THE TREASURY

OF THE REPUBLIC OF LATVIA

The Treasury of the Republic of Latvia
Public Report for 2008

Abbreviations used in the Report

CDS	Credit Default Swap
CSB	Central Statistical Bureau
EAGGF	European Agricultural Guidance and Guarantee Fund
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECDB	Council of European Development Bank
EIB	European Investment Bank
eKase	Electronic settlement system of the government budget
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUR	Euro, the official currency of the European Union
EUROSTAT	European Union Statistical Bureau
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISIN	International Securities Identification Number
JSC	Joint Stock Company
LVL	Lat, the national currency of the Republic of Latvia
NIB	Nordic Investment Bank
Phare	The main instrument of financial and technical collaboration of the European Union with the Central and Eastern European countries
POS terminal	Electronic device that automatically reads data from a magnetic strip or smart card sends a request for authorisation to the transaction-processing centre, receives an authorisation reply, and stores the data of transactions
PPP	Public-Private Partnership
SAP	Government budget planning and execution information system
SAPARD	European Union pre-accession financial instrument, provided as a Special Action Programme for Agriculture and Rural Development in Central and Eastern European countries
SRS	State Revenue Service
SSIA	State Social Insurance Agency
Strategy	Operational Strategy of the Treasury for 2007-2009 (updated for 2008-2010)
TARGET 2	Trans-European Automated Real-time Gross settlement Express Transfer System

The Treasurer's Statement

In 2008, the Treasury marked its 90th anniversary: this anniversary year encouraged us to look back at the historical development of the institution and thoroughly examine, identify and summarize the archived values of the Treasury, which we have also outlined in this report.

However, this year will go down in history as one that shocked the world, Europe and our own national financial systems and, as a result, the work, plans and daily operations of the Treasury: Bankruptcies of large and internationally significant financial institutions in the United States, which instantly affected the financial markets and economy of European countries, caused a general crisis in confidence and an inaccessibility of financial resources. Latvia fell among the countries whose rapid economic growth was replaced by economic downturn. This huge avalanche, dragging the Treasury along with it, has, I'm not afraid to say – even at the centre of it all – faced us with a major challenge.

On 29 February 2008, the Treasury successfully issued Eurobonds amounting to EUR 400 million, thereby ensuring the resources required to refinance the central government debt and cover the central government budget deficit in 2008. In order to continue using European Union funds to co-finance projects facilitating Latvia's economic development, a loan was received from the European Investment Bank on 30 October 2008. Thus, the Treasury was able to successfully implement the Latvian Central Government Debt Management Strategy by October of 2008, which was approved by the Minister of Finance.

In 2008, the Treasury significantly increased the initial placement amounts in government domestic securities auctions, as well as continued to organize security auctions with various maturities, thereby ensuring the opportunity for market participants to select preferred investment terms. Additionally for the first time, the initial placement direct sale method of government securities was implemented and domestic bills in euro currency were issued.

Downturn trends of Latvia's economy had a significant effect on the actual central government budget execution in 2008, indicating financial risks increased under the influence of macroeconomic processes that determined the necessity to make amendments to the annual State Budget Law, decreasing the initially planned central government budget surplus of 1% of the GDP to 0.05% of the GDP. The significant decrease of economic development rates and the rapid decrease of central government budget revenue in the last quarter of 2008 resulted in the government immediately developing various measures to decrease the central government budget expenditure at the end of the year to limit the central government budget financial deficit amount in 2008. Simultaneously, the government made amendments to the budget for 2009 by decreasing expenditures and trying to increase revenue. The government made radical changes to the tax system by increasing the Value Added Tax, slightly decreasing personal income tax, and decreasing the expenditure and employee's wages of the state, local government and their respective institutions. Latvia's second largest bank, JSC Parex Banka, faced problems in ensuring liquidity and, on 8 November 2008, the government made a decision to take the bank under governmental control, to stabilize the situation, which, in turn, significantly decreased the liquidity reserve position of the Treasury.

Latvia commenced official negotiations with the European Commission, International Monetary Fund, World Bank, European Bank for Reconstruction and Development and several European Union Member States regarding the support necessary for Latvia to stabilize its macroeconomic and financial situation. In order to receive a loan from international financial institutions, the Economic Stabilization and Growth Recovery Programme of Latvia was elaborated and approved by the government and Saeima (the Latvian Parliament) EUR 7.5 billion (LVL 5.27 billion) of financial aid is planned for Latvia. The loan is planned to ensure the liquidity of the Treasury and to provide execution of the central government budget for 2009 in the first quarter, to refinance short-term central government debt into long-term debt under more favourable conditions, thereby releasing credit resources available on the financial market.

However, despite these challenges, we have performed our work successfully. Government and financial experts, as well as external supervisory audits, acknowledged that high-level professionals work in the Treasury and the Treasury operates as a united mechanism.

By improving and developing the quality of client service, as well as by continuing the modernization of the services rendered by the state administration, the Treasury ensured implementation of a new policy initiative in 2008 – payment cards, that collect payments and charges for services rendered by government budget institutions into the central government budget – and developed a secure online data exchange system as an alternative to the electronic government budget settlement system *eKase*. The payment data information exchange made using this system reduces the number of human resources involved and ensures the possibility for further automatic data processing. In order to ensure online exchange of information with Treasury clients, a new project was commenced in 2008 that will ensure a uniform central government and local government budget reporting system and statistical report system to the budget institution level.

In this period of challenges, where each day may bring adjustments to established plans, as well as drawing on our historic achievements, we have also implemented new measures to improve and develop the operation of the Treasury: we will ensure the possibility to use payment cards when collecting payments and charges for services rendered by budget institutions, elaborate the Resource Management Plan, taking into consideration conditions of the financial aid granted by international financial institutions for Latvia's economic stabilization and growth recovery, improve the process of government guarantees' planning and budget loan issuance, and ensure the performance of functions set forth for the Treasury as a Latvian-Swiss Cooperation Programme paying authority. In addition, we plan to recertify all of the institution's quality management system in accordance with the requirements of the new ISO 9001:2008 standard.

Kaspars Āboliņš
The Treasurer

Riga, 25 February 2009

Retrospective of the Treasury's Establishment History

The beginning of the Treasury can be tracked to 19 November 1918, when the Ministry of Finance was formed, as well as its four departments; one of which was the Treasury Department. The Treasury began its actual work on 18 December 1918. On 1 January 1919, the Treasury was forced to cease its activities and relocate to Kurzeme. After a brief residence in Jelgava, it continued to work in Liepāja until 16 April 1919 and returned to Riga with the Provisional Government in early July.

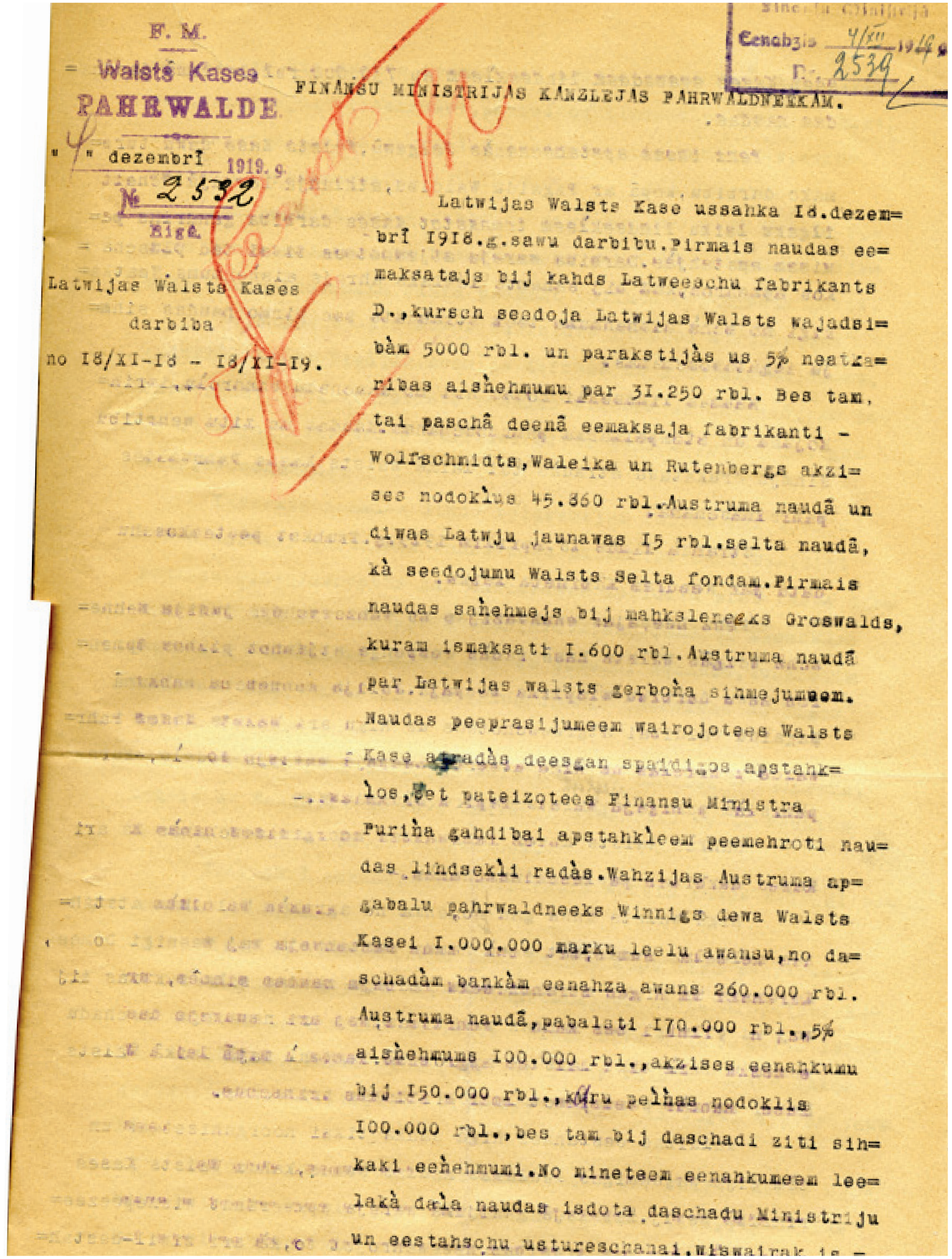
"The Decree on the Treasury Structure" was passed on 25 March 1919, which stated that the task of the Treasury was to manage cash and other assets for state needs.

On 1 April 1922, the Treasury Department was dissolved and its functions transferred to the State Savings and Credit Bank, the assets and liabilities of which formed the basis of the Bank of Latvia on 1 November 1922.

The State Accounting and State Budget Section of the Treasury Department was formed on 1 December 1922 under the Ministry of Finance Credit Department.

On 1 February 1927, the Ministry of Finance Credit Department was dissolved and its functions transferred to the Department of State Economy. The State Accountancy and the Treasury were supervised by the State Budget Section of this department.

From 1927 until 1928 the budget treasury functions were


F. M.
Walsts Kases
PAHRWALDE
"4" dezembrī 1919. g.
№ 2532
Rīgā.

Cenabzis 4/XII 1919 g.
D. 2539

FINANSU MINISTRIJAS KANZLEJAS PAHRWALDNEEKAM.

Latwijas Walsta Kases
darbiba
no 18/XI-18 – 18/XI-19.

Latwijas Walsts Kase ussahka 18.dezem=
brī 1918.g.sawu darbibu.Pirmais naudas ee=
maksatajs bij kahds Latweeschu fabrikants
D.,kursch seedoja Latwijas Walsts wajadsi=
bàm 5000 rbl. un parakstijàs us 5% neatka=
ribas aishehmumu par 31.250 rbl. Bes tam,
tai paschâ deenâ eemaksaja fabrikanti –
Wolfschmidts,Waleika un Rutenbergs akzi=
ses nodoklus 45.360 rbl.Austruma naudâ un
diwas Latwju jaunawas 15 rbl.selta naudâ,
kà seedojumu Walsts Selta fondam.Pirmais
naudas sahehmejs bij mahksleneeks Groswalds,
kuram ismaksati 1.600 rbl.Austruma naudâ
par Latwijas walsts gerboha sihmejumeem.
Naudas peeprasijumeem wairojotees Walsts
Kase atradàs deesgan spaidigos apstahk=
los,bet pateizotees Finansu Ministra
Puriha gandibai apstahkleem peemehroti nau=
das lihdsekli radàs.Wahzijas Austruma ap=
gabalu pahrwaldneeks Winnigs dewa Walsts
Kasei 1.000.000 marku leelu awansu,no da=
schadàm bankàm eenahza awans 260.000 rbl.
Austruma naudâ,pabalsti 170.000 rbl.,5%
aishehmums 100.000 rbl.,akzises eenahkumu
bij 150.000 rbl.,kuru pelhas nodoklis
100.000 rbl.,bes tam bij daschadi ziti sih=
kaki eehehmumi.No mineteem eenahkumeem lee=
lakà dala naudas isdota daschadu Ministriju
un eestahschu ustureschanai.Wiswairak is –

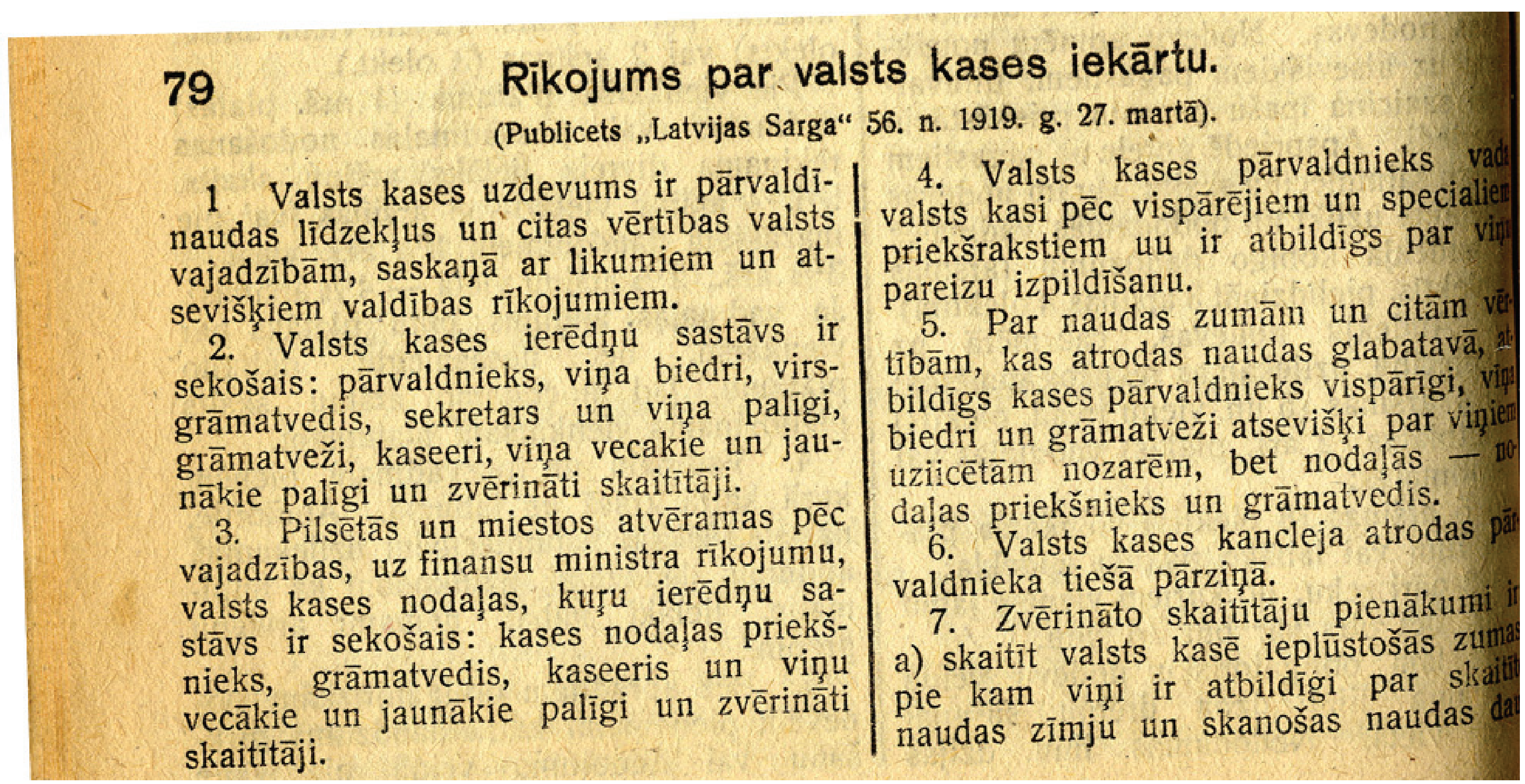
carried out by banks and, from 1928 until 1992, by the Central bank. The development of the modern-day Treasury is marked by the technical assistance mission of the IMF, which in 1992 proposed to form the Treasury as an independent entity and the Ministry of Finance, together with technical assistance missions of the IMF, prepared the Treasury formation project. The then Council of Ministers of the Republic of Latvia made a decision (28 December 1992, No. 557) "On the Transfer of Treasury Function to the Ministry of Finance", and stipulated a gradual transfer of state budget treasury functions from the Bank of Latvia to ensure accumulation of budget resources for the financing of budget spending, as well as complete accounting of state budget resources. From 1997, the Treasury has been an independent, directly administered subordinate entity of the Ministry of Finance.

In the IMF survey conducted in 2000 on treasury systems established in the former USSR republics, the Treasury of the Republic of Latvia was acknowledged as the most developed and best functioning system in the post-Soviet Union environment under new economic conditions during a 10-year development stage.

Latvia was an independent country from 18 November 1918, when a Provisional Government was established, along with the proclamation of Latvia's independence. The ministers of this provincial government, including the Minister of Finance, started forming the state executive power, despite the complicated domestic and foreign policy situation.[1]

The Organisation of the Ministry of Finance started immediately after the proclamation of the Republic of Latvia and the establishment of the Provisional Government, when the first officials were hired in the central apparatus, established Treasury divisions, and tax administration institutions. This work had to be suspended at the end of 1918 when the Latvian War of Independence started. The further formation of the Ministry of Finance was renewed in July 1919 when the Provisional Government of the Republic of Latvia returned to Riga.[2]

By the order of the Provisional Government of the Republic of Latvia on 18 December 1918, the Treasury was established under the supervision of the Ministry of Finance, which started its work in Vecrīga (Old Town) at Lielā Pils iela 12. At the end of 1918 several individuals and Latvian credit institutions made the first contributions and loans necessary to the expenditures



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Rīkojums par valsts kases iekārtu.

(Publicets „Latvijas Sarga" 56. n. 1919. g. 27. martā).

1 Valsts kases uzdevums ir pārvaldī-
naudas līdzekļus un citas vērtības valsts
vajadzībām, saskaņā ar likumiem un at-
sevišķiem valdības rīkojumiem.

2. Valsts kases ierēdņu sastāvs ir
sekošais: pārvaldnieks, viņa biedri, virs-
grāmatvedis, sekretars un viņa palīgi,
grāmatveži, kaseeri, viņa vecakie un jau-
nākie palīgi un zvērināti skaitītāji.

3. Pilsētās un miestos atvēramas pēc
vajadzības, uz finansu ministra rīkojumu,
valsts kases nodaļas, kuŗu ierēdņu sa-
stāvs ir sekošais: kases nodaļas priekš-
nieks, grāmatvedis, kaseeris un viņu
vecākie un jaunākie palīgi un zvērināti
skaitītāji.

4. Valsts kases pārvaldnieks vad
valsts kasi pēc vispārējiem un specialiem
priekšrakstiem uu ir atbildīgs par viņ
pareizu izpildīšanu.

