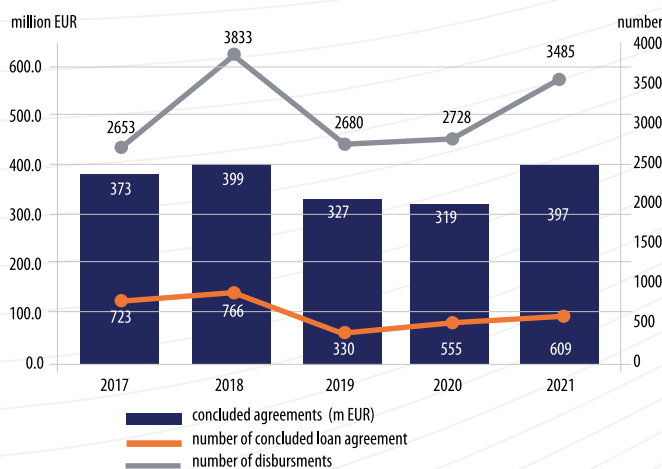
3. State Loan and Guarantee Management

3.3. State Loans

The Law on State Budget for 2021 prescribed the total increase of the State budget loans in the amount of EUR 484.5 million, including the total increase of the local governments' borrowings by EUR 268.1 million.

In turn, the total State loan portfolio as at 31 December 2021 was EUR 1 958.6 million, which is EUR 198.9 million more than in 2020.

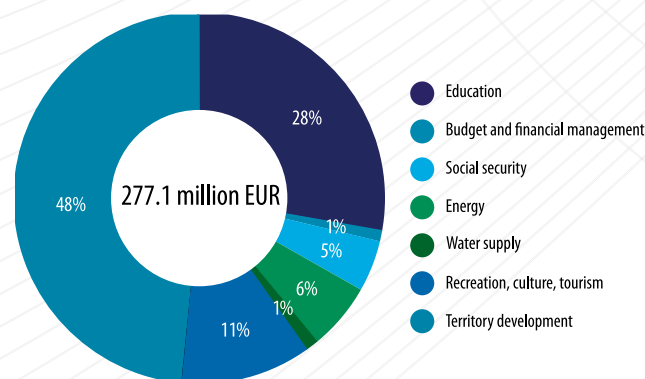
Figure 16.
State loan dynamics (2017–2021)



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

In the State loan credit portfolio, the largest share is still made up by loans to local governments in the amount of EUR 1 617.9 million, which have increased by EUR 151,5 million as compared to 2020. In 2021, 584 loan contracts were concluded for the total amount of EUR 351 million, of which 235 were concluded for the total amount of EUR 72.9 million for mitigating and preventing the emergency situation in local governments due to the COVID-19 spread.

Figure 17.
State loans issued to local governments in 2021, by purpose



State loans in the amount of EUR 280.9 million or 78% of the total amount of state loans were issued to local government bodies, incl. EUR 277.1 million for local governments.

3.3.2. State Loans to Central Government Bodies

State loans in the amount of EUR 37.8 million or 11% of the total volume of the State loans have been granted to economic operators controlled and financed by public bodies²³, of which EUR 35.9 million were issued to the AS Attīstības finanšu institūcija Altum for the implementation of state aid programmes (small and medium-sized enterprises, agriculture, start-ups, etc.) and EUR 1.9 million – to scientific institutes and universities for the implementation of projects co-financed by the EU (development of research infrastructure, improvement of energy efficiency in buildings, etc.).

3.3.3. State Loans to Non-Financial Corporations²²

State loans in the amount of EUR 38.9 million or 11% of the total volume of the state loans were granted to non-financial corporations, incl. State loans in the amount of EUR 32.2 million for local government capital companies for implementation of projects co-financed by the EU, in order to ensure provision of services of economic interest (implementation of heat supply, water supply and sewerage projects, etc).