5. Par naudas zumām un citām vēr-
tībām, kas atrodas naudas glabatavā, at-
bildīgs kases pārvaldnieks vispārīgi, viņa
biedri un grāmatveži atsevišķi par viņiem
uziicētām nozarēm, bet nodaļās — no-
daļas priekšnieks un grāmatvedis.

6. Valsts kases kancleja atrodas pār-
valdnieka tiešā pārziņā.

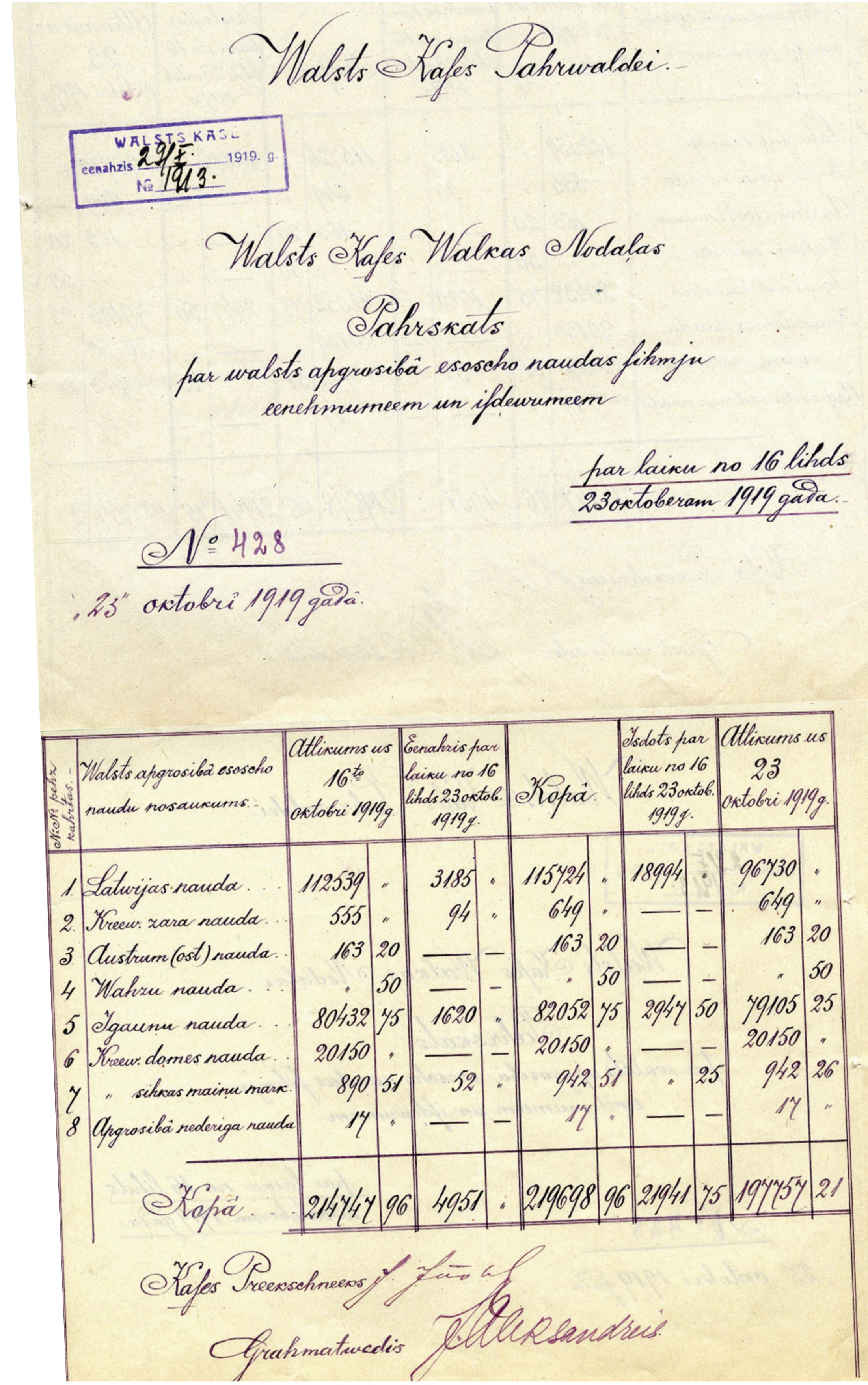
7. Zvērināto skaitītāju pienākumi ir
a) skaitīt valsts kasē ieplūstošās zumas
pie kam viņi ir atbildīgi par skaitī
naudas zīmju un skanošas naudas da

1 Urtāns Aigars. Manuscript: Latvia's Finances and History of the Ministry of Finance, 2008
2 The same.

of the new State. Later, the Treasury supervised the entire government revenue and expenditure flow as determined by the 25 March 1919 government decree on the State Treasury Structure.[3]

Each structural unit of the Ministry of Finance managed its own financial sector. At the end of 1918, in 1919 and 1920, the national financial system in Latvia was organized without the central government budget and, after adopting the State Budget Law in 1921 under the composition of the Credit Department, the State Budget Division and the Uniform Accounting Division were established. The Treasury Department managed the central Treasury in Riga, which since the summer of 1919 was located in a rented building at Aleksandra iela (now Brīvības iela) 64/66 and had separate units all throughout Latvia. As of 1 September 1920, there were 335 employees in the Treasury and its units.[4]

On 1 April 1919, the government of Latvia passed a resolution on the establishment of the Latvian State Savings Bank, which was permitted to accept an unlimited amount of deposits. This savings bank started its work in July - August of the same year, when several savings bank divisions were opened at several Treasury units in Latvian cities. These units were granted the right to perform all banking operations on 30 June 1921. From 18 August 1921, it was re-organized as the State Savings and Credit Bank, which as of 23 February 1922 also performed the functions of the Treasury. When balance was achieved in the central government budget and the printing of paper money was suspended due to the development of the economy, the need for stable current assets increased, in turn creating a necessity to establish a state emission institution. On 19 September 1922, the Cabinet of Ministers passed a resolution regarding the establishment of an independent state emission bank – the Bank of Latvia. The Bank of Latvia took over the assets and liabilities of the liquidated State Savings and Credit Bank, in addition to performing all functions of the Treasury. This nationally important reorganisation was carried



Walsts Kases Pahrwaldei.

WALSTS KASE
eenahzis 29/X 1919. g.
№ 1913.

Walsts Kases Walkas Nodaļas
Pahrskats
par walsts apgrosibâ esoscho naudas sihmju
eenehmumeem un isdewumeem
par laiku no 16 lihds
23 oktoberam 1919 gada.

№ 428

„25" oktobri 1919 gadâ.

№ № pehz kahrtas	Walsts apgrosibâ esoscho naudu nosaukums	Atlikums us 16^to oktobri 1919 g.		Eenahzis par laiku no 16 lihds 23 oktob. 1919 g.		Kopâ		Isdots par laiku no 16 lihds 23 oktob. 1919 g.		Atlikums us 23 oktobri 1919 g.	
1	Latwijas nauda	112539	"	3185	"	115724	"	18994	"	96730	"
2	Kreew. zara nauda	555	"	94	"	649	"	—	—	649	"
3	Austrum (ost) nauda	163	20	—	—	163	20	—	—	163	20
4	Wahzu nauda	"	50	—	—	"	50	—	—	"	50
5	Igaunu nauda	80432	75	1620	"	82052	75	2947	50	79105	25
6	Kreew. domes nauda	20150	"	—	—	20150	"	—	—	20150	"
7	" sihkas mainu mark.	890	51	52	"	942	51	"	25	942	26
8	Apgrosibâ nederiga nauda	17	"	—	—	17	"	—	—	17	"
	Kopâ	214747	96	4951	"	219698	96	21941	75	197757	21

Kases Preekschneeks
Grahmatwedis

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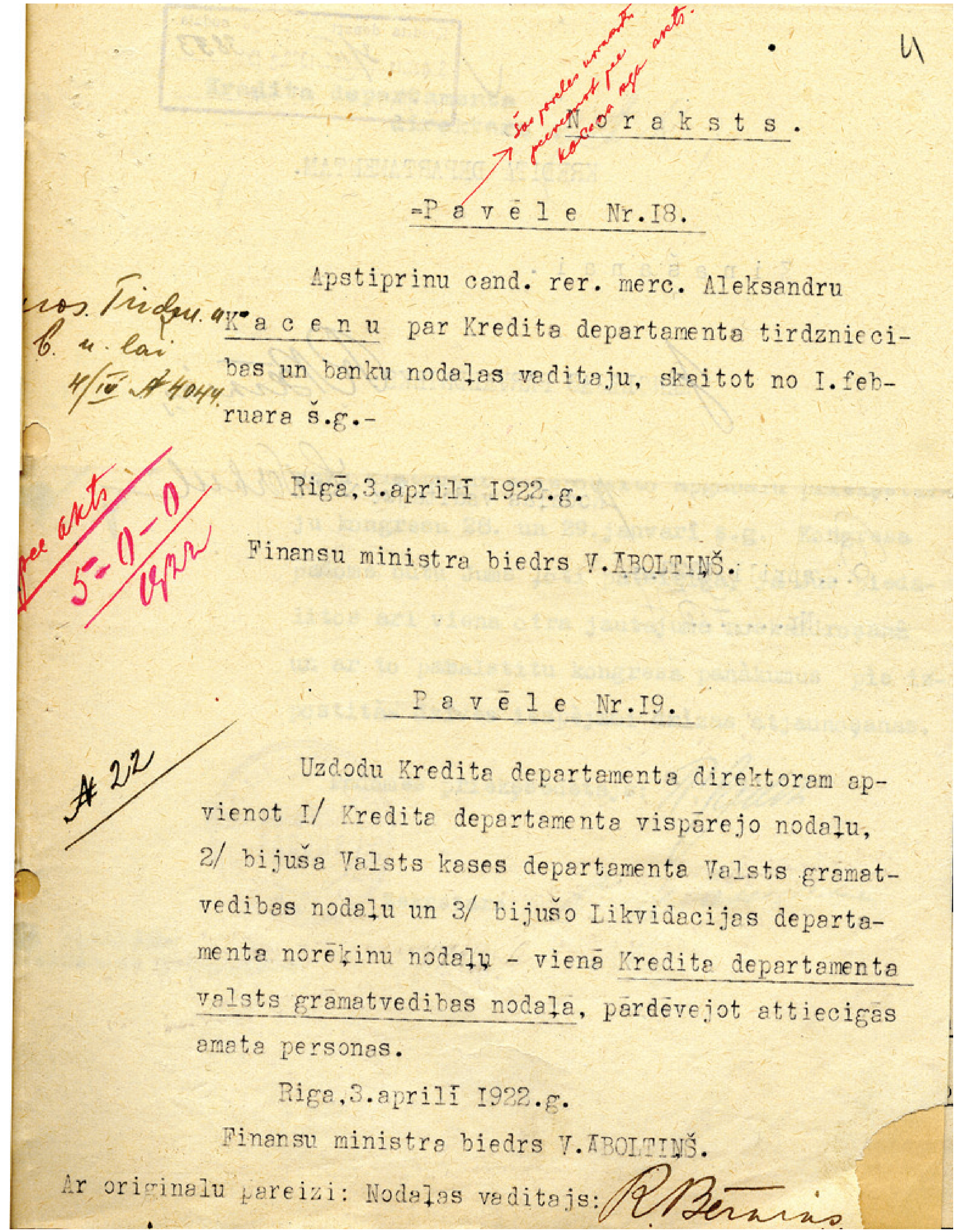
3 Urtāns Aigars. Manuscript: Latvia’s Finances and History of the Ministry of Finance, 2008
4 The same.

out under the management of the Credit Department. The function of the special Credit Department in the 1920s was the management of the central government budget and provision of uniform national accounting. At the end of the 1920s and after several reorganisations of the central apparatus of the Ministry of Finance, the Credit Department was renamed the Department of State Economy, to which the Department of Industry and the State Flax Monopoly Board were incorporated.[5]

In Liepaja on 22 March 1919, the Provisional Government passed a resolution on the State securities printing house. With a loan granted by the government, the State Security Printing House, managed by the Treasury, started printing the first Latvian Treasury notes, duty stamps and other government securities that were to increase Latvia's state revenue. Simultaneously, on 22 March 1919, the Law on Latvia's Treasury Notes, which were secured with all property and revenue of the State, was adopted and the said government decree granted the right to the Ministry of Finance to issue the printed Latvian bills of exchange and Latvia's Treasury notes with the total value of 25 million roubles. The official exchange rate of the Latvian rouble and the newly printed bank notes as legal tender in Latvia was stipulated by law.[6]

The right to issue currency in the Republic of Latvia was granted to the Ministry of Finance and, after commencing its activity on 1 November 1922, was also granted to the Bank of Latvia. Thus, the Latvian currency system was formed by Latvia's Treasury notes (in denominations of 5, 10 and 20 lats, the total amount



N o r a k s t s .

P a v ē l e Nr.18.

Apstiprinu cand. rer. merc. Aleksandru K a c e n u par Kredita departamenta tirdzniecibas un banku nodaļas vaditaju, skaitot no 1.februara š.g.-

Rigā,3.aprilī 1922.g.

Finansu ministra biedrs V.ABOLTIŅŠ.

P a v ē l e Nr.19.

Uzdodu Kredita departamenta direktoram apvienot 1/ Kredita departamenta vispārejo nodaļu, 2/ bijuša Valsts kases departamenta Valsts gramatvedibas nodaļu un 3/ bijušo Likvidacijas departamenta norēķinu nodaļu - vienā Kredita departamenta valsts grāmatvedibas nodaļa, pārdevejot attiecigās amata personas.

Rigā,3.aprilī 1922.g.

Finansu ministra biedrs V.ABOLTIŅŠ.

Ar originalu pareizi: Nodaļas vaditajs:

5 Urtāns Aigars. Manuscript: Latvia's Finances and History of the Ministry of Finance, 2008
6 The same.

of which in circulation could not exceed 48 million lats) and coins, as well as Bank of Latvia notes (10, 20, 25, 50, 100 and 500 lats bank notes), which were backed by gold.[7]

During the economic crisis, the Ministry of Finance used its right to issue State Treasury notes and metal coins. Thus, additional money of approximately LVL 12 million was issued. This action resulted in inflation that, in the mid 1930s, caused a change in the exchange rate of lats – devaluation (cancelled the lat's golden standard and pegged lats to British pounds). The devaluation of the lat in 1936 was a forced step, since in the first half of the 1930s, after the economic crisis, there was an unfavourable situation for Latvia in the international market, which the government was unable to influence. As a result, the foreign debt of the government increased.[8]

In the first half of the 1920s, the government's loan repayments from the previous year, both to domestic and foreign creditors, formed a major part of the expenditure in the central government budget. On 1 April 1922, the Credit Department of the Ministry of Finance took over all debt obligations on behalf of the State for liquidated government institutions and continued to repay debts to various creditors. The government's foreign debt to European countries for different aid and loans received in the beginning stage of the existence of the State reached significant amounts – LVL 116.4 million (maximum amount 1921 - 1922); the gradual repayment of these debts started in 1924. There was a favourable situation in repaying the foreign debt during the economic crisis: at the beginning of 1930, the foreign debt of the government was LVL 110 million and, on 1 January 1934, the debt was reduced to LVL 79.12 million. The debt was repaid using the devalued exchange rate of the British pound and US dollar, while the exchange rate of the lat remained the same. By the end of the 1930s, the Latvian government had repaid 5 % of the 1918 state independency loans and 4 % of the domestic government loans from 1920. At the end of the 1930s, the government's foreign debt had also decreased: by 1939 to LVL 123.2 million.[9]

The Constitutional Assembly adopted the first Law on the State Budget on 26 April 1921. It prescribed the budget period, the formation and approval procedure of the State budget, as well as the supervision of the execution thereof. After approving the State budget in Saeima (the Latvian Parliament), the Minister of Finance signed a decree on opening a credit line with the State Savings and Credit Bank, known from 1922 as the Bank of Latvia. By the end of the budget year, the Minister of Finance closed all unused loans and transferred the balance of the Treasury to the State Reserve Fund. In accordance with State budget legislation, independent budget management was set also for parishes, cities and, by 1 October 1935, for district local governments. Pursuant to the Law of 10 February 1931, loans granted to local governments were taken from the State Economic Life Restoration Fund established at the beginning of the 1920s. By the same law, local governments were entitled to increase the set local taxes and public utility charges by 20 %[10].

After the coup d'état of 15 May 1934, the Cabinet of Ministers completely took over all functions related to the State budget. The Minister of Finance and the Ministry of Finance that were familiar with the formation of the State budget and its management had major influence in management of the State budget.[11]

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7 Urtāns Aigars. Manuscript: Latvia's Finances and History of the Ministry of Finance, 2008
8 The same.
9 The same.
10 The same.
11 The same.

Operational Strategy of the Treasury

The Treasury's **main goal** is to develop as a dynamic and modern, client needs-oriented organisation with regard to the quality of its provided services, effectively and safely managing the finances entrusted to the Treasury's management according to the best financial management practices and in compliance with the interests of the Republic of Latvia and its people.

The Strategy sets the main operational principles, their strategic goals and tasks, as well as the budget programmes and sub-programmes with which they comply. Each programme and sub-programme of the budget involves a goal and resulting indicators, which the Treasury plans to achieve by development, making decisions regarding the execution of routine and long-term tasks and involving all Treasury staff in attaining the established objectives.

The Strategy sets the following **main operational directions** of the Treasury, which were executed during 2008 and are further, explained in this report:

1) **Central government budget execution** aimed at economic management of the financial resources of the government budget, identification of the services required by the Treasury's clients, improvement of the quality of the provided services in line with the best international financial management practices and applying modern technologies;

2) **Central government debt management**, ensuring the financial resources required to execute financing of government budget and refinancing of the government debt at the lowest possible costs, hedging financial risks and taking into account the development of Latvia's capital market and financial system, as well as ensuring government financial interests during the process of rendering government-guarantee loans;

3) **Cash management and government budget lending**, ensuring effective and safe cash management, limiting financial risks, ensuring the liquidity required for execution of the government financial commitments on time and in full, as well as performing effective granting and servicing of government budget loans;

4) **Implementation of the Paying and Certifying Authority functions for the EU policy instruments** to ensure compliance with the financial management requirements prescribed by the EU and other allocating institutions, also applying them to the financial management of national financing, in order to ensure universal financial management standards for all finances assigned to the Treasury's management.

To achieve its strategic goals the Treasury observes unified **operational principles of the institution**:

1) Quality and risk management;

2) Personnel management;

3) Ensured, effective operation of internal control system;

4) Application of information technologies and the security of information;

5) Ensured legitimacy and legal order.

The main priorities of the Strategy are:

1) Effective use of human resource capital by promoting the development of all level staff and their involvement in the attainment of the Treasury's objectives;

2) Client-orientation through identification of clients' needs and ensuring the availability of high-quality services utilizing the latest developments in information technologies;

3) Streamlined and timely planning of the Treasury's finances, in order to ensure spending efficiency of the Treasury's finances in compliance with set objectives;

4) Maximum effective use of the benefits provided by modern information processing technologies to ensure the discharge of the Treasury's functions.

Legal status and structure of the Treasury

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

The Treasurer manages the Treasury's operations and is appointed and dismissed from office by the Minister of Finance.

The Treasury has the following **functions**:

1) Organizing the execution and financial accounting of the central government budget;

2) Providing assignations and making payments from central government budget revenue;

3) Central government debt management;

4) Functions of the Paying and Certifying Authority for the EU policy instruments, the Financial instrument of the European Economic Area and the bilateral Financial instrument of the Norwegian government established in laws and regulations and the National Fund functions delegated by the National Authorizing Officer;

5) Other functions prescribed by laws and regulations.