²² 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 2021

3. State loan and guarantee management

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

Table 5.
Performance indicators of the operational targets for state loan and guarantee management

Result	Performance indicator	Numerical values of the performance indicator in 2021	
		Planned	Implemented
1. A customer-orientated central government lending and monitoring process on financially favourable terms ensured.	1.1 The amount of loans of local governments and their capital companies guaranteed by local governments from the Treasury is not less than 85% (of the total amount of borrowings by local governments and their capital companies guaranteed by local governments).	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 customers surveyed ²³).	85	The client survey will be carried out in 2022
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	2.1. For the borrower who has not made a regular payment of principal or interest provided for in a State loan or government guaranteed loan agreement, provisions have been made in advance for at least the amount of the outstanding payment (% of all cases).	100	100

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

In accordance with what is stated in Cabinet Regulation No. 399 of 4 July 2017 "Procedures for Accounting, Quality Control and the Provision of Public Administration Services", 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 2021, 26 loan applications were received from private individuals²⁴. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place, and no customer complaints have been received.

²³ In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

²⁴ 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.

4. Implementation of the Functions of the Certifying Authority of EU funds and Foreign Financial Assistance

4.1. Description of the Situation and Development Trends

By implementing the functions of the Certifying Authority of the ERDF, the ESF, the CF, the European Economic Area Financial Mechanism and the Norwegian Government Financial Mechanism, the Treasury ensures accounting of the resources received and spent, prepares and submits statements to the Granting Authority confirming that the declared expenses comply with the applicable laws regulations, and performs other duties related to financial management. To ensure the approval of expenditures to be declared, the Treasury, on the basis of risk assessment, carries out inspections/controls prescribed by laws and regulations, as well as analyses information in its possession and the possible effect on the eligibility of the expenditures to be declared, and adjusts the expenditures to be declared, if necessary.

It is important for the Certifying Authority, in cooperation with other institutions involved in the management of funds, not to allow for declaring doubtful expenditure, to preserve the trust of the Granting Authorities in Latvia's management and control system and to ensure the receipt of regular refunds. As the cases regarding suspicions of fraud and violations of competition norms in EU funds projects, as well as various other violations, inter alia, inclusion of the beneficiaries or their counterparties on the lists of sanctions, are increasingly appearing in the public space, it is essential to ensure a fast response management and control system.

To minimise manual operations, as well as to use data available in the management information system of the Cohesion Policy funds as far as possible, it is essential to pursue new system solutions to enhance the functionality of the preparation of reports.

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

In this programming period, regulatory enactments of the European Commission²⁵ (hereinafter "Regulation No. 1303/2013") foresee the annual closing procedure, hence, the applications for payments have to be submitted in the current accounting year (period 01.07.N-30.06.N+1), and, as the accounting year concludes, a closing balance of accounts must be submitted.

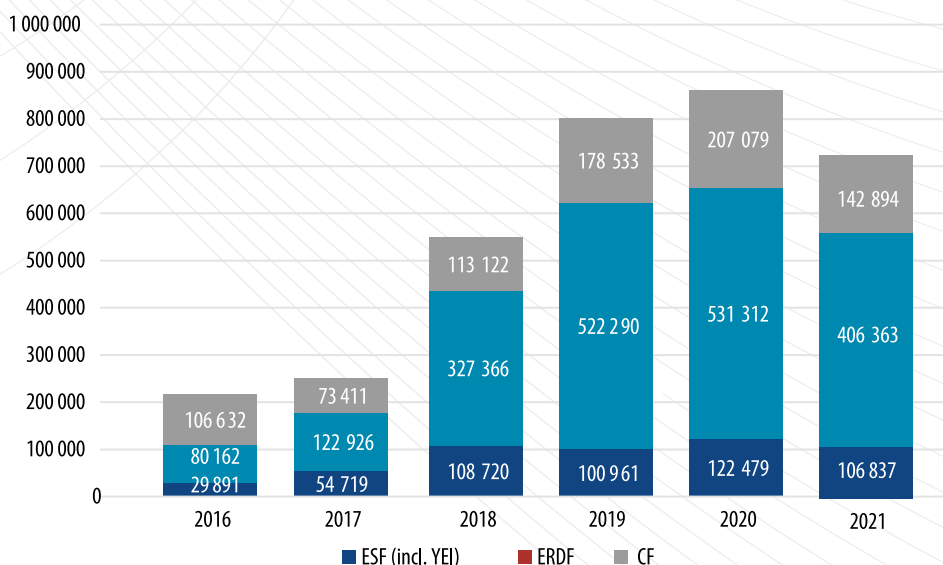
In 2021, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. In 2021, the amount of expenditures to be declared has decreased as compared to 2020 (see Figure 18), which is in line with what was forecast by the Managing Authority. In addition, the amount of expenditures declared was influenced by deductions carried out considering the so-called "builders' cartel" case²⁶, as well as taking into account other eligibility risks established by the controlling authority. In accordance with the forecasts of the Managing Authority, the amount of expenditures to be declared will remain at a similar level in 2022 and 2023.

On 9 February 2021, the set of account closure documentation was submitted to the European Commission for the accounting year from 1 July 2019 till 30 June 2020:

- 1) The closure of accounts prepared by the Treasury as the certifying authority²⁷;
- 2) Governance declaration and the annual summary for the previous year prepared by the Ministry of Finance as the managing authority;
- 3) The annual control report and opinion prepared by the Ministry of Finance as the audit authority²⁸.

The European Commission accepted it on 26 May 2021, specifying that the documentation is complete, correct and true.

Figure 18.
Amount of expenditures declared to the European Commission (thousand EUR)



²⁵ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down the common provisions on the ERDF, the ESF, the CF, 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 CF and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

²⁶ On 30 July 2021, the Competition Council adopted a decision in the so-called "builders' cartel" case, which found a long-term prohibited agreement between ten building companies on conditions for participation in public and private tenders in Latvia.

²⁷ Annex 12 to Regulation (EU) No. 1011/2014 – Report on Transactions Included in the Payment Application to the European Commission.

²⁸ On the effectiveness of the created system, eligibility of the expenditures declared to the European Commission and the conformity thereof to the regulatory framework, truthfulness and objectivity of information provided in the reports (including the governance declaration).

Activities of the Treasury in 2021

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

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

Within the framework of this period, the financing available to Latvia is EUR 94.4 million (incl. EUR 9.0 million to be administered by the Financial Instrument Office and Innovation Norway). Latvia implements six programmes, as well as the Technical Assistance Project and the Bilateral Cooperation Fund. Mid-term financial reports were submitted to the Financial Instrument Office, requiring EUR 6 532 from the donor countries. For the submitted reports, repayments have been received in full. In 2021, for several programmes without administrative expenditures declaration of expenditure carried out within the projects has also been started.

4.4. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Certifying Authority of the EU Funds and Foreign Financial Assistance

Table 6.
 Performance indicators of operational targets
 for the implementation of the functions of the Certifying Authority
 of the EU Funds and Foreign Financial Assistance

Result formulation	Performance indicator	Numerical values of the performance indicator in 2021	
		Planned	Implemented
A positive rating ²⁹ 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	1

²⁹ Rating categories in compliance with the laws and regulations governing the management of EU 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 and Bookkeeping Service

5.1. Description of the Situation and Development Trends

In line with the move towards a small and efficient public administration and centralisation of support functions, the Treasury continues providing and developing the accounting and bookkeeping service for a number of central government budget institutions, providing them with equalised bookkeeping of accounting transactions, promoting the uniformity of information required for taking management decisions and data quality, the preparation of financial statements in accordance with uniform basic principles, as well as maintains an information system of personnel records and the operational exchange of information.

The long-term development goal of the service is, in line with the best practice of the EU Member States, to create a single service centre for the provision of standardised accounting and bookkeeping, and personnel records services to the central government budget institutions, by means of integrated personnel records, accounting and bookkeeping and the budget implementation information system, thus ensuring the effective and rational use of the resources and credible, high-quality and reusable data.