The legal status, functions, tasks, competence, rights and procedure for ensuring legality are stipulated by the Regulations No.677 of the Cabinet of Ministers **"Regulation of the Treasury"** of 3 August 2004 pursuant to the Public Administration Law.

The structure and work organisation of the Treasury is established by the **Regulation of the Treasury.** There were no **structural changes in the Treasury** in 2008. However, based on §40 Clause 2 of Protocol No.29 of the Cabinet of Ministers of 6 May 2008, §31 Clause 16 of Protocol No.45 of 1 July 2008 and §43 Clause 3 of Protocol No.68 of 23 September 2008, the Treasury has liquidated the **Aizkraukle, Dobele, Jūrmala, Krāslava, Ludza and Tukums Treasury units** as of 10 January 2009.

In order to make unified decisions, the following **committees** continued their work in 2008:

Audit Committee – to improve the operation of the Treasury's internal control system, to facilitate the achievement of the Treasury's strategic goals, to protect its resources, and establish and maintain effective control of measures. The Committee reviews the findings and conclusions of internal and external auditors' reports on the Treasury's operations, recommendations included in the reports for operational improvements of the internal control system established in the Treasury, and comments provided by the audited structural units concerning the facts discovered during audits. The Committee is authorized to decide on potential measures for mitigation or prevention of the most significant Treasury's risks.

Central Government Debt Management Committee – to facilitate effective central government debt management, develop proposals for improvement and implement the Latvian Central Government Debt Management Strategy.

Credit Committee – to facilitate credit risk management by coordinating the activities of the Treasury's structural units concerning monitoring of the central government budget loans, guarantees issued on behalf of the government and counterparty limits.

Central Government Budget Accounting Committee – to update implementation of the financial accounting policy of the budget managed by the Treasury and to ensure effective management of accounting policy changes. The task of the Committee is to define the accounting policy and its compliance with accounting standards, establish the accounting policy objectives, improve and update the accounting policy and facilitate compliance with the requirements established by the accounting policy.

Resource Liquidity Commitee – to facilitate the quality of cash management, in order to ensure proper liquidity management and in compliance with the tasks set in the Treasury's Cash Management Strategy.

Euro Changeover Committee – to draft proposals for ensuring the euro changeover in the areas of the Treasury's competence and coordinate the involvement of the Treasury's structural units in implementation of the relevant euro changeover measures.

Management Committee – to ensure effective management of the budget and personnel resources of the Treasury, attain the objectives stated in the Strategy, and implement priority measures and new policy initiatives.

Committee for Management of Information System Changes of the Treasury – to coordinate consideration and implementation of requests of the Treasury's Information System changes.

Quality and Risk Management Committee – to facilitate constant improvement of the Treasury's operations and compliance of its services with the clients' needs, by ensuring effective quality, risk and information safety management.

Flowchart of the Treasury's Structure

TREASURER

- European Affairs Department
- Office
- Legal Department
- Internal Audit Department
- Quality and Risk Management Department
- Personnel Department
- Accounting Department
- Infrastructure Maintenance Department
- Treasury Units Coordination Department

Treasury Units (27)

(Aizkraukle, Alūksne, Balvi, Bauska, Cēsis, Daugavpils, Dobele, Gulbene, Jēkabpils, Jelgava, Jūrmala, Krāslava, Kuldīga, Liepāja, Limbaži, Ludza, Madona, Ogre, Preiļi, Rēzekne, Rīga, Saldus, Talsi, Tukums, Valka, Valmiera, Ventspils)

Deputy to the Treasurer on state budget execution and financial resource management questions

- Financial Resources Department
- Financing Department
- International Cooperation Department
- Financial Risk Management Department
- Forecasting and Financial Planning Department

Deputy to the Treasurer on state budget accounting, reporting, and transaction questions

- Reports Department
- Informatics Department
- Operations Department
- Budget Execution and Monitoring Department

The Treasury's Operation in 2008

1. Central Government Budget Execution

1.1. Characteristic of Central Government Budget Execution function

The Law on Budget and Financial Management has authorised the Treasury as the direct administration institution subordinated to the Ministry of Finance to organise the execution and financial accounting of the central government budget and ensure the granting of allocations and execution of payments made by budget institutions within the limits of the appropriations set in the annual central government budget.

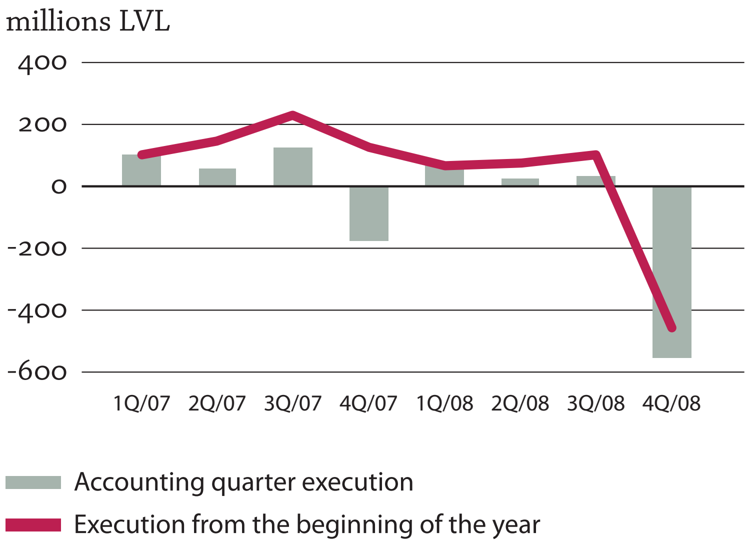
While implementing the government budget, the Treasury maintains the State Budget Implementation System, where budget accounts for budget executors are opened; grant allocations based on financial plans; ensures payments of budget institutions by accepting both paper documents for payment execution as well as accepting instructions online via the *eKase*; keeps records of the budget execution transactions effected by institutions financed from the budget, monitoring their compliance with the annual appropriations from the government budget, and keeps records of government budget revenue as well as provides information concerning the collected taxes and fees to the State Revenue Service.

Ensuring uniform accounting of public finances, the Treasury drafts laws and regulations concerning the accounting in the central and local government budget institutions, thereby setting universal accounting principles, a universal chart of accounts and a reporting system, which is compliant with classifications approved by the Cabinet of Ministers, and yields information on budget execution based on both the cash flow accounting principle and accruals principle. The uniform budget reporting system ensures aggregation of the reports submitted by central and local government budget institutions, and it is used not only by the Treasury, but also by the Ministry of Finance, State Audit Office, Bank of Latvia, Central Statistical Bureau and other public administration institutionsOffice, Bank of Latvia, Central Statistical Bureau and other public administration institutions.

1.2. Trends of Execution of the Central Government Budget for 2008

The development ratios of the Latvian economy in 2008 clearly indicate that a variety of risks have come into effect that will set the level of development of the Latvian economy below its potential, not only in 2009, but also in subsequent years. **Downturn trends of the Latvian economy** had a significant effect on the actual execution ratios of the central government budget in 2008, indicating financial risks increased under the influence of macroeconomic processes, which determined the necessity to make amendments to the annual State Budget Law, decreasing the initially planned central government budget surplus of 1 % of the GDP to 0.05 % of the GDP. However, the **significant decrease of economic development rates and the rapid decrease of central government budget revenue in the last quarter of 2008** resulted in the government immediately developing various measures to decrease the central government budget expenditure at the end of the year to limit the central government budget financial deficit

Chart 1. **Financial Balance of the Central Government Consolidate Budget* in 2008**



* Not including donations and grants. Source: the Treasury

amount in 2008. **The central government consolidated budget revenue** in 2008 amounted to **LVL 4.668 billion**, an **expenditure** of **LVL 5.094 billion**, and a **financial deficit** in 2008 amounting to **LVL 426.2 million**.

1.3. Organizing Central Government Budget Execution for 2008

In order to ensure the execution of the central government budget, the Treasury granted the **funding of LVL 5573.4 million**, including LVL 4267.7 million for the basic budget and LVL 1307.7 million for the special budget in 2008. Funding was granted to **644 budget institutions**, for which a total of **2431 budget accounts were opened**, which is 388 accounts or 13.7 % less than in 2007.

The number of basic budget expenditure accounts decreased by 406 accounts in 2008, compared with 2007, due to:

1) the reorganisation and consolidation of several state administration institutions in 2008, mainly in the areas of welfare (for example, reorganisation of the State Labour Inspectorate), health (for example, reorganisation of the Central Medical Equipment Base of Government Reserves) and justice, including the merging and liquidation of prisons – reorganisation and merging of forest districts continued as well;

2) the development of centralized financial accounting in several state administration institutions, for example, the State Medical Commission for the Assessment of Health Condition and Working Ability did not open separate accounts for regional commissions.

The increase in the number of special budget accounts in 2008 was due to the opening of separate accounts for the accounting of the central government's long-term liabilities.

Table 1. **Number of central government budget income and expenditure accounts of the Treasury in 2007 and 2008**

Basic budget income accounts			Basic budget expenditure accounts			Special budget accounts (except grant and donation accounts)			Grant and donation accounts			Open current accounts					
												For local governments and their institutions			For other budget-funded institutions		
2007	**2008**	%	2007	**2008**	%	2007	**2008**	%	2007	**2008**	%	2007	**2008**	%	2007	**2008**	%
289	**279**	-3.5	2798	**2392**	-14.5	21	**39**	85.7	287	**262**	-8.7	2070	**1901**	-8.2	1291	**1518**	17.6

For the execution of the central government budget in 2008, the Treasury elaborated Regulations No.510 of the Cabinet of Ministers of 7 July 2008 **"Procedure of Suspending, Restoration or Recalling of EU Policy Instruments or Foreign Financial Aid Allocations"**, which regulate the procedure according to which the Treasury suspends the allocation of the EU policy instrument to a recipient for the implementation of a project if reports on project implementation are not submitted in due time. The Treasury also elaborated amendments to **the Regulations No.236 of the Cabinet of Ministers of 10 April 2007 "Procedure of Granting and Execution of Allocations"**. The elaborated amendments to the Regulations specify the procedure according to which the Treasury grants allocations to budget-fund institutions on the basis of the approved financing plans and ensures execution of the allocations.

1.4. Accounting and reporting

In accordance with the delegation of the Law on Budget and Financial Management, the Treasury elaborated several normative acts of the Cabinet of Ministers in 2008, as well as prepared various reports and information for external users.

For the preparation of the said regulatory enactments and prior to elaborating the draft thereof, the Treasury summarized proposals of the institutions that prepare the reports (ministries and local governments) and information users (the State Audit Office, the Bank of Latvia, CSB) on the required amendments, as well as held active consultations with accountants-practitioners working in local governments and ministries on the application of the provisions to be included in the draft Regulations, thus providing information on the expected changes to local governments and ministries to ensure an exchange of information with the Treasury regarding potential problems when applying those provisions and the prevention thereof:

1) Regulations No.999 of the Cabinet of Ministers of 2 December 2008 **"Amendments to Regulations No.749 of the Cabinet of Ministers of 13 November 2007 "Regulations regarding Procedure of Preparation of Annual Reports of the State Budget Institutions and Local Governments Institutions""**, which improves the procedure for preparing and submitting annual reports of local governments and financial analysis possibilities for local governments. Closing provisions were supplemented by determining derogations for completing reports, when preparing the report for 2008 and 2009. The derogations prescribe that the breakdown of transactions by institutional sectors is not to be indicated, since the matter on budget institution status and the development of a uniform register for one institution to be classified only in one sector in the country is not arranged. The regulatory enactment provides for activities regarding submission of annual reports, due to the reorganisation of district local government in 2009, the submission of annual reports of derived public persons partially financed by the central government budget and annual reports of common local governments institutions;

2) Instruction No.3 of the Cabinet of Ministers of 29 January 2008 **"The procedure by which State Budget Institutions Prepare the Budget Execution Report, Cash Flow Statement and Report on Financial Operating Results"**, which was prepared to explain how ministries, central institutions and government budget institutions involved in consolidation complete annual reports on financial operating results, cash flow statements and reports on budget execution. The provided information improves the quality of reports, facilitating the

understanding of users regarding the disclosure of accounting data in reports, the application of revenue, expenditure and financing classifications. The Instruction gives a detailed explanation regarding financial items and provides unified basic principles for completing the report on budget execution, cash flow statement and the report on financial operating results;

3) Regulations No.861 of the Cabinet of Ministers of 21 October 2008 **"Amendments to the 25 April 2006 Cabinet of Ministers Regulations No. 313 "Regulation on the Contents of Local Governments Monthly Reports, Their Preparation and Submission Procedure""**, which was prepared so that monthly reports could be submitted only electronically, thus decreasing the amount of printed information to be submitted. The Regulations also ensure the opportunity for local governments to obtain monthly reports directly from the accounting software using the electronic data exchange file format by importing data to the information system **"Reports of the Central Government Budget and Local Governments Budget"**;

4) Regulations No.362 of the Cabinet of Ministers of 26 May 2008 **"Regulations on the Procedure of Preparation of the Financial Year Report"**, which was prepared to determine the form of financial information to be provided in the accounting year report and the budget execution information, as well as to determine the explanations to be provided on significant changes in the reporting year, ensuring a common understanding to the competent involved institutions of the information obtained from annual reports.

The Treasury prepares **daily, monthly, quarterly and annual reports on central government and local government budget execution**. One of the most important reports is the annual financial year report. In 2008, the **"Annual Report of the Republic of Latvia on the Central Government Budget Execution and Local governments Budgets for 2007"** (3 volumes, 978 pages) was prepared in accordance with the requirements and structure of Article 31 of the Law on Budget and Financial Management, enacted by the Regulations No.362 of the Cabinet of Ministers of 26 May 2008 "Regulations on the Procedure of Preparation of the Financial Year Report". This report is available to external users on the Treasury's website.

At the request of the most significant users of the annual report (EUROSTAT, ECB, international financial institutions, as well as Saeima (the Latvian Parliament), the State Audit Office, the Ministry of Finance, the Bank of Latvia, CSB), **additional information** was prepared and provided **on the execution of the central government and local government budget** during the financial year, quarter and month and **the central government and local government finance statistical information** for the accounting month, quarter and financial year, summarized from the direct data sources.

The Treasury regularly consults government institutions and local governments regarding report preparation and accounting matters, as well as publishes information on its website on methodological issues, current events and services for institutions and local governments.

1.5. Electronic services development

Implementation of Unified Government Budget Planning and Execution Information System

The Treasury continues to implement and extend the **Unified Government Budget Planning and Execution Information System**. Within the framework of this project, a unified financial management system that covers the entire government budget cycle – from budget planning to the execution thereof and supervision of execution – will be developed. The installed equipment ensures the reduction of transaction execution time and increases the amount of services available from the system. After the implementation of the project is complete, the existing system deficiencies will be eliminated, the number of information systems currently used will decrease, and information and system management will be simplified.

In 2008, the budget planning process was implemented together with the Ministry of Finance for institutions under the Ministry of Finance. The financing plan and account processing sub-system is integrated in the system, and the entire budget execution process will be ensured in the unified system in 2009.

Information System "Reports of the Central Government Budget and Local Governments Budget"

As of 2006, those submitting central government budget institution reports may submit monthly, quarterly and annual reports to the Treasury and accept them electronically in the information system **"Reports of the Central Government Budget and Local Governments Budget"**, which is based on the latest technological achievements and uses the on-line mode of the Internet. In order to develop electronic services for the on-line exchange of information with the Treasury clients and to ensure a unified central government and local governments reporting system and statistical reports system, a new project was commenced in 2008 that will continue in 2009 to ensure a unified central government and local governments budget reporting system and statistical reports system up to the level of budget institutions.

Electronic settlement system of the government budget *eKase*

Already for the fifth year, the Treasury has been using ***eKase* (electronic settlement system of the government budget)**, which has been elaborated to provide the Treasury services over the Internet. Via *eKase*, the Treasury grants remote access to services to institutions financed from the budget and local governments, at the same time guaranteeing security and confidentiality of information. Using the *eKase*, the Treasury's clients can:

1) Make payments;

2) Check the results of implementation of the payment instructions;

3) Receive financial information on account position, implementation of the financial plans of the central government budget, statements of account turnover and monthly account summaries.

In 2008, 246 clients signed cooperation agreements to use the *eKase* system and overall 1757 clients with more than 5768 users use *eKase* services. The overall share of the lats flow payments processed through the *eKase* in comparison with the total lats flow was 75%. In comparison with 2007, the volume of payments in 2008 processed via the *eKase* increased by 13%.

Credit cards attached to government accounts

As of 1 January 2007, the Treasury (in collaboration with JSC Swedbank) ensures budget institutions the opportunity to perform budget expenditures with **credit cards attached to the Treasury's accounts**. **Credit cards attached to government accounts** provide budget institutions the opportunity to perform budget expenditures with credit cards. Credit card services are provided for expenditures incurred by staff on business trips and visits, as well as administrative expenses. Employees of government budget institutions can make cashless payments during their business trips, complying with the Law on Budget and Finance Management, which requires that government expenditures are to be made from accounts opened with the Treasury. In 2008, 40 budget institutions signed agreements regarding use of credit card services, and a total of 201 institutions use this service.

Introduction of payment cards by collecting government budget payments and charge for services provided by the budget institutions

Continuing the modernization of services rendered by the State administration, the Treasury started new policy initiatives in 2008: **to ensure the possibility of using payment cards when collecting central government budget payments and charges for the services rendered by government budget institutions**, thereby fulfilling one of the tasks of the Declaration on Activities planned by the Cabinet of Ministers led by the Prime Minister Ivars Godmanis.

The Treasury identified possible solutions, potential types of payments and the use of payment cards for the said payments. After evaluating the possible solutions, the Treasury came to the conclusion that a common payment card acceptance system does not correspond to the central government payment specifications, since a commission fee is not permissible for rendering of the service In addition, the central government budget accounting, compared to the common card transaction processing practice, has to receive detailed data on a payer and ensure the accounting of revenue in accordance with the economic classification.

The above-said consideration caused the necessity to significantly improve the payment card settlement process. That is why the Treasury developed a brand new payment card acceptance solution that: corresponds to the specifications of the central budget fund accounting, in which commission fees are not to be deducted from a transaction at the moment of its execution, provides for detailed information entry on parties involved in the transaction and payment purposes and ensures the accounting of revenue in accounts opened with the Treasury in accordance with the economic classification.

In order to implement the solution elaborated by the Treasury, an open competition “MasterCard and VISA System Payment Card Acceptance and Payment for Transactions Performed by these Cards” was announced on 11 September 2007. In turn, taking into consideration that the only authorized distributor of American Express cards in Latvia is JSC Parex Banka, the Treasury commenced negotiations with JSC Parex Banka. The following agreements were signed after the said procurement procedure:

1) On 31 March 2008, the Treasury and JSC SEB Banka signed an agreement on lending POS terminals and accepting MasterCard and VISA system payment cards and payment for transactions performed by these cards;

2) On 8 May 2008, the Treasury and JSC Parex Banka signed an agreement regarding acceptance of American Express payment cards and payment for transactions performed by these cards.

The Treasury also identified regulatory enactments that require amendments to ensure legal regulations for using payment cards when collecting payments for services rendered by budget institutions, without using cash registers or payment systems and, in collaboration with the SRS, elaborated the Regulations No.866 of the Cabinet of Ministers of 18 December 2007 “Amendments to the Regulations No.282 of the Cabinet of Ministers of 2 May 2007 “Procedure of Using Tax and Other Payment Registration Electronic Devices and Equipment”.

On 20 October 2008, the Treasury successfully commenced the pilot project together with its co-operation partners (JSC SEB Banka, JSC Parex Banka and the State Land Service) for the use of payment cards in the State Land Service Lielrīga Regional Division Jūrmala and Ogre offices. As of 1 November 2008, the State Land Service is able to ensure the provision of the payment card acceptance service to all institutions, to which the task of the protocol decision (protocol No. 74, §1) of the Cabinet of Ministers of 14 October 2008 applies. (For individuals to have equal opportunities to use payment cards as a means of payment in all budget institutions, the Cabinet of Ministers passed a resolution to set 31 December, 2009 as the final date for service implementation in budget institutions, where the central government budget payments and charges for the services rendered by budget institutions are collected) As a result, individuals will soon be able to use VISA, VISA Electron, MasterCard, Maestro and American Express payment cards when making central government budget payments or paying for the services rendered by budget institutions. This will ensure more convenient and lower cost payments, by not paying additional commissions for money transfers, and will decrease the bureaucratic load for payment certification, since payments will be made on-line. The former procedure of making central government budget payments and paying for the paid services rendered by budget institutions will also remain.

Exchange of Payment Data Using the On-line Data Exchange System

By improving and developing client service quality, the Treasury developed a secure **on-line data exchange system** in 2008 as an alternative to *eKase* that makes the performance of State administration functions in the field of public finance management more efficient, ensuring an exchange of payment data information. The on-line data exchange system operation principles are based on inter-related databases and ensure the automatic request and transfer of the received payment data to clients in XML format at particular intervals of time. In order to make the development of the institution system interface easier and to decrease the development costs, the Association of Commercial Banks of Latvia Financial Data Exchange Unified Standard FIDAVista 1.01 is used as a data exchange format, which is complemented with additional fields required for accounting of budget execution.

This system ensures a faster exchange of information, by reducing the amount of manpower involved and ensuring the possibility for further automatic data processing, which significantly decreases the potential risks in the information processing process.

The Treasury offers said services as an efficient solution to the institutions that need to quickly receive payment data information in order to perform control and accounting functions regarding payments received in the Treasury's accounts.

On 8 August 2008, the Treasury and the State JSC Road Traffic Safety Directorate signed the first agreement on on-line data exchange and, on 30 September 2008, successfully commenced on-line data exchange.

Participation in Electronic Clearing System of the Bank of Latvia for settlements in euro from 1 January 2008

As of 2 January 2008, **the Treasury started using the Electronic Clearing System of the Bank of Latvia to receive payments in euro for small payments**, which allows the payment execution time and costs related thereto to be reduced by refusing foreign corresponding banks to make payments in euro.

The Electronic Clearing System of the Bank of Latvia is the only clearing (net) system in Latvia that ensures execution of a large amount of client credit transfers among the banks of Latvia. The payment processing process of the Electronic Clearing System is completely automatic and accepts and processes only electronic documents. The operation of the Electronic Clearing System is ensured by the Bank of Latvia.

In order to successfully start work in the Electronic Clearing System of the Bank of Latvia for small payments in euro, the Treasury carried out all the required activities to prepare and sign legal documents and continues to adjust the internal information systems to ensure the automatic processing of payments.

After adjusting the internal information system by using the Electronic Clearing System of the Bank of Latvia for small payments in euro, the Treasury will have the opportunity to perform payments in euro between the Treasury and banks of Latvia within one working day.

1.6. Concept of development of services provided by the Treasury units

As of 1 June 2009, the administrative-territorial reform will be performed in the state, the administrative-territorial division will be changed and, taking into account the fact that the main clients of the Treasury units are local governments and their institutions, in 2007 the Treasury commenced prior investigations on how this process may influence further operations of the Treasury units and services provided by them. The project team assessed functions of the Treasury units, issues related to the development of personnel in these Treasury units, observance of information safety requirements, distribution of obligations among employees, the role of the Treasury units within the framework of the implementation of the Treasury's functions, and compliance of the client service process with the procedure provided in the documents of quality management of the Treasury.

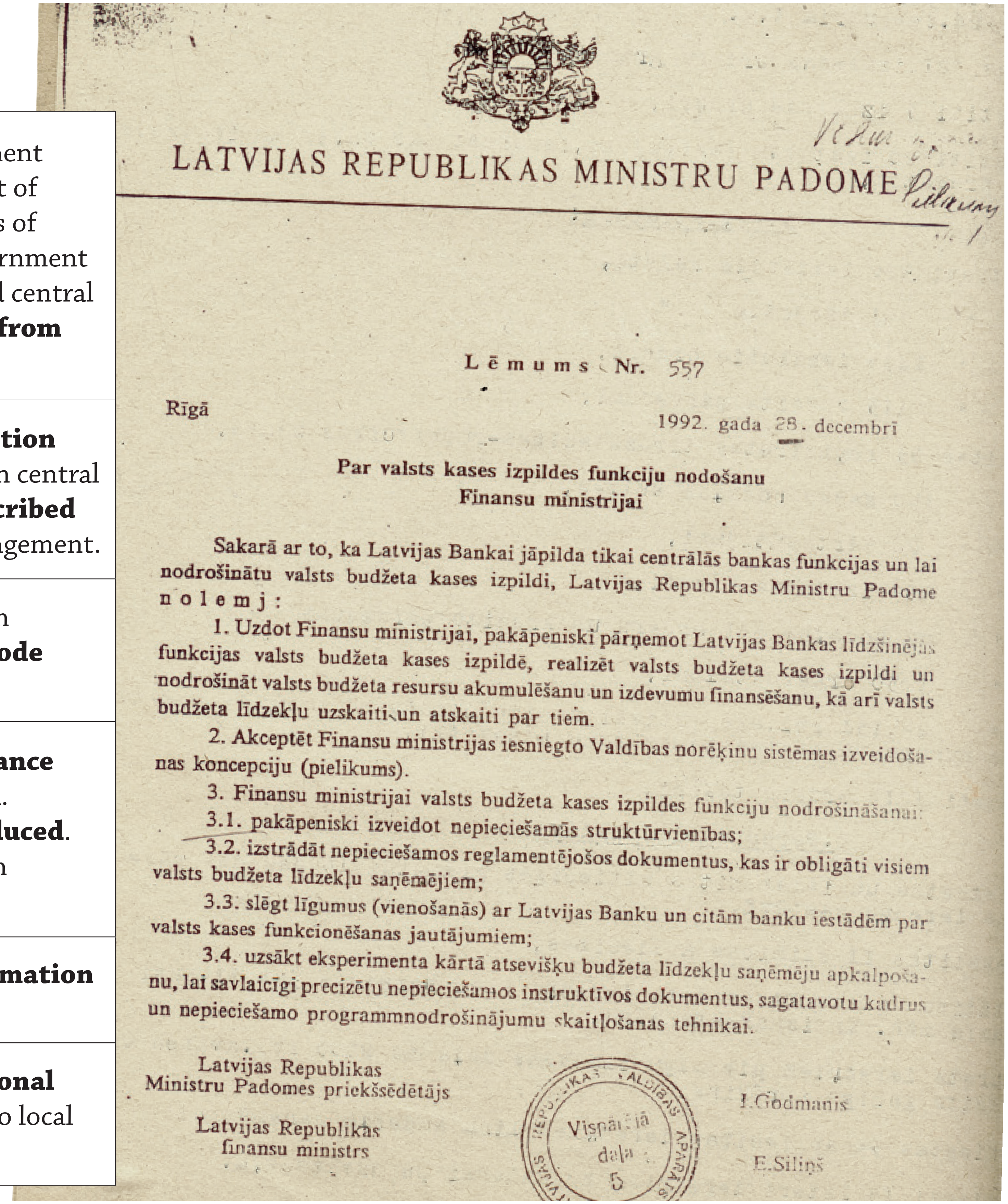
In 2008, the Treasury carried out an additional analysis of the Treasury units' operational figures (maintenance expenses, number of clients, number of payments, including payments in foreign currencies, cash payment cheques, *eKase* payments, the number of local governments) by comparing the results with respective figures in 2007. Taking into account the results of the analysis and after evaluating the service development possibilities in accordance with the Strategy, the Treasury commenced reorganisation of the Treasury units, which is to be completed in 2009. At the same time, the Treasury will develop the Treasury unit model in compliance with the fulfilment of the tasks set forth in the Strategy: to gradually increase on-line servicing of the Treasury units' clients, by offering the opportunity to receive up-to-date financial services and setting the provision of advisory services to clients as the primary function of Treasury units' employees.

1.7. The 90th Anniversary of the Treasury. Significant Facts in the Historical Development of the Central Government Budget Execution in the Treasury since 1993

After Latvia regained independence and the first independent State budget was accepted in 1994, the functions of the central government budget financial management and execution, which are related to budget resource accumulation and financing of the expenditures provided for in the budget (budget account disposition), as well as the accounting of the central government budget funds, were assigned to the Bank of Latvia (established on 2 March 1990). In 1993, when the up-to-date Treasury was established, gradual transfer of central government budget treasury functions from the Bank of Latvia was commenced. From that moment, the central government budget execution and financial accounting is organised by the Treasury.

Table 2. **Significant Facts in the Historical Development of the Central Government Budget Execution in the Treasury since 1993**

1993	**Establishment** of the Treasury Department in the Ministry of Finance. Establishment of **Treasury units** in Riga and district cities of Latvia. Gradual **takeover** of central government budget treasury execution **functions** and central government budget institution accounts **from the Bank of Latvia**.
1994	The **central government budget execution procedure** and the role of the Treasury in central government budget execution were **prescribed** in the Law on Budget and Financial Management.
1994	Control of expenses in accordance with an estimate, the **economic classification code system** was introduced.
1995	**Basic budget income and social insurance budget** fund accounting was commenced. Institution **financing plans** were **introduced**. A ledger was elaborated and introduced in Treasury units.
1995	**The central government budget information system** was introduced.
1996	**Special budget fund accounting, personal income tax accounting** and allocation to local governments was commenced.


LATVIJAS REPUBLIKAS MINISTRU PADOME

Lēmums Nr. 557

Rīgā

1992. gada 28. decembrī

Par valsts kases izpildes funkciju nodošanu Finansu ministrijai

Sakarā ar to, ka Latvijas Bankai jāpilda tikai centrālās bankas funkcijas un lai nodrošinātu valsts budžeta kases izpildi, Latvijas Republikas Ministru Padome nolemj:

1. Uzdot Finansu ministrijai, pakāpeniski pārņemot Latvijas Bankas līdzšinējās funkcijas valsts budžeta kases izpildē, realizēt valsts budžeta kases izpildi un nodrošināt valsts budžeta resursu akumulēšanu un izdevumu finansēšanu, kā arī valsts budžeta līdzekļu uzskaiti un atskaiti par tiem.

2. Akceptēt Finansu ministrijas iesniegto Valdības norēķinu sistēmas izveidošanas koncepciju (pielikums).

3. Finansu ministrijai valsts budžeta kases izpildes funkciju nodrošināšanai:

3.1. pakāpeniski izveidot nepieciešamās struktūrvienības;

3.2. izstrādāt nepieciešamos reglamentējošos dokumentus, kas ir obligāti visiem valsts budžeta līdzekļu saņēmējiem;

3.3. slēgt līgumus (vienošanās) ar Latvijas Banku un citām banku iestādēm par valsts kases funkcionēšanas jautājumiem;

3.4. uzsākt eksperimenta kārtā atsevišķu budžeta līdzekļu saņēmēju apkalpošanu, lai savlaicīgi precizētu nepieciešamos instruktīvos dokumentus, sagatavotu kadrus un nepieciešamo programmnodrošinājumu skaitļošanas tehnikai.

Latvijas Republikas Ministru Padomes priekšsēdētājs I.Godmanis

Latvijas Republikas finansu ministrs E.Siliņš

1997	**A more advanced central government budget information system** was introduced.
1998	Entry of information into the Treasury **Ledger** was commenced.
1999	**A unified Treasury account** in the Bank of Latvia was introduced.
1999	The central government budget information system was introduced in Treasury units.
1999-2001	Transition to **cashless payments**.
2000	**The registration of long-term liabilities** of the institutions financed by the central government budget was commenced.
2000	**Foreign currency payment accounting** was introduced.
2000	Ministries and central government institutions started **submitting financial reports** of companies (enterprises) under their supervision to the Treasury.
2000	The **accounting procedure** for central government (local governments) budget institutions and local governments budget was set. Servicing of foreign currency accounts, acceptance of local governments budget reports and electronic exchange of information with institutions was commenced.
2001	Account classification was improved. Daily fund allocation and transfer from personal income tax to the government special health care budget were commenced.
2001	**Introduction of the summary system for central government budget reports.**
2002	**The central government budget accounting policy** was established.

2003	**Transition** of the Treasury accounting to the **accrual principle**.
2004	**Transition to IBAN accounts.**
2004	**Introduction** of the electronic settlement system of the government budget ***eKase***.
2004	**Introduction of the summary system for the central government and local governments budget reports.**
2005	**SSIA allowance and pension payments** using *eKase*. Gradual transition to online servicing of the Treasury units' clients was commenced.
2005	The Treasury's right to use the **SWIFT system** was approved – a standardized and secure interbank financial message transmission using the telecommunication network.
2006	**Introduction of the information system Government Budget and local governments Budget Reports** to electronically submit and accept monthly, quarterly and annual reports using the online Internet mode.
2006-2008	The elaboration of the Ministry of Finance and Treasury project **"Implementation of the Unified Central Government Budget Planning and Execution System"** was commenced.
2006-2007	**Credit cards attached to the Treasury accounts** were introduced.
2007	**Operation** in the Trans-European Real Time Gross settlement Express Transfer System **TARGET2** was commenced.
2008	**Acceptance of payment cards** when collecting government budget payments and payments for services rendered by budget institutions.
2008 and in the future	Improvement of further development of e-services.

2.Central Government debt management

2.1. Central Government debt management function

In compliance with the authorisation given by the Minister of Finance, the Treasury performs management of the central government debt and temporarily free central government budget cash, engages in financial derivatives deals and other deals within the framework of the central government debt management, as well as organises granting and monitoring of the central government budget loans and guarantees.

The annual State Budget Law sets the maximum allowable level of outstanding government debt as at the end of the year, whereas objectives, basic principles and tasks of the central government debt portfolio and borrowing management within the framework of the medium-term government debt management are established by **the Latvian Central Government Debt Management Strategy** approved by the Minister of Finance.

In compliance with the Latvian Central Government Debt Management Strategy, government debt portfolio management is conservative and oriented to the limitation and prevention of financial risks, allowing use of derivatives, determined in the Latvian Central Government Debt Management Strategy, only to ensure management of finance risks. The approach of government loan management is loan opportunity oriented to ensure liquidity and beneficial loan conditions.

The amount of government borrowing, central government debt and the respective costs to be set aside to meet the debt commitments are affected by the size of the overall financing need, comprised of the fiscal deficit to be financed from the central government budget, the amount of central government debt commitments to be settled, as well as the amount of the required reserve liquidity to ensure the implementation of the central government budget cycle and commitments. Planned measures to satisfy the overall financing need within the current year and the financial instruments best suited for financing are prescribed in an annual **Medium-Term Funding Plan**, which is developed by the Treasury, based on the guidelines established in the Latvian Central Government Debt Management Strategy and approved by the Minister of Finance. Prior to approval, the opinion of the Bank of Latvia is sought.

Within the framework of central government debt management, the Treasury organizes the visits of analysts from the three largest international rating agencies (*Fitch Ratings, Standard & Poor`s* and *Moody`s Investors Service*), as well as the Japanese rating agency "R&I" to Latvia, thus providing investors with an opportunity to receive the latest information about Latvia and analyse Latvia's development trends and potential risks. Investors use this information to assess investment opportunities in Latvia (including investment into government-issued securities). Therefore, a credit rating is an important factor for Latvia ensuring availability of financing, which affects the price of borrowing. Rating agencies upgrade the credit rating of the Republic of Latvia and review its future outlook on an annual basis and also grant ratings to each specific government-issued security. Currently, Latvia credit rating for long-term liabilities in foreign currency is Baa1 (*"Moody`s Investors Service"*) BBB- (*Standard & Poor's and Fitch Ratings*) and BBB+ ("R&I") with negative future assessment (outlook). Despite the repeated downgrades during the year, Latvia retains an investment category credit rating from all rating agencies. Taking into account the active work of rating agencies in 2008, the Treasury improved communication with the involved institutions: prior to visits, informing of the required activities therein and providing more detailed information on current issues to the rating agencies and the weakness of Latvia as indicated in previous reports of rating agencies.

The Treasury participates in the process of guarantees issue on behalf of the government by examining and evaluating the risks pertaining to granting government guarantees. The Treasury organizes the process, in order to ensure the signing of the guarantee agreements: i.e., participates in drafting of the guarantee agreements, guarantee service and guarantee collateral agreements. After the guarantee agreements have been signed, the Treasury keeps accounts of the commitments associated with guarantees issued on behalf of the government. The maximum size of guarantees issued on behalf of the government and project implementers are set in the annual State Budget Law.

2.2. Central Government Debt Management Strategy

The Latvian Central Government Debt Management Strategy outlines the **medium-term** operations of the Treasury in managing the central government debt in line with the economic development trends as well as the situation on Latvian and global financial markets. The Latvian Central Government Debt Management Strategy sets the central government debt management goals and objectives.

The Latvian Central Government Debt Management Strategy distinguishes between debt portfolio management and borrowing management. **The goal of the central government debt portfolio management** is to manage the financial risks of the central government debt portfolio. Thus, several **parameters of the central government debt portfolio structure** have been set for the purpose of achieving this objective:

1) the share of the lats' debt;
2) maturity profile;
3) the share of the fixed rate;
4) interest rate duration;
5) currency composition for the net foreign currency debt.

The goal of the central government borrowing management is to ensure the availability of the necessary financial resources and their liquidity for financing the deficit of the central government budget and refinancing of the central government debt as well as borrowing on favourable terms and conditions. Several basic principles were established for the purpose of achieving this objective:

1) to ensure continuous opportunities for attracting financial resources;
2) to maintain the daily minimum reserve liquidity;
3) to perform each borrowing transaction in a professional manner;
4) to foster the development of domestic financial markets;
5) when engaging in borrowing transactions, to ensure compliance with the basic principles of the central government debt portfolio management;
6) to create an excellent "borrower" image for Latvia.

On 22 April 2008, The Minister of Finance approved the specified Latvian Central Government Debt Management Strategy, where the changes of the permissible duration parameter interval where made and the parameter of the optimum fixed rates share in the debt portfolio were updated by removing its top margin, thus ensuring more a flexible future approach to structural management of the interest rate.

Under the influence of the global financial crisis and negative trends of compliance of Latvia's economic development with many of the objectives, tasks and basic principles set forth in the Latvian Central Government Debt Management Strategy became complicated at the end of 2008, though they corresponded to the mid-term objectives. In February 2009, the Minister of Finance approved the **supplement to the Latvian Central Government Debt Management Strategy**, that provides more detailed guidelines for central government debt management under current conditions.

2.3. Report on Central Government Debt Management

The Treasury prepared an analytical **Central Government Debt Management Report** for 2006, so as to provide the Treasury's clients, including the existing and potential cooperation partners of the Treasury and investors in government securities, with information on the latest developments in the government debt management, performance indicators and future trends. The Central Government Debt Management Report was also sent to other bodies implementing similar government debt management functions in the EU (debt management bureaus). The cooperation partners (including banks) expressed their appreciation of such a form of presenting information on the latest developments in the Latvian central government debt management.

2.4. Changes in the central government debt in 2008

In accordance with the operational data of the central government budget execution in 2008, instead of the central government budget financial surplus planned with the amendments to the annual State Budget Law, there was a financial deficit of **LVL (-426.2) million** or ~ **(-2.75 %)** of the **planned GDP.**

In 2008 **significant loans were taken in domestic and foreign financial markets**, attracting financial resources to finance the central government budget deficit and to re-finance the central government debt, to ensure the reserve of liquid cash required for execution of the central government budget execution cycle and obligations, as well as to stabilise the financial sector in accordance with resolutions of government.