In cooperation with the State Chancellery, in 2021 the Treasury prepared for submission to the Cabinet, an information report "Regarding Centralisation of Bookkeeping and Personnel Accounting Functions in State Administration" whereby information about the degree of centralisation of the existing bookkeeping and personnel accounting processes was provided; an application was prepared and approval was obtained from the European Commission's Directorate-General for Structural Reform Support regarding the feasibility study for the unified service centre within the framework of the Technical Support Instrument; the reform was conceptually integrated and harmonised in the Recovery and Resilience Facility Plan for Latvia and Digital Transformation Guidelines for 2021–2027, as well as further steps in the implementation of centralisation and establishment of the uniform service centre were set out. In accordance with the information report, it is envisaged to submit the unified service centre concept to the Cabinet by 20 December 2022. The concept includes solutions based on cost and benefit estimates for the institutional framework in the centralisation model, taking into account the possible sectoral limitations and proposals for the establishment of the unified service centre. Within the concept, a time schedule will be advanced for approval, according to which authorities will gradually move to the centralised model. The concept will be

developed on the basis of the results achieved within the framework of the European Union Technical Support Instrument project "Development of the Public Sector Unified Service Centre in Latvia".

5.2. Provision of the Accounting and Bookkeeping Service

In 2021, the Treasury provided the accounting and bookkeeping service to 12 central government budget institutions in total: the State Chancellery, School of Public Administration, Cross-Sectoral Coordination Centre, National Electronic Mass Media Council, Ministry of Finance, Procurement Monitoring Bureau, Lotteries and Gambling Supervisory Inspection, the Treasury, State Revenue Service, Central Finance and Contracting Agency, Fiscal Discipline Council and, from 2021, also to the National Electronic Mass Media Council.

In order to ensure the possibility for authorities receiving bookkeeping and accounting services to receive and send electronic invoices, a technical solution has been implemented in the Centralised Resource Management System *Horizon*

allowing one to receive and send structured electronic invoices from it in a PEPPOL format and human-readable format. For ensuring the service, the Treasury concluded a contract with the e-invoice operator AS Unifedpost, as well as agreements were concluded with most of the authorities to which the Treasury provides bookkeeping and accounting services. With the introduction of e-invoicing solutions, the level of automation is increased in the authorities by replacing paper-form invoices with structured digital data. This allows a more operational and effective processing and archiving of invoices, which facilitates the reduction of the administrative burden (invoice data don't need to be entered manually in the system anymore), as well as the scope for error and fraud.

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

Table 9
Performance indicators of operational targets for the Provision of the Accounting Services

Result formulation	Performance indicator	Numerical values of the performance indicator in 2021	
		Planned	Implemented
1. Accounting service to central government budget institutions provided.	1.1 Central government budget institutions receiving the accounting service provided by the Treasury (number) ³⁰ .	11	12
2. The Treasury's customer expectations have been identified, and the provided services have been improved accordingly.	2.1. Satisfaction with the quality of the accounting and bookkeeping service received is not lower than the determined numeric value (%) ³¹ .	70	The customer survey will be carried out in 2022
3. Unified use of information systems' self-service portal modules.	3.1. Usability of information systems self-service portal modules (% of total number of modules attributable to the institution).	89	90

³⁰ Numerical value of the performance indicator may be specified according to the decisions taken on the further development of the service.²⁸ Numerical value of the performance indicator may be specified according to the decisions taken on the further development of the service.

³¹ In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

6. Governance of the Institution

6.1. Funding of the Treasury and the Spending Thereof

In 2021, resources for covering expenditure in the budget of the Treasury were comprised of a grant from the general revenue.

In 2021, the Treasury (within the institutional sector of the Ministry of Finance) implemented the following basic budget programmes and sub-programmes

- 1) Programme 31.00.00 “Central Government Budget Implementation and Central Government Debt Management”:
 - 31.1.0 Sub-Programme “Budget Implementation”;
 - 31.2.0 Sub-Programme “Central Government Debt Management”;
- 2) Sub-Programme 41.03.00 “Contributions to International Organisations”;
- 3) Programme 42.00.00 “State Budget Loans and the Repayment Thereof”;
- 4) Sub-Programme 63.20.00 “Technical Assistance for the Absorption of the European Social Fund (ESF) (2014–2020)”;
- 5) Sub-Programme 71.05.00 “Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism”;
- 6) Programme 99.00.00 “Use of Funds for Unforeseen Events”;
- 7) Programme 01.00.00 “Grant for the Local Government Financial Equalisation Fund”.