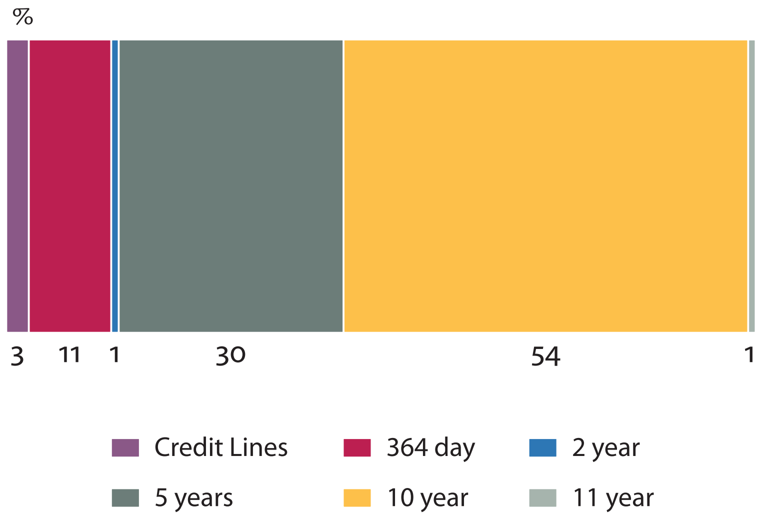
For covering financing requirements of 2008 were issued short term domestic T-bills maturing in three, six and 12 months, as well as additional medium term bonds (five years) and long term bonds (11 years). **In 2008 the amount of resources attracted in the domestic financial market from the issue of securities amounted to LVL 986.4 million**. Additionally, **short-term loans from commercial banks amounting to LVL 91.3 million** were used in September and November to ensure liquidity.

The **amount of borrowings made** in 2008 in the **foreign financial market** amounted to **LVL 803.6 million**. The largest of these borrowings were: the **first part of the IMF financial aid (equivalent of LVL 417.0 million), the issuance of euro bonds** with a maturity profile of 10 years (equivalent of **LVL 281.1 million**), as well as **utilization part of the EIB loan (amounting to equivalent LVL 105.4 million)** to co-finance EU Structural Funds and Cohesion Fund projects of the programming period from 2007-2013.

Taking into account the borrowing and repayment flows of the debt, in 2008 the central government debt increased by LVL 1 608.2 million and in accordance with operational data at the end of 2008 debt reached LVL 2 640.1 million at nominal value or 17.3 % of the planned GDP.

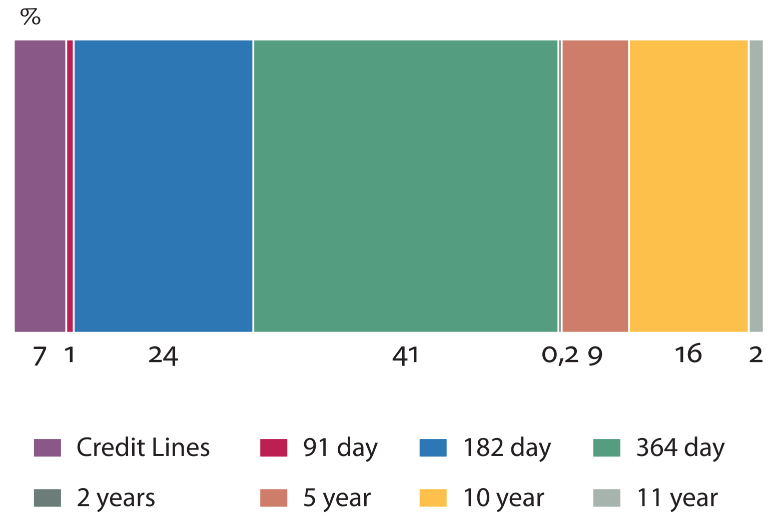
Taking into account the amount of international financial aid available in the mid-term period for the stabilization of Latvia's economy and growth recovery, the forecasts that central **government debt** in mid-term period will exceed 40 % of the GDP (see Chart 4).

Chart 2. **Domestic central government debt on 31 December 2007**



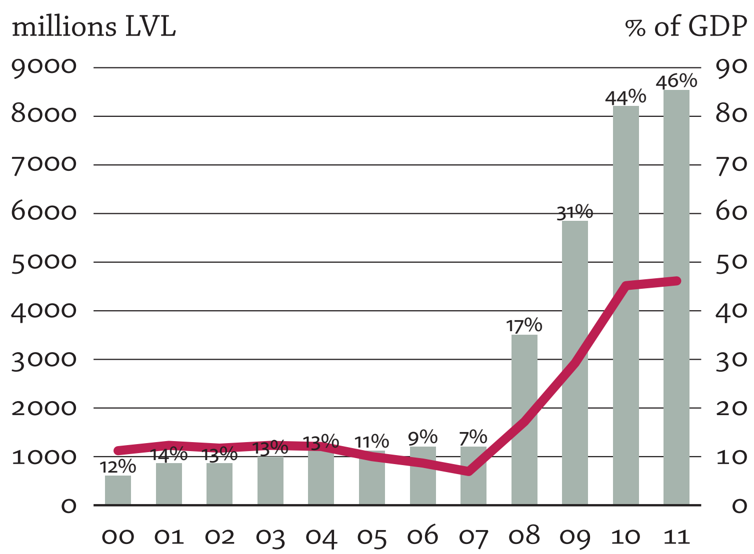
Source: the Treasury

Chart 3. **Domestic central government debt on 31 December 2008**



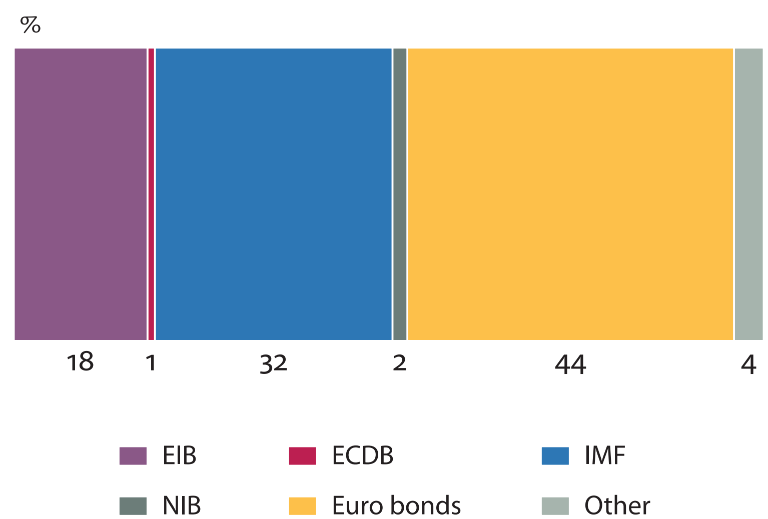
Source: the Treasury

Chart 4. **Central government debt (nominal value) in 2000-2011**



Source: the Treasury

Chart 5. **Foreign debt of the government on 31 December 2008 by creditors**



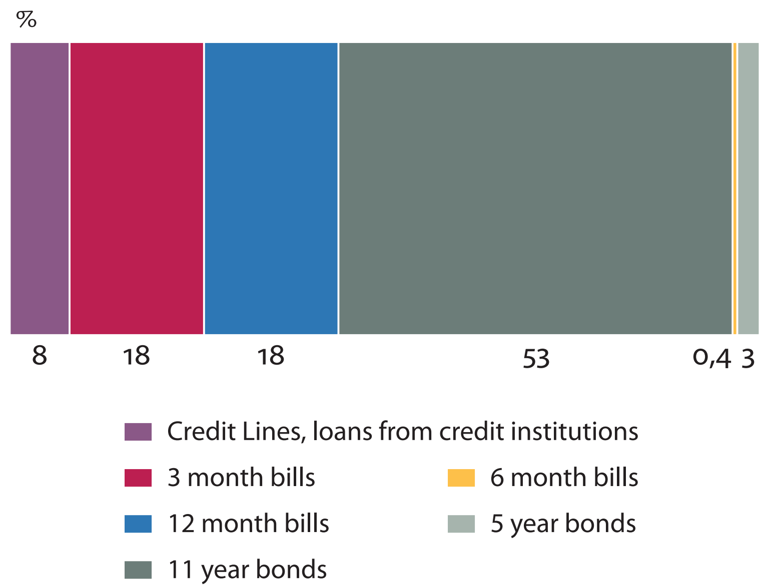
Source: the Treasury

2.5. Central government domestic debt

On 31 December 2008, the **central government domestic debt** amounted to **LVL 1379.66 million** at nominal value. As follows 76 % of debt compose borrowings in lats (government domestic securities) and 24 % debt in euros (government domestic securities in euro and credit lines). In 2008 **domestic debt increased by LVL 982.92 million**. The increase of domestic debt was mainly related to the necessity to ensure the financing for the aid to JSC Parex Banka pursuant to the decision of the government.

Taking into account the increasing central government financing requirement, as well as to avert tension of market participants regarding investment safety, **the Treasury significantly increased the amounts of initial placement in domestic sales of central government securities in 2008**: in 2007, the **amount of resources attracted by domestic central government securities** amounted to LVL 97.5 million and, in 2008, LVL 986.4 million (almost half of amount were securities amounting to **LVL 471.6 million** issued to ensure the liquidity of JSC Parex Banka, that was taken over by the Republic of Latvia.

Chart 6. **Domestic loans provided in 2008**



Source: the Treasury

2.6. Central government foreign debt

On 31 December 2008, the **foreign debt of the central government** amounted to **LVL 1260.41 million**.

In 2008, the foreign debt of the central government increased by LVL 625.31 million. The increase in the foreign debt is mainly due to the fact that, in March 2008, euro bonds amounting to EUR 400 million were issued in November, the first advance payment from the EIB of EUR 150 million was received (agreement with the EIB for the loan of EUR 500 million for Latvia was signed on 30 October, 2008) and the first part of the IMF loan amounting to EUR 589.57 million was received at the end of the year.

2.7. Management of the central government borrowing

Domestic borrowing

There were **significant changes in the domestic debt structure of current domestic securities** in 2008.

The majority of transactions was carried out with government T-bills, the amount of which increased by LVL 189.5 million for three-month T-bills, by LVL 161.2 million for six-month T-bills and by LVL 518.8 million for twelve-month T-bills. There were fewer transactions with T-bonds, the outstanding amount of which increased by LVL 35 million.

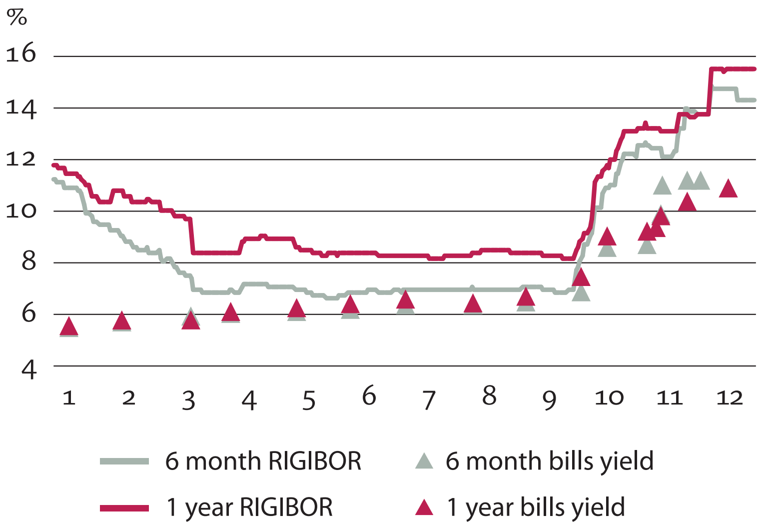
Table 3. **Domestic government borrowing securities in 2007 and 2008**

Type of securities	2007 (million LVL)	2008 (million LVL)	Difference (+/-) million LVL
3 - month bills	0.00	189.513[12]	+189.5
6 - month bills	16.46	190.7	+174.2
12 - month bills	45.309	571.1	+525.8
2 - year bonds	2.218	0.00	-2.218
5 - year bonds	31.41	4.68	-26.73
11 - year bonds	2.120	30.35	+28.23
Total	**97.517**	**986.4**	

Source: The Treasury

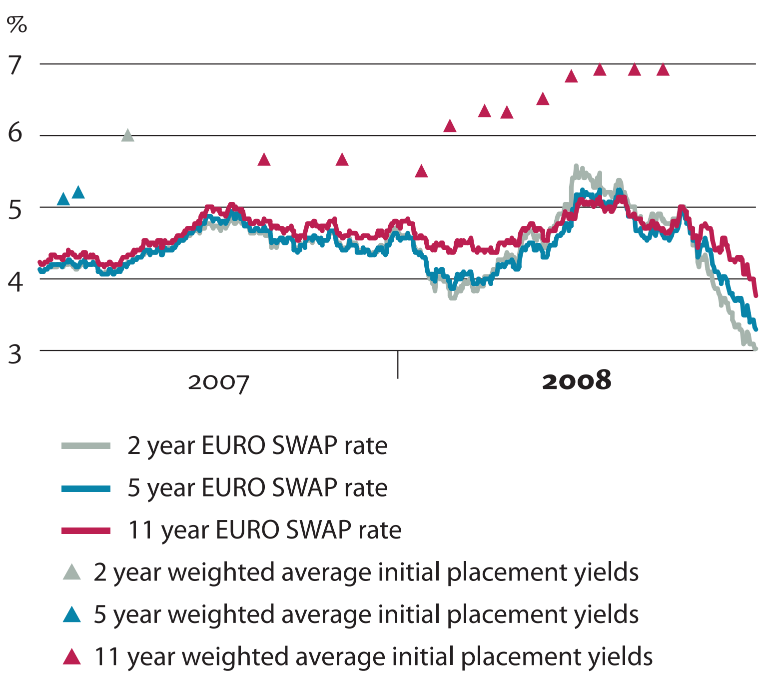
12 Bills issued on 13 November, 2008, in the third sale with ISIN six months and maturity three months.

Chart 7. **Yields of six- and twelve-month bills and six- and twelve-month RIGIBID rates in 2008**



Source: the Treasury

Chart 8. **Two-, five- and 11-year bond yields and two-, five- and 11-year Euro SWAP rates in 2007-2008**



Source: the Treasury

Activity in government domestic borrowing securities auctions was comparatively low and the rates reached very high levels, especially toward the end of the year. This was mainly due to the unstable situation in the domestic money market and the lack of liquidity of the lat. In order to achieve the most favourable borrowing conditions, the Treasury continued to arrange **government domestic borrowing issues** of several terms maturities simultaneously in 2008, thus ensuring market participants the opportunity to choose the most suitable investment term. In addition, for the first time, the direct sale method was used in initial placement of government securities as well as issuance of domestic securities in EUR currency.

In 2008, average weighted yields at two-, five-, and 11-year T-bond auctions were fixed from 98.1 basis points (for 11-year bonds) to 224 basis points (for five-year bonds) over EUR SWAP rates of the corresponding maturity.

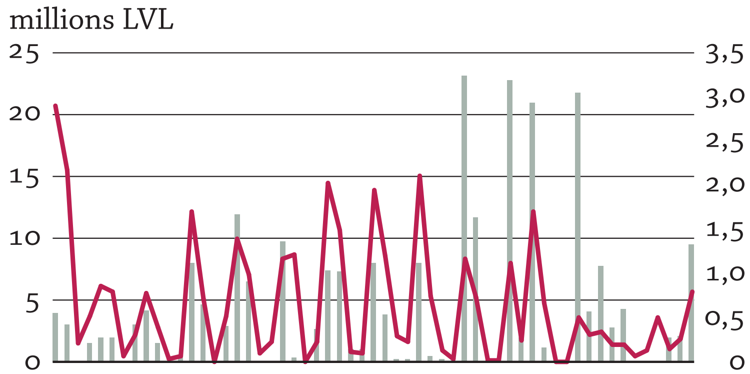
The large difference between euro and lat rates is due to the negative development of macroeconomic indicators and uncertainty regarding the introduction of the euro. The difference between two- and 11-year bond spreads is explained by the fact that 11-years is the term to be taken into account by investors in relation to the expected lat and euro rate convergence, which is likely to restart at the approach of the real euro introduction date and with the improvement of macroeconomic indicators.

In 2008, **government T-bills had the largest demand in the competitive multi-price auctions**. This trend can be explained by the increasing uncertainty of the financial market's future development prospects, in addition to economic recession; therefore, the market participants avoided purchasing long-term securities, hoping for stabilisation of the market situation in the future and an increase in interest rates. <u>The Treasury also did not offer high interest rates for long-term securities, thus reducing the future debt servicing costs, and focused on issues of short-term and medium-term securities while waiting for financial market stabilisation.</u>

Foreign borrowing

The government Funding plan for 2008 foresaw borrowing both in international financial and capital markets, by issuing eurobonds and government domestic securities. On 29 February 2008, the **issue of eurobonds** was carried out by successfully attracting resources of **EUR 400 million**. <u>The borrowing ensured</u>

Chart 9. **Primary trade activity of the government securities in competing multi-price auctions in 2008**

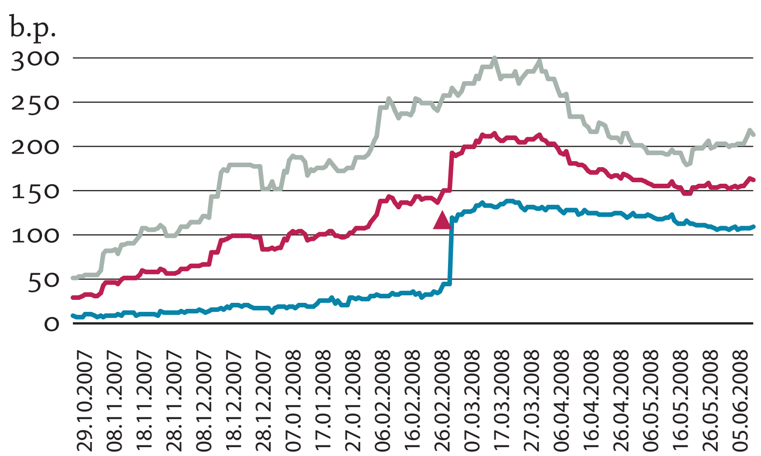


Sold amount (on the left axis)

Proportion of offer coverage (on the right axis)

Source: the Treasury

Chart 10. **Eurobond Achieved Result and Latvia's 10-Year CDS and Secondary Trading Rates**



10 year CDS level

Secondary market spread (2014 euro bonds until 29 February, 2018 euro bonds afterwards)

Benchmark ▲ Achieved result

Source: the Treasury

redemption of euro bonds in amount of EUR 200 million issued in 2004.

Eurobond yield was fixed at 120 basis points above the EUR SWAP rate of the corresponding maturity, which is a good indicator, taking into account Latvia's macroeconomic indicators. Furthermore, the issue spread was less than a half of the Latvian CDS level for the corresponding term (up to 250 basis points).

On 30 October 2008, the Minister of Finance signed the **agreement with EIB** on behalf of the Republic of Latvia **regarding a EUR 500 million loan to Latvia**. Thus, the main task in 2008 within the framework of the Funding plan was implemented. The loan is planned to be used to co-finance EU Structural Funds and Cohesion Fund projects during the planning period of 2007-2013 and will be used in especially important fields for development of Latvia: for projects promoting entrepreneurship, especially to facilitate innovation, financing will also be available for employment

development – higher education, further education and lifelong education promotion, investments for infrastructure development – transportation systems and information technology. In addition, significant financial resources will be available for environment-friendly energy resource development.

Financial support from European Commission, IMF and governments of other countries

As a result of the government decision taken on 8 November 2008 concerning the support for stabilisation of Latvia's financial sector, additional funding was required to ensure the liquidity of JSC Parex Banka, which significantly reduced the liquidity reserve of the Treasury.

With the economic growth rate dropping rapidly, the factual performance of the state budget also requires the consideration of a scenario of a larger financing requirement for 2009. Therefore, to ensure larger availability of resources, a decision was taken to commence talks with the European Commission and IMF, as well as governments of other countries, regarding providing support to Latvia to stabilise the macroeconomic and financial situation in the country.

On 19 December 2008 the government of Latvia signed **an agreement for receipt of financial support from the IMF, the European Commission, the World Bank, the EBRD and several EU member states in the total amount of EUR 7.5 billion (LVL 5.27 billion). The loan from the IMF will be in amount of EUR 1.7 billion (LVL 1.2 billion), from the European Commission – EUR 3.1 billion (LVL 2.2 billion), from the World Bank – EUR 400 million (LVL 281 billion).** The loan amount of EUR 1.9 billion (LVL 1.3 billion) will be received from Sweden, Denmark, Finland, Norway and Estonia. Financial support will also be received from the Czech Republic and Poland in the amount of EUR 300 million (LVL 210 million). A loan in the amount of EUR 100 million (LVL 70 million) is expected from the EBRD.

On 29 December 2008 Latvia received the first tranche from the IMF in the amount of EUR 589.57 million.

Table 4. **Compliance of the Central Government Debt Composition Parameters with the Central Government Debt Portfolio Composition Parameters established by the Latvian Central Government Debt Management Strategy**

Parameters	on 31.12.2007		on 31.12.2008		Strategy	
Share of the lats debt	37%		40%		≥ 25%[13]	
Maturity profile (%)	< 1 year 22%	< 3 years 30%	< 1 year 38.8%	< 3 years 52.0%	< 1 year < 25%	< 3 years < 50%
Share of fixed rates	60.2%		40.2%		≥ 60%	
Interest rate duration (in years)	3.38		2.39		3.35 (+/- 0.35)	
Currency composition of net foreign currency debt	EUR 99.82%		EUR 99.6%		EUR 100% (+/- 5%)	

Source: the Treasury

13 If the weighted average yield of mid-term and long-term government domestic securities offered at the auctions held by the Treasury during half year are less than 100 basis points above borrowing opportunity level in EUR, the minimum share of the lats debt must be ensured at least at a level of 35 % no later than in one year's time.

2.8. Central government debt portfolio management

In order to assess how the Latvian Central Government Debt Management Strategy has been implemented, the actual debt portfolio composition parameters on 31 December 2008 have been compared against the debt portfolio composition parameters on 31 December 2007 and the debt portfolio composition parameters set in the Strategy (Table 4).

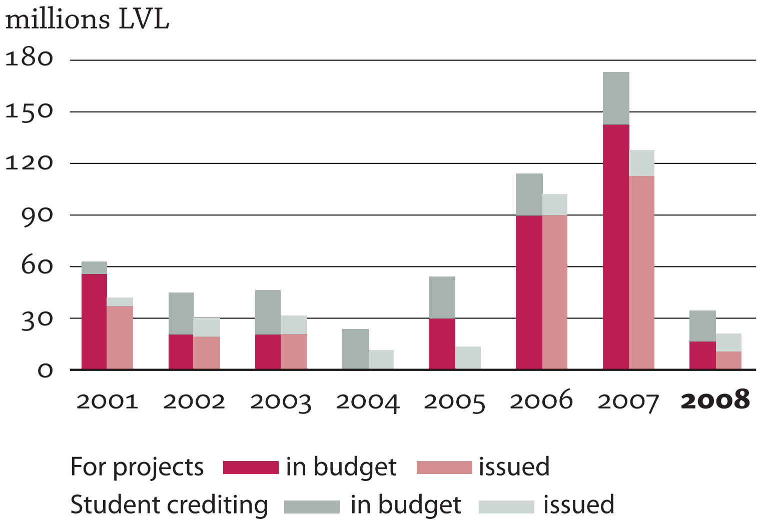
In 2008, the Treasury successfully implemented the Central Government Debt Management Strategy up until October (inclusive), approved by the Minister of Finance, using derivatives of financial instruments to meet the debt portfolio parameters set forth in the Central Government Debt Management Strategy. However, in November, to ensure the liquidity of JSC Parex Banka (taken over by the government), the amount of the issued domestic securities was significantly increased (the government debt significantly increased). In November and December, the issues amounted to LVL 710.17 million. Taking into account the common weak liquidity of the financial market, there was possibility to issue three- and six-month bills, which in turn significantly increased the one- and three-year maturity profile parameter set forth in the Central Government Debt Management Strategy, as well as decreased the fixed interest rate share parameter and the average weighted fixed period (duration) parameter under the permissible margin.

Under normal financial market and Latvia's credit rating conditions the Treasury would have chosen to issue longer-term domestic or foreign securities to comply with target of the adequate maturity profile. On the other hand, to prevent deviation of minimum balance of the fixed interest rate, swap transactions would be concluded that allow changing the share of the fixed interest rate in the debt portfolio upon necessity.

However, after partial refinancing of domestic securities carried out in November and December 2008, which are to be made from the IMF funds until 31 March 2009, to the plan is to reduce one-year and three-year maturity profile parameters to the margins set forth in the Central Government Debt Management Strategy, but, after receiving the planned loan from the European Commission, the interest payments of which are not variable until repayment of the loan, the share of fixed interest rates in the portfolio will significantly increase, as will the duration parameter, increasing them to the margin currently set forth in the Central Government Debt Management Strategy. It is expected that the central government debt structure parameters (one- and three-year maturity profile parameters), the share of the fixed interest rates and the duration parameter will be complied with and will be within the margins set forth in the Central Government Debt Management Strategy by 30 June 2009. In February 2009, the Minister of Finance approved the supplement to the Central Government Debt Management Strategy, which gave more detailed guidelines for central government debt management under current circumstances of the global financial crisis. In addition, negative development trends of the compliance of Latvia's economy with many of the objectives, tasks and basic principles set forth in the Central Government Debt Management Strategy have become complicated, though they correspond to the mid-term.

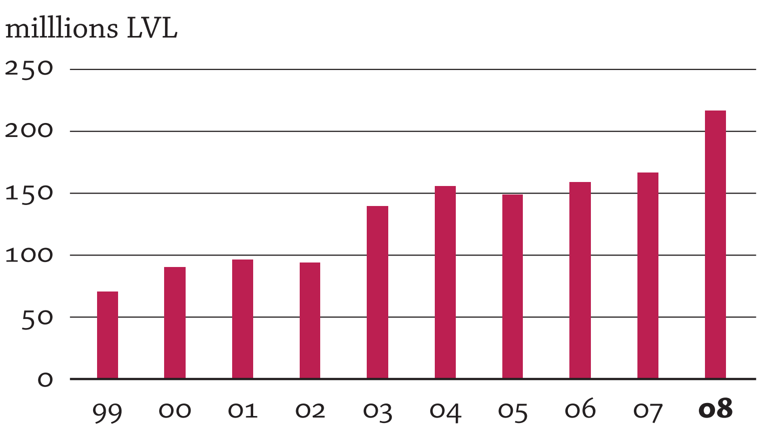
Continuing the improvement of the commenced debt portfolio analysis, the Treasury **supplemented the range of interest rate simulation models by the *Nelson-Siegel* model** in 2008, which will help estimate the forthcoming debt interest payments with greater accuracy, taking into consideration the improved interest rate stimulation options and will **improve the *Cost-at-Risk* Model**, the practical use of which allowed the highlighted borrowing

Chart 11. **Guarantees issued by the State from 2001 to 2008**



Source: the Treasury

Chart 12. **Outstanding amounts of government guaranteed loans**



Source: the Treasury

scenarios and their potential influence on the debt portfolio parameters to be analysed in greater detail. The elaborated model helps forecast the central government debt servicing payments in the mid-term with greater accuracy. At the beginning of 2008, the Treasury used the *Cost-at-Risk* Method to assess the structural parameters of the central government debt portfolio and came to the conclusion that it is not enough to increase the duration parameter set forth in the Central Government Debt Management Strategy from 3.25 (permitted deviation +/-0.25) years to 3.35 (permitted deviation +/- 0.35) years. It also updated the share of the fixed interest rate in the debt portfolio, removing its top margin (70 %). The *Cost-at-Risk Model* was used within the framework of the Resource Attraction Plan for the 2008 - 2010 scenario simulations, providing additional information for taking a decision regarding the most suitable scenario.

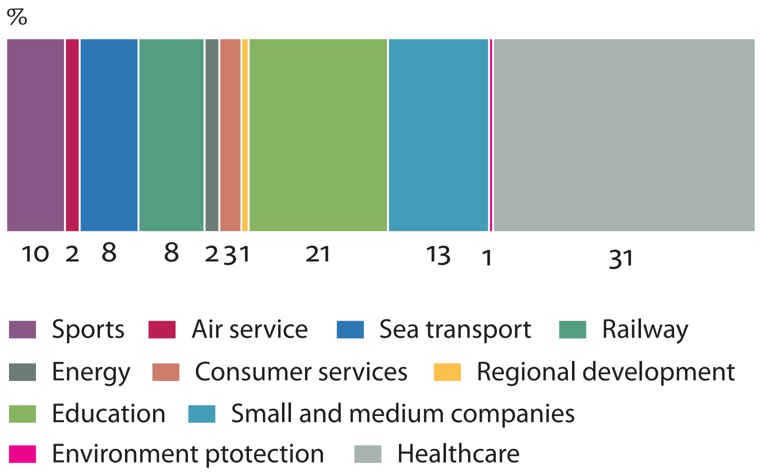
In order to expand the range of applied financial instruments within the framework of the central government debt management and cash management, the Treasury completed the elaboration of technical solutions for application of option transactions in the future and ***Delta model*** application to limit deviations of option transaction prices.

2.9. State guarantees

Article 37 of the Law on Budget and Financial Management stipulates that only the Minister of Finance has the authority to grant guarantees in the name of the State within the limits set in the annual State Budget Law, committing public funds to implement the Public Investment Programme projects and business support programmes as well as study and student credits. Guarantees are issued in accordance with the Regulations No.513 of the Cabinet of Ministers of 12 July 2005 **"Procedure for Issuing and Monitoring Guarantees"**.

The annual State Budget Law provided for guarantees for projects of the Latvian Olympic Committee for construction and re-construction of sports complexes in the total amount of LVL 21.30 million, the guarantee for co-financing the EIB loan granting projects in the countries of Africa, the Caribbean Seas and the Pacific Ocean region and in overseas countries and territories amounting to LVL 0.99 million, as well as student crediting in the amount of LVL 23.8 million. State guarantees amounting to LVL 16.0 million were issued for student crediting. The State guarantee for the implementation of the development project for the Latvian Olympic Committee Applied Sports Centre *Kleisti* has not been issued; in turn, the State guarantee for the

Chart 13. **State guaranteed loans granted by industry**



Source: the Treasury

EIB is planned to be issued in 2009.

At the end of 2008, the **remainder of loans guaranteed by the State was LVL 208.316 million** (see Chart 12).

State guaranteed loans have been granted for the support of various industries. 33 % of the issued guarantees were issued for healthcare, 14 % were issued to promote the development of small and medium companies, 22 % were issued for education and 8 % for railway transport. During the last years, State aid to healthcare institutions has increased; as a result, the amount of guarantees issued to healthcare institutions is the greatest.

The majority of loans guaranteed by the State were received by foreign creditors, which makes up 71 % of the total amount of guarantees issued. Local creditors issued the remaining 29 %. The largest creditor for state guaranteed loans is DEPHA Bank, which has financed the healthcare programme since 2006. In turn, the largest local creditor is JSC Parex Banka, which grants 4.8 % of the total amount of loans.

In 2009, State guarantees for the planned total amount of LVL 229.33 million will be provided, of which LVL 29.6 million is planned for crediting students and studies, LVL 16.69 million to support five projects of the Latvian Olympic Committee, LVL 71.0 million for the implementation of the Mortgage and Land Bank of Latvia programme “Enterprise Competitiveness Improvement Support” and LVL 112.0 million to continue the modernization of JSC Liepājas Metalurgs plants.

2.10. Facilitating public-private partnership

The Treasury has provisionally defined its **potential role in the mechanism of preparing, assessing, financing, implementing and supervising PPP projects**, which is directed to providing financial management function for PPP projects implemented by state and local governments.

Although there is a general opinion that no budget assets are required to implement a PPP project, and that implementing such projects does not influence the level of government debt and deficit, as assets from the private sector are being attracted, the Treasury has tried to attract the attention of representatives form the private and public sectors to the fact that the influence of PPP projects on the budget deficit and debt is not unequivocal.

In order to avoid a situation where, when concluding PPP project agreements, the state or local government undertakes unjustified long-term obligations and obtains undesirable influence on debt indices, in 2008, representatives of the Treasury took active participation in the elaboration of the draft Public-Private Partnership Law. The reading of the elaborated draft Public-Private Partnership Law creates preconditions to implement the mechanisms that would help adequately assess the potential influence of the project on the budget deficit and central government debt. Development of said mechanisms would allow advancing and implementation of efficient and high-quality projects that meet the central government budget possibilities to be ensured.

3. Cash management and government budget lending

3.1. Liquidity management

The Treasury Cash Management Strategy approved by the Minister of Finance establishes the goals, tasks, basic principles and responsibility of the Treasury by performing timely and effective cash management, observing liquidity requirements and restricting financial risks.

Within the framework of temporarily free fund management, the Treasury organises financial resource placement for collaboration with both local and foreign business partners. In order to ensure more effective management of government budgetary assets, the Treasury has invested in fixed income loan securities, in addition to placing resources in time deposits. To more effectively manage financial risks related to these transactions, the transactions are made with regard to cooperative limits, which are established for each of the Treasury's business partners depending on the type of the financial instrument in question. A financial risk management framework is developed to supplement the management of fixed income loan security profiles; it includes several internationally practiced and accepted security profile management instruments and tactics.

In 2008, the Treasury approved the ***Value-at-Risk*** limit determination methodology and elaborated the system of internal determination of supervision of these limits. The ***Value-at-Risk*** Model allows the risk of traded security portfolio market price fluctuations to be limited. In turn, the traded security portfolio gives the opportunity to acquire security from a much longer list of issuers, since the maturities of the acquired securities no longer have to be harmonized with the central government budget cash flows. Thus, there is a better chances to re-channel investments from deposits with commercial banks to investments in high-rating government securities. The said advantages allow the efficiency of cash investments to be improved and the overall investment portfolio credit risk to be decreased.

However, taking into consideration the complicated liquidity situation at the end of the year, the Treasury made the decision to suspend the implementation of the trade portfolio.

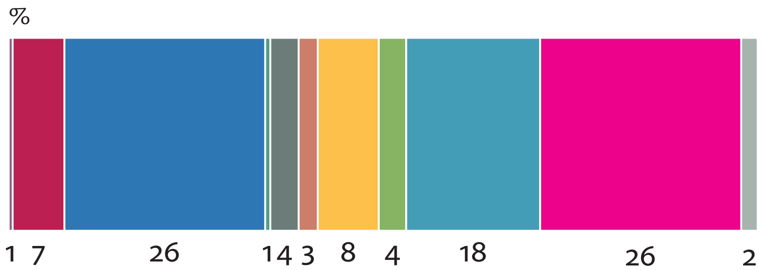
3.2. Issuing and Servicing of Central Government Loans

The process of issuing government loans is controlled by the Law on Budget and Financial Management, the annual State Budget Law, and Regulations No.395 of the Cabinet of Ministers of 19 June 2007 "Procedures for the Issue and Servicing of State Loans".

Pursuant to the annual State Budget Law, the total increase in central government loans in 2008 was set at **LVL 174.0 million**, including the total increase in local governments loans set at LVL 147.5 million.

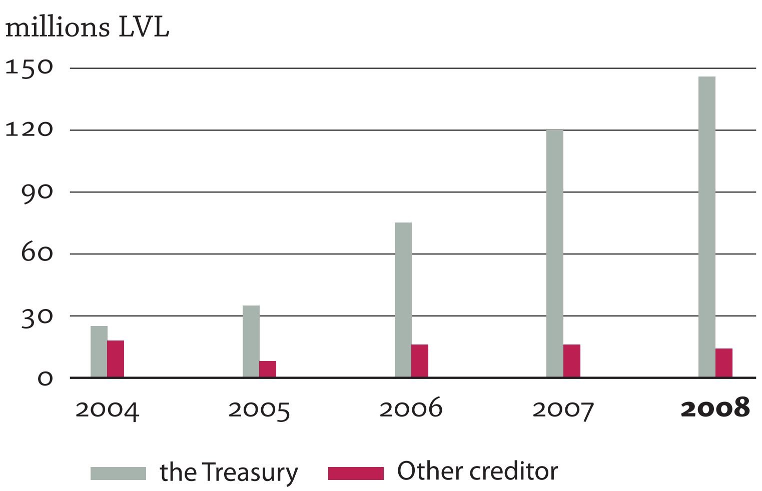
In 2008, **the amount of government debts issued reached LVL 148.9 million**. During the accounting year, the trends of previous years remained and, in terms of the amount, the majority of government loans were received by local governments (98 % of the total amount of issued loans) for the performance of autonomous functions, implementation of the projects co-financed by EU Funds and other goals. Capital companies received the remaining 2 % of the central government loans.

Chart 14. **Breakdown of Central Government Loans Issued in 2008 to local governments by Purposes**



Source: the Treasury

Chart 15. **Loans to local governments from 2004 to 2008**



Source: the Treasury

Local governments may receive a loan from another creditor only by agreement of the Minister of Finance and if the conditions of another creditor are more favourable than the ones offered by the Treasury. In 2008, local governments **received loans directly from the Treasury amounting to 92%** of the total amount of the received loans (both from the Treasury and other creditors). As of 31 December 2008, the total debt of local governments amounted to **LVL 480 454 thousand**, including the amount of local governments debt obligations to the Treasury amounting to LVL 354 505 thousand.

The procedure of determining the State loan interest rates included in the Regulations No.395 of the Cabinet of Ministers of 19 June 2007 ensured that the Treasury could offer more flexible loan conditions that met the market situation. In 2008, **long-term interest rates applied to the loans** issued in **lats varied from 5.481 % to 7.500 % per annum**; in turn, **short-term rates varied from 5.815 % to 10.357 % per annum**.

In 2009, central government loans will be issues to local governments only for the implementation of projects co-financed by the EU, as well as to capital companies, in which the share of the State or local governments in the share capital separately or in total exceed 50 % and capital companies established by several local governments, in which the total share of the local governments in the share capital exceeds 65 %, as well as to those scientific institutes and higher education institutions that hold the status of a derived public person. Respective amendments will be made in 2009 to regulatory enactments regulating granting government loans, strictly defining the purposes for which government loans may be used, as well as to determine other restrictions in the field of government loan-granting related to maximum government loan maturity, security and government loan repayment terms in accordance with the purposes of use, etc.

3.3. Liquidity management

The **objective** of liquidity management is to **ensure availability of cash to meet financial commitments** in due time and in the full amount. The Treasury sets the **requirements for providing cash liquidity** and a **procedure for meeting the liquidity requirements**.

The Treasury engages in the following activities with to the intention of complying with the liquidity providing requirements:

1) Monitors the stock of liquid cash as well

as compliance with the liquidity limits and size of the liquid cash reserve;

2) Timely identifies and prevents situations that may impair the cash liquidity and result in a payment or liquidity crisis;

3) Places the temporarily free funds, so as to maintain an adequate stock of liquidity that would ensure the required liquid cash reserve and compliance with liquidity limits within the relevant period.