The objective of the Sub-Programme “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 the 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 state loans in the form of a state 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 Social Fund (ESF) (2014–2020)” is to ensure funding for the implementation of the project financed by the ESF. The objective of the project is to build the capacity of the Treasury, in order to ensure the quality and efficient performance of the functions of the Certifying Authority of the EU Funds, as well as to raise the qualification of the employees of the Certifying Authority, by attending training, conferences, seminars and other events.

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 funding for the implementation of the project financed by the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism.

Within the scope of the Programme “Use of Funds for Unforeseen Events”, compensation was paid in accordance with Sub-clause 45.2 of Cabinet Regulation No. 421 of 17 July 2018 “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.

The Treasury, within the scope of budget unit 64, fulfils the Ministry of Finance Programme 01.00.00 “Grant to the Local Government Financial Equalisation Fund”, in order to ensure financial resources for the Local Government Financial Equalisation Fund, thus fulfilling 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 governments for the persons institutionalised in social care institutions – orphanages, retirement homes and centres – by 1 January 1998.

6. Governance of the Institution

Table 10.
Central Government Basic Budget Financing and the Spending Thereof
(summary by all programmes, EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	423 123 187	871 061 890	440 519 705
1.1.	Grant from the general revenue	423 123 187	871 061 890	440 519 705
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	422 296 959	439 012 459	437 475 988
2.1.	Maintenance costs (total)	421 225 061	437 443 171	435 916 500
2.1.1.	Running costs	10 055 422	11 701 631	11 154 109
2.1.2.	Interest expense	224 861 022	221 291 693	220 402 527
2.1.3.	Subsidies, grants and social benefits	118 645	104 058	104 057
2.1.4.	Regular payments into the European Community budget and international cooperation	98 275	107 450	97 790
2.1.5.	Maintenance cost transfers	186 091 697	204 345 789	204 255 807
2.2.	Expenditure for capital investments	1 071 898	1 461 838	1 461 838
3.	Financial balance	826 228	432 049 431	3 043 717
4.	Financing	-826 228	-432 049 431	-3 043 717
4.2.	Shares and other holdings in the equity of economic operators	-2 441 741	-432 049 431	-3 043 717

6. Governance of the Institution

Table 11.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Programme “Central Government Budget
Implementation and Central Government Debt Management” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	235 788 196	234 246 733	232 816 955
1.1.	Grant from the general revenue	235 788 196	234 246 733	232 816 955
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	235 788 196	234 246 733	232 816 954
2.1.	Maintenance costs (total)	234 716 298	232 784 895	231 355 116
2.1.1.	Running costs	9 855 276	11 493 202	10 952 589
2.1.2.	Interest expense	224 861 022	221 291 693	220 402 527
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	1 071 898	1 461 838	1 461 838
3.	Financial balance	0	0	0
4.	Financing	0	0	0

6. Governance of the Institution

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	8 226 844	9 826 545	9 622 101
1.1.	Grant from the general revenue	8 226 844	9 826 545	9 622 101
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	8 226 844	9 826 545	9 622 100
2.1.	Maintenance costs (total)	7 154 946	8 364 707	8 160 262
2.1.1.	Running costs	7 154 946	8 364 707	8 160 262
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	1 071 898	1 461 838	1 461 838
3.	Financial balance	0	0	0
4.	Financing	0	0	0

6. Governance of the Institution

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	227 561 352	224 420 188	223 194 854
1.1.	Grant from the general revenue	227 561 352	224 420 188	223 194 854
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	227 561 352	224 420 188	223 194 854
2.1.	Maintenance costs (total)	227 561 352	224 420 188	223 194 854
2.1.1.	Running costs	2 700 330	3 128 495	2 792 327
2.1.2.	Interest expense	224 861 022	221 291 693	220 402 527
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

6. Governance of the Institution

Table 14.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Sub-Programme "Contributions to International
Organisations" (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	2 540 016	432 156 881	3 141 507
1.1.	Grant from the general revenue	2 540 016	432 156 881	3 141 507
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	98 275	107 450	97 790
2.1.	Maintenance costs (total)	0	0	0
2.1.1.	Running costs	0	0	0
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	98 275	107 450	97 790
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0
3.	Financial balance	2 441 741	432 049 431	3 043 717
4.	Financing	-2 441 741	-432 049 431	-3 043 717
4.1.	Shares and other holdings in the equity of economic operators	-2 441 741	-432 049 431	-3 043 717

6. Governance of the Institution

Table 15.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Programme “Grants for the Local Government
Finance Equalisation Fund” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	184 476 184	204 345 789	204 255 807
1.1.	Grant from the general revenue	184 476 184	204 345 789	204 255 807
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	184 476 184	204 345 789	204 255 807
2.1.	Maintenance costs (total)	184 476 184	204 345 789	204 255 807
2.1.1.	Running costs	0	0	0
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	184 476 184	204 345 789	204 255 807
2.2.	Expenditure for capital investments	0	0	0

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Table 16.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Sub-Programme
“Technical Assistance for the Absorption of the European Social Fund
(ESF) (2014-2020)” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	171 156	179 300	172 389
1.1.	Grant from the general revenue	171 156	179 300	172 389
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	171 156	179 300	172 390
2.1.	Maintenance costs (total)	171 156	179 300	172 390
2.1.1.	Running costs	171 156	179 300	172 390
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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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 Economic
Area and the Norwegian Financial Mechanism” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	28 990	29 129	29 129
1.1.	Grant from the general revenue	28 990	29 129	28 990
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	28 990	29 129	28 990
2.1.	Maintenance costs (total)	28 990	29 129	29 130
2.1.1.	Running costs	28 990	29 129	29 130
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

Activities of the Treasury in 2021

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Table 18.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Programme “Use of Funds for Unforeseen Events”
(EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	118 645	104 058	104 057
1.1.	Grant from the general revenue	118 645	104 058	104 057
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	118 645	104 058	104 057
2.1.	Maintenance costs (total)	118 645	104 058	104 057
2.1.1.	Running costs	0	0	0
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	118 645	104 058	104 057
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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 and Section 10 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 2021, the Treasury undertook eight 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 1 147 674, excluding VAT.

Activities of the Treasury in 2021

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6.2. Personnel and Personnel Management

The Treasury is characterised by experienced, knowledgeable, motivated, growth- and development-orientated employees and a belonging-based organisational structure. By using modern personnel selection methods, facilitating the professional growth of the employees and investing resources in improvement of the employees' digital skills, a working environment was created for the professional fulfilment of the Treasury's functions and tasks and achieving its strategic aims. A sustained organisational culture is created by the feeling of belonging, uniform understanding of values and basic ethics principles, as well as cooperation. During the circumstances of remote work, in order to facilitate involvement, awareness and mutually supportive cooperation among the employees, the internal communication strategic approach was revised by planning and organising activities that involve and bring the employees closer.

At the beginning of 2021, there were 214 official positions in the Treasury, while at the end of the year – also 214 official positions. In 2021, the average number of employees, including civil servants and employees on a long-term leave of absence, comprised 197, incl. 154 civil servants and 43 employees (see the breakdown of the Treasury personnel by age and gender groups in Figures 19 and 20).

Figure 19.
Breakdown of the Treasury personnel by gender (2017–2021) (%)