In its daily cash management, the Treasury complies with the set liquidity provision requirements, thus mitigating the probability of a risk of payment or liquidity crisis materialising.

In 2008, the Treasury ensured the availability of the **required liquid cash** every day, based on financing needs and financial market developments, as well as placed temporarily free funds, maintaining necessary **liquid financial resource reserves** and complying with the **liquidity limits**. In order to ensure liquidity in 2008, the available fund balances were used, resources were attracted in the domestic and foreign financial markets, and short-term loans were taken from commercial banks.

Based on the assessment of the Treasury liquidity ensuring regulations and liquidity limit operation, as well as taking into consideration that the Treasury has joined the payment system TARGET 2, changes were made in the methodological instructions for ensuring liquidity of the Treasury, by specifying the liquidity limit determination procedure for cash in a foreign currency.

The Treasury observes the principle of prudence within the framework of cash management, limiting partnership party risk. The Treasury deposits free financial resources pro tem in the Bank of Latvia, as well as in credit institutions in Latvia and abroad. Observance of the principle of prudence is being ensured by defining clear basic principles **to determine limits for the Treasury's business partners**, which are based on ratings allocated by international rating agencies and by individually assessing the development of financial operations of the business partners.

3.4. The 90th Anniversary of the Treasury. Significant Facts in the Historical Development of the Central Government Debt, Cash and Central Government Budget Loan Management in the Treasury since 1993

While the amount of investments and the need for central government budget deficit financing increased, central government debt management was very important to the development of the Latvian financial system in the early 1990s. The country had to decrease the financial risks that could affect the central government debt servicing costs, due to exchange rate and interest rate fluctuations.[14]

Since 1992, Latvia has taken an active part in the international financial market, since during this period the central government possibilities were limited and a lack of domestic credit resources was observed. That is why significant foreign borrowing occurred, resulting in an increase in the central government foreign debt, and in turn, the total debt of Latvia.[15]

Since the first half of the 1990s, favourable conditions were created in Latvia for the development of a security market in addition to the currency market with

14 Urtāns Aigars. Manuscript: Latvia's Finances and History of the Ministry of Finance, 2008
15 The same.

participation of the Ministry of Finance. There was no free security market in the socialistic economy, however, at the beginning of the 1990s, when the market economy developed in Latvia, some regulatory enactments were elaborated that ensured the organised development of the security market.[16]

In the first half of the 1990s and later, the central government budget deficit was covered by central government domestic bills and central government domestic bonds, which were issued by the Ministry of Finance (actual borrowing activities were mainly organized by the Treasury).[17]

Table 5. **Significant Facts in the Historical Development of the Central Government Debt, Cash and Central Government Budget Loan Management in the Treasury since 1993**

1993-1996	The central government **domestic debt management** is carried out by the Treasury Department of the Ministry of Finance.
1993-1996	The central government **foreign debt management** is carried out by the Foreign Economic Affairs Department, later by the Foreign Debt Management Department.
1997	**Central government domestic and foreign debt management functions were consolidated** by establishing a structural unit in the Treasury.
1998	**Latvian Central Government Debt Management Strategy** was elaborated (updated annually).
1999	An agreement was signed with the Riga Stock Exchange regarding **inclusion of central government domestic securities in the Riga Stock Exchange lists**.
2001	**The crediting of students with the guarantee issued on behalf of the State** was introduced.
2004	**The use of the first derived financial instrument (first FX forward** transactions) was introduced.
2005	**Organisation of the initial placement of central government securities** with the Riga Stock Exchange **system SAXESS**.
2006	**The Cash Management Strategy** approved, which determines goals, tasks, basic principles and responsibilities of the Treasury when performing efficient management of cash managed thereby in compliance with the liquidity requirements and hedging financial risks.
2005-2007	The **first world practice debt management analysis models** were introduced.

16 Urtāns Aigars. Manuscript: Latvia's Finances and History of the Ministry of Finance, 2008
17 The same.

Table 6. **Development of Central Government Securities Issues since 1993**

1993	First **auction** of central government domestic **short-term bills (1-month)**
1994	First **auction** of central government domestic **short-term bills (3-month)**
1995	First **auction** of central government domestic **short-term bills (6-month)**
1996	First **auction** of central government domestic **short-term bills (12-month)**
1997	First **auction** of central government domestic **medium-term bonds (2-year)**
2000	First **auction** of central government domestic **medium-term bonds (3- and 5-year)**
2003	First **auction** of central government domestic **long-term bonds (10-year)**
2007	First **auction** of central government domestic **long-term bonds (11-year)**

4. Implementation of the functions of the Paying and Certifying Authority for the European Union policy instruments

4.1. Function of the Paying Authority during the planning period from 2004 to 2006

In accordance with the provisions of the EU Regulations, a **Paying Authority** is one or several national, regional or local institutions or bodies, chosen by the Member State to certify the incurred expenditure, submit payment claims and Declarations of Expenditure, and receive payments from the European Commission. The Paying Authority, the same as other institutions involved in implementation of the EU policy instruments, must ensure operation of the instruments in compliance with the European Community interests, effective management and monitoring of structural funds in accordance with the provisions of the EU Regulations and guidelines.

The functions of the Paying Authority are to receive funds from the European Commission and to perform payments to the receivers of the support by the foundations within the shortest term and in full amount.

The Treasury started implementing the Paying Authority functions as of 1 May 2004.

The Treasury has the **functions** of the Paying Authority for the **following EU policy instruments**:

1) **EU structural funds** – European Regional Development Fund, European Social Fund, European Agricultural Guidance and Guarantee Fund and Financial Instrument for Fisheries Guidance;
2) **Cohesion Fund**;
3) **European Community initiative *EQUAL***.

When certifying the expenditure included in the EU policy instrument claims and Declarations of Expenditure, **the task of the Paying Authority** is to ascertain the correctness, eligibility of expenditure incurred within the framework of projects and their compliance with the EU Regulations, as well as the sufficiency of the management control systems or checks established by the Intermediate Bodies/ Managing Authority. In order to ensure the above, the Paying Authority has the **right** to request the Managing Authority to implement additional controls in the Intermediate Bodies/ Managing Authority, as well as conduct financial controls and audits of the Intermediate Bodies/ Managing Authority.

In 2008, the Treasury conducted an audit in the Ministry of Environment and the Ministry of Transportation of the internal control system developed for the administration of the Cohesion Fund, during which the level of confidence was determined for mediatory institutions, which is taken into consideration when determining the scope of control of expenditure included in the expenditure declaration. Introduction of methodology quickened the expenditure declaration verification procedure in the Treasury and submission to the European Commission, as well as ensured documented and justified selective control of the performed expenditure.

In order to ensure a faster EU Structural Fund acquisition process at the end of the planning period for 2004-2006, the Treasury performed the processing of respective EU Structural Fund payment requests and executed payments on average within 5-7 working days, but when performing a significant amount of payment requests, the document processing period extended on average to 10 working days.

In 2008, the Treasury **checked 2 959 payment orders** within the framework **EU Structural Funds** and made structural fund **disbursements in the amount of LVL 160 768 thousand**. In comparison with the previous year, **the number of payment orders checked decreased by 16.3%**.

In 2008, **12 EU Structural Fund Declarations of Expenditure** were submitted to the European Commission claiming **EUR 135 078 thousand** (see Table 7).

Table 7. **Declarations of expenditure for the EU structural funds submitted to the European Commission and funding received from the European Commission in 2008**

Fund	Claim date	Amount calculated by the Treasury[18], in thousands of EUR	Amount received from the EU, in thousands of EUR
ERDF	06.02.2008.	7 658	7 658
ERDF	27.02.2008.	2 590	2 590
ERDF	27.05.2008.	17 233	17 233
ERDF	13.08.2008.	17 593	17 593
ERDF	14.11.2008.	49 085	49 085
ERDF	28.11.2008.	12 973	12 973
Total ERDF		**107 132**	**107 132**
EAGGF	22.04.2008.	0	0
EAGGF	02.09.2008.	0	0
Total EAGGF		0	0
FIFG	17.04.2008.	0	0
FIFG	02.09.2008.	0	0
Total FIFG		0	0
ESF	02.04.2008.	7 186	7 186
ESF	17.12.2008.	20 760	0
Total ESF		**27 946**	**7 186**
Total		**135 078**	**114 318**

Source: The Treasury

18 The Treasury calculates the amount to be expected from the European Commission, as the intensity of the European Community financing activities is different throughout a measure and the European Commission makes reimbursements based on the European Commission financing rate set for the measure in the financial table of the Single Programming Document.

The amounts received from the European Commission coincide with the Treasury's estimates, in compliance with the performance indicators set in the Strategy.

Within the framework of the Cohesion Fund, **47 Declarations of Expenditure** were submitted to the European Commission in 2008, of which **six were the final Declarations of Expenditure**, claiming **107 255 thousand euro** from the European Commission. The Treasury disbursed **112 336 thousand euro or LVL 78 950 thousand** from the Cohesion Fund in 2008.

In 2008, the Treasury **checked 14 payment orders** within the **framework of the European Community initiative EQUAL** and made disbursements from the initiative funds in the amount of **LVL 399 thousand**. In comparison to the previous year, **the number of payment orders checked decreased by 77%**.

Within the framework of the European Community initiative EQUAL, **three European Community initiative Declarations of EQUAL Expenditures** were submitted to the European Commission in 2008, **without claiming** any funds from the European Commission. Already in 2007, the total amount required for the European Agricultural Guidance and Guarantee Fund, the Financial Instrument for Fisheries Guidance and the initiative of the European Community EQUAL (as advance payments and payments of the transitional period) reached 95 % of the Fund's funding allotment. In 2008, also within the framework of the European Regional Development Fund and the European Social Fund, 95 % of the Fund's funding allotment was required. Therefore, in compliance with the provisions of Paragraph 3 of Article 32 of the Commission Regulation (EC) No. 1290/1999, no assets will be requested until the sending of the Final Declaration within the framework of the Fund.

A comparison of the amount of declared expenditure and the number of the Cohesion Fund Declarations, structural funds and the European Community initiative EQUAL sent to the European Commission with the figures in 2007 is provided in Table 8.

There are several **reasons** for the **decrease** in the number of submitted **Cohesion Fund Declarations of Expenditure**:

1) The number of the implemented projects decreases; in 2008, the final declarations of expenditure were sent for six projects, but 18 projects are already completed;

2) Taking into consideration the increase in prices of works/supplies to be carried out within the framework of a project, the required amount (as advance payments

Table 8. **Comparison of expenditures certified for the European Commission in 2008 with 2007**

EU policy instrument	2007		2008	
	Sent declarations	Declared expenditures, thousands EUR	Sent declarations	Declared expenditures, thousands EUR
Cohesion fund	90	172 911	47	211 042
Structural funds	16	283 406	12	255 356
EQUAL	4	5 261	3	1 643
Total	**110**	**461 578**	**62**	**468 041**

Source: The Treasury

and payments of the transitional period) for most projects that are currently being implemented has reached 80%, which in accordance with Article 4 of the Council Regulation (EC) No. 1265/1999 amending Annex II to Regulation (EC) No. 1164/94 establishing a Cohesion Fund, is the maximum amount and the amount disbursed in payments of the transitional period. As a result, declarations of transitional period expenditure are no longer submitted for such projects.

While the number of the Declarations of Expenditure decreased, **the amount of the declared expenditure increased**, since procurements for most projects have been completed and the work is being performed or goods supplied.

In turn, the number of **EU Structural Funds** and European Community initiative **EQUAL Expenditure Declarations** submitted to the European Commission **has decreased** in comparison with the previous year, which indicates that the majority of projects are coming to the final stage. Thus, the number of payment requests has respectively decreased, wherewith mediatory institutions submit the Expenditure Declarations for a longer period, respectively declaring larger amounts of expenditure.

The Treasury is also the Payment Authority for the **financial instruments of the European Economy Area** and for the **bilateral financial instrument of the Norwegian government**.

At the beginning of 2008, the Cabinet of Ministers approved a number of regulations that prescribe the mechanism of implementation and supervision of the projects financed by the European Economic Area financial instrument and the Norwegian government bilateral financial instrument. As an institution involved in the administration of the financial instrument, the Treasury participated in the elaboration of the Cabinet of Ministers regulations. After evaluating the payment request control process, the institutions involved in the financial instrument management agreed upon the necessity to make payment request control measures more efficient, wherewith it was proposed to make amendments to the Cabinet of Ministers regulations that were approved at the beginning of 2009.

Taking into account the acquired experience in the payment request verification process, the methodology for determination of the amount of expenditure of the reports of projects co-financed by the European Economic Area and Norwegian government bilateral financial instrument to be verified, which optimizes the verifications conducted

Table 9. **Funds Claimed and Received in 2008 within the Framework of the European Economic Area Financial Instrument and the Norwegian Government Bilateral Financial Instrument, Compared to 2007, EUR (thousands)**

Type of Payment	Number of Reports Sent		Amount Claimed		Amount Received	
	2007	2008	2007	2008	2007	2008
Advance payment	2	3	104	110	104	110
Transitional	2	14	790	2 419	790	2 419
			894	**2 529**	**894**	**2 529**

Source: The Treasury

by the Treasury, was developed in 2008. Based on the concluded agreements, donor countries made advance payments for three projects. As the payment authority, the Treasury verified, approved and submitted **14 transition period reports** to donor countries. The number of transitional period reports increased, which indicates that the institutions implementing the projects commenced active realization of projects, but since granting agreements are concluded all year round, for some projects the most active transitional period report submission period could be the next year. The implementation of one project is coming to a close.

The Law on **Latvian-Swiss Cooperation Programme Management**, pursuant to which the Treasury is assigned to perform **the functions of the Latvian-Swiss Cooperation Programme paying authority**, was elaborated in 2008 and adopted on 23 October 2008. Pursuant to the said law, the Treasury performs the accounting of funds and payments, verifies, approves and submits payment requests to competent Swiss authorities. In accordance with the delegation of the law, the Cabinet of Ministers regulations are being elaborated regarding the procedure for ensuring the management of the Latvian-Swiss Cooperation Programme: the Treasury takes active participation in the elaboration thereof.

4.2. Function of the Certification Authority and Paying Authority during the planning period of 2007-2013

In compliance with the Law of the EU Structural Funds and Cohesion Fund management, the Treasury will act as a **Certifying Authority** and Paying Authority for the European Regional Development Fund, European Social Fund and Cohesion Fund in the planning period from 2007–2013. **The functions of the Certifying Authority** include preparation of certified Declarations of Expenditure and payment claims and their submission to the European Commission, as well as certifying that the declared expenditure is compliant with the existing European Community and Member State Regulations. The function of the **payment authority** is to ensure accounting of the EU Funds financing received and used from the European Commission and to make payment to the recipient of the EU Funds financing within the shortest possible time.

In 2008, amendments to the Treasury procedure were made to improve the process of verification of the documents justifying payments conducted by the certification authority, ensuring the justification of the selection made (the basis of the selection if the assessment of the responsible/cooperation institution), which was positively appreciated by external auditing companies that conducted accreditation of the management and the control system developed for the implementation of the EU Funds for the planning period of 2007 - 2013.

In 2008, advance payments **in total amounting to EUR 151 311 thousand** were received from the European Commission within the framework of the planning period for 2007 - 2013.

At the end of 2008, the first transitional period declaration of expenditure was received within the framework of the 2nd activity programme “Entrepreneurship and Innovations”. The Expenditure Declaration was sent to the European Commission in January 2009.

4.3. The 90th Anniversary of the Treasury. Significant Facts in the Historical Development of the Treasury as the European Union policy instrument Paying and Certification Authority since 1999

At the beginning of the 1990s there was an extended aid programme developed in the EU to provide aid during the transitional period from the planned market economy to the market economy for the Central and Eastern Europe countries that are not EU Member States and to prepare them for joining the EU. In Latvia, the acquisition of EU financing started in the first half of the 1990s and continued throughout the 90s. Thereby, funds of several so-called pre-accession assistance programmes were invested in many industries, including state administration and sectors managed by local governments. In turn, after becoming a Member State, EU financing is received through different EU policy financial instruments. Taking into account the experience of the Treasury in the administration of budget funds and foreign loans and to ensure safe financial management and accounting of the funds received from pre-accession financial instruments, the Treasury was assigned to perform the functions delegated by the National Authorizing Officer.

Table 10. **Significant Facts in the Development of the Treasury as the EU Policy Instrument Payment and Certification Authority since 1999**

1999	The Treasury performs the delegated **National Fund functions** in the administration of the funds granted by the EU (Latvia being the EU candidate country) (**Phare programme**). National Fund – financial management unit of the funds granted by the European Commission in EU candidate countries that makes payments and performs accounting and supervision of the cash flow of programmes financed by the European Commission.
2000	Progress of the foreign financial aid granted within the framework of the programmes financed by the European Commission and government budget participation payments by mediation of the Treasury was commenced.
2001	The Treasury performs the delegated **National Fund functions** (Latvia being the EU candidate country): **Instrument for Structural Policies for Pre-accession (ISPA) management control system** financed by the European Commission was implemented in the Treasury.
2002	The Treasury performs the delegated **National Fund functions** (Latvia being the European Union candidate country): European Commission financed **Special Accession Programme for Agriculture and Rural Development (SAPARD) management control system** was introduced in the Treasury.
Since 2004	The Treasury starts performing **functions of a payment authority** of EU Structural Funds, Cohesion Fund and European Community initiative “Equal” (planning period of 2004 - 2006): to certify the performed payments, to submit payment requests and to receive payments from the European Commission.
2007	The Treasury performs the **functions of a paying authority** of the European Economic Area financial instrument and the Norwegian government bilateral financial instrument: to verify and submit to the Financial Instrument Office transitional period reports of the projects.
2008	The Treasury performs **the functions of a paying and certification authority** of the EU Structural Funds and Cohesion Fund (planning period of 2007 - 2013).
2009	The Treasury performs the functions of the Latvian-Swiss Cooperation Programme **paying authority**.

5.1. The Treasury's financing and its spending

The Treasury's financing is comprised of:

1) A grant from general revenue;
2) Service charges and other self-generated revenue:
   – revenue from the central government loan service,
   – revenue from the central government guarantee service.

In 2008, the Treasury implemented the following **basic budget programmes and sub-programmes**:

1) Programme "Budget execution and central government debt management":
   – sub-programme "Budget execution";
   – sub-programme "Central government debt management";
2) Sub-programme "Contributions to international organisations";
3) Sub-programme "Compensation to rehabilitated citizens";
4) Programme "Central government budget loans and their repayments";
5) Programme "Grant to local government cohesion fund".

The objective of the **sub-programme "Budget execution"** is the execution of the central government budget within the framework set by the annual State Budget Law, focusing on efficient management of the government budget funds, identification of services required by the Treasury's clients, improvement of the quality of the services offered in line with the best international financial management practice and applying the latest technologies.

The objective of the sub-programme **"Central government debt management"** is effective management of the government debt and assets, ensuring the funds required for the purpose of financing the government execution and refinancing of government debt at the lowest possible cost by hedging financial risks and taking into account the development of the Latvian domestic capital market and the overall financial system.

The objective of the **sub-programme "Contributions to international organisations"** is to make annual membership contributions of the Republic of Latvia to international financial organisations and payments into the capital and/or reserves of the international financial institutions, where the Republic of Latvia is a holder of capital shares, in due time and full amount, thus ensuring settlement of the undertaken commitments.

The objective of the **sub-programme "Compensation to rehabilitated citizens"** is to ensure disbursement of compensation to rehabilitated citizens in compliance with the laws and regulations.