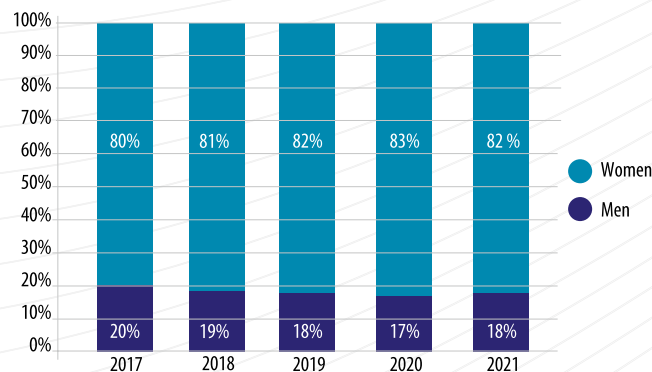
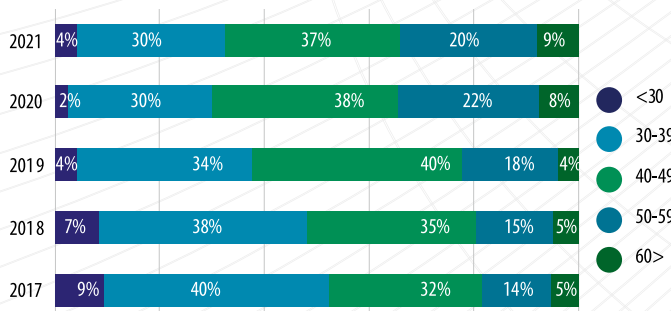
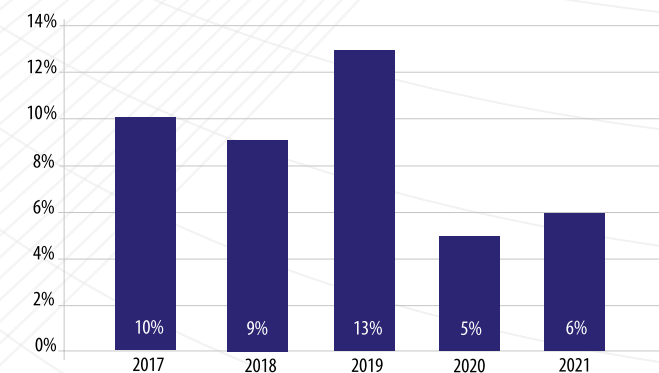


Figure 20.
Breakdown of the Treasury personnel by age (2017–2021) (%)



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 to the employees' loyalty to the Treasury as a workplace. In 2021, the percentage of the dismissed personnel was 6% of those actually working (see Figure 21). There are still difficulties present in keeping and attracting highly skilled specialists for work in the Treasury, especially in the fields of financial management and information technologies, due to non-competitive remuneration in public administration. The Treasury places considerable focus on promoting the professional development of the employees, 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.

Figure 21.
Percentage of the dismissed personnel of the actually working employees (2016–2020) (%)



The greatest asset of the Treasury is its highly educated and professional personnel – 99% of those employed have higher education. In order to attract 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 is 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.

In organising the education process, the Treasury continues to look for the best solutions for improving the professional development and competences of the employed by organising training, which is tailored to the Treasury's needs, for both managers and larger groups of the employed, as well as through providing individual study options.

Activities of the Treasury in 2021

6. Governance of the Institution

6.3. Quality, Risk and Information Security Management

Since 2006, the Treasury's quality management system has been certified in accordance with the requirements of the international standard ISO 9001 "Quality Management Systems. Requirements" requirements. Over the years, the Treasury has introduced and efficiently maintained process management and monitoring, planning and reaching of goals, monitoring of external and internal factor influences, risk management, organised communication processes, identification of stakeholders and inclusion of their requirements in the institution's processes of operation, as well as employee professionalism, engagement and awareness of management decisions.

Risk management is an essential part of the Treasury's management processes, which facilitates the achievement of the Treasury's objectives and the efficient management of processes and projects. Risk management in the Treasury is directed towards the identification of risks and the reduction thereof to an acceptable level, the use of potential opportunities and the facilitating of conformity with good management principles.

In order to ensure that the services provided by the Treasury are of high quality and secure, by giving special attention to the operational stability and reliability of information processing systems, information security management is one of the Treasury's constant priorities.

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

In February 2022, the monitoring audit of the integrated management system of the Treasury has been performed successfully. The auditors of SIA BM Certification recognised that the Treasury successfully maintains and enhances the governance of the institution, monitors the impact of external and internal factors, manages the risks, and carries out internal audits. The auditors specifically emphasised the measures taken by the Treasury to

successfully ensure the fulfilment of tasks and functions remotely, by appreciating the use of the LEAN method in the improvement of the effectiveness of the processes, project management practice and support tools for project planning and control of the execution thereof, as well as the structural reform change management and internal communication while working remotely.

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 Certifying Authority of EU funds and foreign financial aid, and the accounting and bookkeeping service.

By continuing to improve the management of project and development measures, incl. resource planning, record-keeping of the time spent and execution reports, the Treasury continues to use the *Redmine* tool and prepares execution reports in the *Power BI* tool, and thus, information structured in various dimensions is available to the management.

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. In the provision of financial services it is important to receive and analyse information on customers and counterparties, their activity and implemented transactions while identifying and managing the risks related to financial crime. The Treasury controls the provided financial services provided and improves the institution's internal control system in the field of international and national sanctions and AML/CFTP, and it also carries out monitoring of the liabilities and transactions of the customers and partners.

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 2021, as well as the process of implementation of audit recommendations, attested to the fact that the Treasury's internal control system is functioning and the assessed controls are generally adequate, sufficient and efficient, providing sufficient 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 2021

6. Governance of the Institution

6.5. Public Communication

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

Considering the functions delegated to the Treasury, its communication focuses primarily on rendering inter-institutional services, informing of customers and other stakeholders³², 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 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.

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 an 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 customers and stakeholders, and, if necessary, prepare more in-depth information to be posted on the website and distributed to the customers and stakeholders, 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 in promoting awareness of the competences of the Treasury, the Treasury also communicates through its profile on the social networks *Facebook*, *LinkedIn* and *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.

Performance Indicators of the Governance of the Institution as Defined in the Operational Strategy of the Treasury

Table 19

Performance Indicators of the Governance of the Institution

Result	Performance indicator	Numerical values of the performance indicator in 2021	
		Planned	Implemented
1. Innovative, involved and result-orientated employee.	1.1. Employee engagement indicator (% of the number of employees).	80	84
2. Improved knowledge of employees in the field of digitisation.	2.1. Attended training, exchange of experience and other events (% of the number of employees).	75	90
3. Employee motivating work environment has been created.	3.1. Employee satisfaction with the work environment (% of the number of employees).	80	92
4. Compliance of the integrated management system with the requirements of ISO 9001 and ISO 27001 standards.	4.1. Number of discrepancies in certification and supervisory audits.	0	0
5. Customer-orientated services, decreased administrative burden, quality e-management solutions (ensured transition to e-invoicing in public administration).	5.1. Number of e-invoices submitted and executed by suppliers to the Treasury (% of submitted invoices).	50	7 ³³
6. Customers of the Treasury are provided with easy-to-use and secure information technology solutions.	6.1. Availability of information systems used by the Treasury's customers during working hours is not less than 98% (% of working hours).	98	99.7
7. The activity of the Treasury has become more efficient.	7.1. The processes of the Treasury have been revised and optimised using efficiency methods (number of processes).	5	8
8. Improved internal control system of the institution.	8.1. Compliance of the activity of the Treasury with the requirements of the Sanctions Law (%).	100	100

³² 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.

³³ Upon the implementation of e-invoicing, the Treasury concluded that no other institutions have implemented such a solution. Therefore, during implementation, even cooperation parties had to deal with various legal and technical matters; as a result, integration was created much later than originally planned. After carrying out the integration of the e-invoice management solution, it was established that regular suppliers of the Treasury are not yet ready to submit invoices in the form of e-invoices. It is expected that several suppliers will start the circulation of e-invoices in 2022. Thus, although the solution has been implemented, the planned performance indicator (20%) has not yet been reached due to reasons beyond the control of the Treasury.



The Treasury's Development Priorities for 2022

- 1) Development of a Medium-Term Operational Strategy of the Treasury.
- 2) Development of a long-term model of the working environment and premises of the Treasury.
- 3) Development of a sustainable thinking policy.
- 4) Digitalisation of the central government debt, cash management and financial risk processes.
- 5) Further transition to innovative and efficient services by automating the processes and using modern technologies and digital transformation possibilities.

2021

The Treasury Public Report for 2021