The objective of the **programme "Central government budget loans and their repayments"** is to ensure government budget lending in compliance with respective budget appropriation, offering to project implementers the most adequate financial resources, to provide current information on the budget loan portfolio issued, to perform actions required for the process of collecting delayed payments.

The objective of the **programme "Grant to local government cohesion fund"** is to ensure transfer of the grant from the central government budget to the Local Government Financial Cohesion Fund in compliance with the effective laws and regulations.

In 2008, funding approved in the central government basic **budget to cover expenditure** was **LVL 99 219 737** including:

1) **A grant from general revenue** in the amount of **LVL 97 776 525**;

2) **Self-generated revenue from the servicing of central government loans** in the amount of **LVL 1 165 360**;

3) **Service charges and other self-generated revenue cash balance** as of 1 January 2008 were LVL 277 852.

Total **allocations granted under the appropriation procedure** amount to **LVL 99 219 737**, which is **LVL 24 707 430** more than in 2007. Of the granted allocations, **LVL 97 809 332 were actually spent**, which is LVL 23 297 025 more than in 2007 or 98.5% of the total allocations granted in the reporting year.

Table 11. **Central government basic budget funding and its spending (Summary of all the programmes, LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	**79 624 054**	**98 941 885**	**98 888 521**
1.1.	Grants	78 360 036	97 776 525	97 776 525
1.2.	Service charges and other self-generated revenue	1 264 018	1 165 360	1 111 996
2.	**Expenditure (total):**	**74 512 307**	**99 219 737**	**97 809 332**
2.1.	Maintenance costs (total):	73 761 639	98 312 747	97 162 018
2.1.1.	Running costs	5 579 325	7 553 850	6 560 293
2.1.2.	Interests	54 727 836	77 345 000	77 345 000
2.1.3.	Subsidies and grants	451 824	450 000	353 083
2.1.4.	International collaboration	5 849 757	5 811 000	5 750 745
2.1.5.	Grants to local governments	7 152 897	7 152 897	7 152 897
2.2.	Expenditures for capital investments	750 668	906 990	647 314
	Financial balance		**-277 852**	**1 079 189**
	Increase (-) or decrease (+) in service charges and other self-generated revenue cash balances		277 852	43 510

Source: The Treasury

Table 12. **Central government basic budget funding and its spending for the basic budget programme "Budget execution and government debt management" (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	**65 746 157**	**85 527 988**	**85 474 624**
1.1.	Grants	64 482 139	84 362 628	84 362 628
1.2.	Service charges and other self-generated revenue	1 264 018	1 165 360	1 111 996
2.	**Expenditure (total):**	**61 057 829**	**85 805 840**	**84 552 607**
2.1.	Maintenance costs (total):	60 307 161	84 898 850	83 905 293
2.1.1.	Running costs	5 579 325	7 553 850	6 560 293
2.1.2.	Interests	54 727 836	77 345 000	77 345 000
2.2.	Expenditures for capital investments	750 668	906 990	647 314
	Expenditure (total):		**-277 852**	**922 017**
	Increase (-) or decrease (+) in service charges and other self-generated revenue cash balances		277 852	43 510

Source: The Treasury

Table 12. **Central government basic budget funding and its spending, basic budget sub-programme "Budget execution"(LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	6 676 157	6 006 988	5 953 624
1.1.	Grants	5 412 139	4 841 628	4 841 628
1.2.	Service charges and other self-generated revenue	1 264 018	1 165 360	1 111 996
2.	**Expenditure (total):**	5 845 031	6 284 840	5 867 939
2.1.	Maintenance costs (total):	5 094 363	5 377 850	5 220 625
2.1.1.	Running costs	5 094 363	5 377 850	5 220 625
2.2.	Expenditures for capital investments	750 668	906 990	647 314

Source: The Treasury

In 2008, **expenditures for capital investment decreased by LVL 103 354** over the previous reporting period as a result of changes in the schedule of implementation of the project "Implementation of the Central Government Budget Planning and Execution Information System (SAP)".

The cash balance under the basic budget sub-programme "Budget execution" at the end of the period amounted to LVL 521 370. This amount is comprised of revenue from service charges that have been above the plan for several years.

During the accounting period, within the framework of the basic budget sub-programme "Central government debt management" total expenditures were planned in the amount of LVL 79.52 million, actual execution was 98.9% or LVL 78.68 million of the planned amount.

Interest payments were made within the framework of the basic budget sub-programme "Central government debt management" on government borrowing from foreign and international financial institutions in compliance with agreements concluded and resulting from the derived financial instruments, outstanding government securities, coupon payments

Table 14. **Central government basic budget funding and its spending, basic budget sub-programme "Government debt management" (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	**59 070 000**	**79 521 000**	**79 521 000**
1.1.	Grants from general income	59 070 000	79 521 000	79 521 000
1.2.	Service charges and other self-generated revenue	–		
1.3.	Foreign financial assistance	–		
2.	**Expenditure (total):**	**55 212 798**	**79 521 000**	**78 684 668**
2.1.	Maintenance costs (total):	55 212 798	79 521 000	78 684 668
2.1.1.	Running costs	484 962	2 176 000	1 339 668
2.1.2.	Interests	54 727 836	77 345 000	77 345 000
2.2.	Expenditures for capital investments	–	–	–

Source: The Treasury

on government bonds, as well as other government debt management related payments, including a payment for the registration of domestic government securities and their retention and securities events service at the Latvian Central Depository, as well as their listing on the main list of Riga Stock Exchange, payments for use of financial market information systems, for legal, auditing, rating agencies and other services in relation to the central government debt management. Payments also were made to credit institutions for the servicing of accounts (including servicing of credit cards), as well as interest payments for SSIA and other investors for special budget, central government and local government budget fund investments in the deposit with the Treasury and use of account balances in accordance with the concluded agreements.

The Republic of Latvia is a member of several international financial institutions and organisations. By joining them it has not only acquired certain rights but has also committed itself to making payments into their capital and reserves and annual membership contributions. Therefore, within the framework of this programme the Treasury ensures that the undertaken membership commitments are fulfilled in compliance with the payment

Table 15. **Central government basic budget funding and its spending, basic budget sub-programme "Contributions to international organisations" (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	**5 925 000**	**5 811 000**	**5 811 000**
1.1.	Grants	5 925 000	5 811 000	5 811 000
1.2.	Service charges and other self-generated revenue			
1.3.	Foreign financial assistance			
2.	**Expenditure (total):**	**5 849 757**	**5 811 000**	**5 750 745**
2.1.	Maintenance costs (total):	5 849 757	5 811 000	5 750 745
2.1.1.	International collaboration	5 849 757	5 811 000	5 750 745
2.2.	Expenditures for capital investments	–		

Source: The Treasury

schedules. In 2008, the Treasury ensured that membership payments were made into the following international financial institutions: EBRD, EIB, NIB, Council of Europe Development Bank, World Customs Organisation and Intra-European Organisation of Tax Administrations. All payments were made in the required amounts and within the set timeframe.

In 2008, the planned amount of total contributions was LVL 5 811 000. All planned payments to international financial organisations were made in time and in the full amount, totalling LVL 5 750 745. Consequently, the key objective of the sub-programme was attained. The total amount of payments did not reach the planned level because payments to EBRD and NIB were significantly smaller than planned. In accordance with the Cabinet of Ministers resolution regarding change of the Republic of Latvia Member State status in the International Development Association, Latvia has to start repaying the previously issued bills in the International Development Association in 2009. Based on the approved payment schedule, resources required to repay the bills for the next three years are planned in the central government budget sub-programme "Contributions to International Organisations". At the end of 2008, the Treasury included the quota of the Republic of Latvia in the IMF in the accounting balance sheet, thereby closing the inclusion of the capital shares owned by

Table 16. **Central government basic budget funding and its spending, basic budget programme "Compensations to rehabilitated citizens" (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	**800 000**	**450 000**	**450 000**
1.1.	Grants	800 000	450 000	450 000
1.2.	Service charges and other self-generated revenue		–	–
1.3.	Foreign financial assistance		–	–
2.	**Expenditure (total):**	**451 824**	**450 000**	**353 084**
2.1.	Maintenance costs (total):	451 824	450 000	353 084
2.1.1.	Subsidies and grants, including contributions to international organizations	451 824	450 000	353 084
2.2.	Expenditures for capital investments	–	–	–

Source: The Treasury

the Republic of Latvia in the international financial institution in the central government balance sheet.

In 2008, compensations to rehabilitated citizens were paid in accordance with the Regulations No.443 of the Cabinet of Ministers of 30 December 1997 "Procedure to Recover Property or Compensate its Value to Persons who Lost it as a Result of Alienation due to Failure to Pay Increased Tax Fees or who Escaped from Political Repressions of the Communist Regime".

State and local government purchases

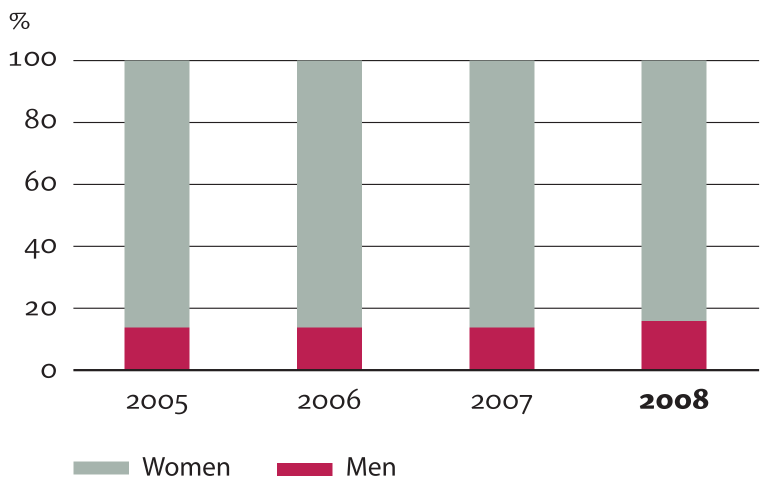
The Treasury implemented **procurement** in compliance with the Law "On Public Procurement" and applied procedure for an open tender, negotiations, price inquiry and procedure for procurements where the expected price of the contract is LVL 1000-10 000. For the procurement, the Treasurer establishes a procurement committee, whose members are competent in the particular area of procurement in which the contract will be signed. The procurement is registered and contracts are monitored in the Register of Procurement Contracts of the Treasury. In 2008, the total number of purchases amounted to 52 (excluding the purchases under LVL 1000), and contracts in the amount of LVL 4 738 239 (Value Added Tax exclusive) were concluded.

Table 17. **Central government basic budget funding and its spending, basic budget programme "Grant to local government financial cohesion fund" (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	**Financial assets to cover expenditure (total):**	7 152 897	7 152 897	7 152 897
1.1.	Grants	7 152 897	7 152 897	7 152 897
1.2.	Service charges and other self-generated revenue	–	–	–
1.3.	Foreign financial assistance	–	–	–
2.	**Expenditure (total):**	7 152 897	7 152 897	7 152 897
2.1.	Maintenance costs (total):	7 152 897	7 152 897	7 152 897
2.1.1.	Subsidies and grants	7 152 897	7 152 897	7 152 897
2.2.	Expenditures for capital investments	–	–	–

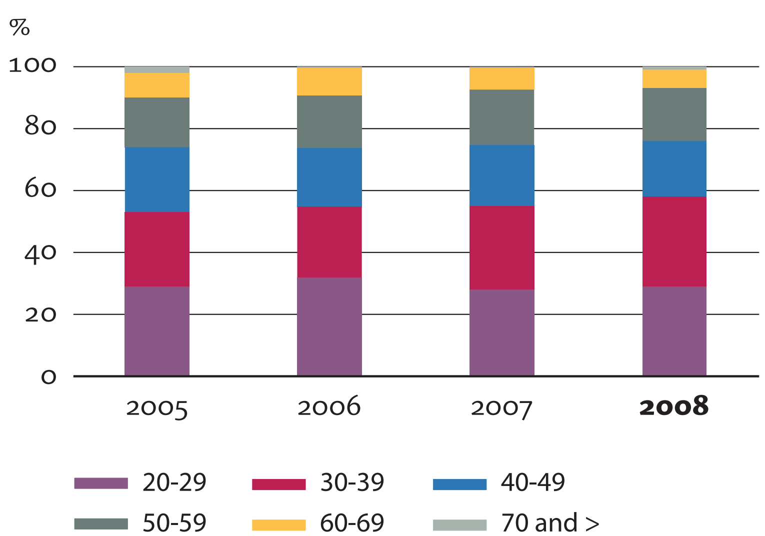
Source: The Treasury

Chart 16. **Breakdown of the Treasury Personnel by Gender from 2005 - 2008**



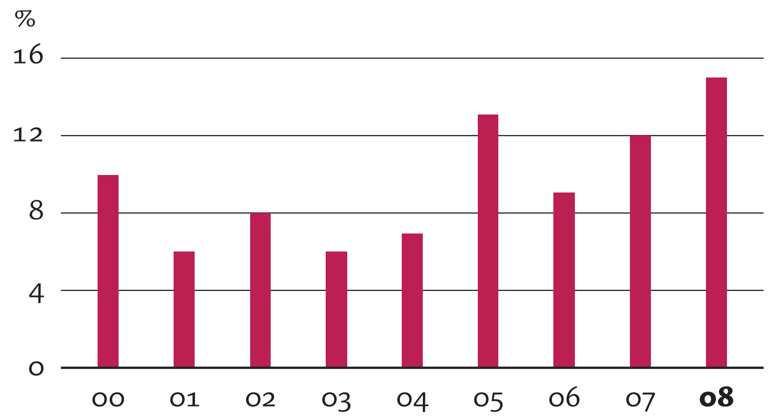
Source: the Treasury

Chart 17. **Distribution of the personnel of the Treasury by age groups from 2005 till 2008**



Source: the Treasury

Chart 18. **Staff turnover in the Treasury by years (2000 - 2008)**



Source: the Treasury

5.2. Personnel and personnel management

Our employees are the most important resource of the Treasury enabling us to achieve the goals set by the Treasury and to further develop our institution. In 2008, there were **269 positions**: 241 civil servant positions and 28 employee positions, and civil service or labour relations have been established with **251 civil servants and employees**. The number of positions in December 2008 decreased to 259 – 234 civil servant and 25 employee positions, and civil service or labour relations have been established with 249 civil servants and employees.

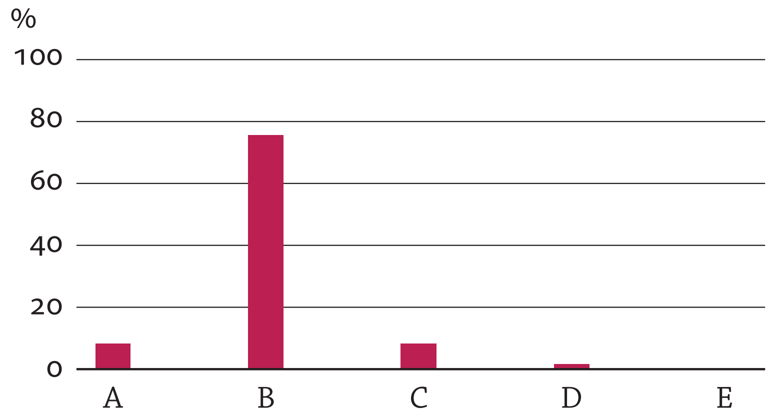
There were minimal changes from previous years in regard to the breakdown of the Treasury employee by gender and age (see Charts 16 and 17).

In 2008, **the proportion of women was significantly higher** than men, both in the total number of employees and among managers of structural units and their deputies: 83 % of the total number of employees and 81 % of the number of managers and their deputies were women, respectively 17 % and 19 % were men. In turn, this proportion is even more prevailing among employees of the Treasury units – 96 % are women and 4 % are men.

In 2008, **staff turnover** in the Treasury was **15%: 38 civil servants and employees were dismissed** (staff turnover by year see in Chart 18).

In the reporting year, **53 applicant selection competitions** were held for vacant staff positions at the Treasury. 32 new specialists established civil service or employment relations with the Treasury following the selection process. The Treasury continues to promote career growth for their specialists: 15 specialists of the Treasury were granted the opportunity for career development in terms of a transfer to to other staff positions as a result of staff appraisal and internal selection competitions. In order to attract those who have an interest in working at

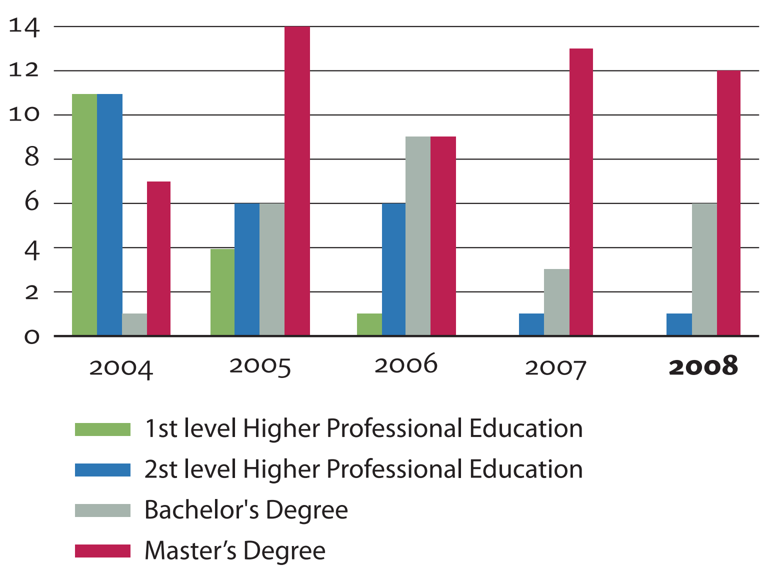
Chart 19. **Results of the performance appraisal process in 2007/2008**



A performance in all areas exceeds requirements of the respective industry
B performance in particular areas exceeds requirements; however, the remaining areas are in compliance with the requirements of the respective industry
C performance is in compliance with the requirements of the respective industry
D performance is not in accordance with the requirements of the respective industry in all areas, improvement of performance is required
E performance does not comply with the requirements in the respective industry, all areas require significant and immediate improvements

Source: the Treasury

Chart 20. **Education obtained by the employees of the Treasury (2004-2008)**



Source: the Treasury

the Treasury and to select the most suitable candidates, the Treasury continues its cooperation with mass media, institutions of higher education and personnel recruitment and selection companies.
In order to ensure further personnel development and to improve the Treasury's recruitment process, personality tests were introduced in September 2008.

In order to introduce new employees to the official duties and operation of the institution, the Treasury pays particular attention to preparing a trial period work plan for each new employee and presenting to the new employee the functions and personnel of the Treasury. When the trial period is completed, performance of 29 new employees was assessed. All the new employees received a positive assessment, which demonstrates that during the process of selection was successful, in that applicants having the ability to apply their professional knowledge and to acquire the new duties have been selected.

Based on successful performance appraisal results of the trial period, the status of civil servant was given to 20 civil servant candidates of the Treasury in 2008.

In 2008, the annual **performance appraisal** process in the Treasury was completed for the fourth time. The performance of 212 civil servants and employees were assessed (including 82 civil servants in the Treasury units). Work performance appraisal in the Treasury is one of the primary personnel management instruments to facilitate work performance, personnel participation in achieving the goals set in the Strategy, to motivate and provide feedback to personnel on work performance results (see the results of performance appraisal in Chart 19).

In 2008, special attention was paid to the justification of all appraisal results – work performance and skill appraisal analysis and the setting of tasks for the next appraisal period were used more objectively for determining wages and career development opportunities.

The greatest value of the Treasury is highly educated and professional personnel. 95.6% of the staff has a university degree (including 36% who have obtained a Master's degree). Employees continue to develop professionally and to raise their educational level year over year (see Chart 20).

Every year the Treasury determines the need for employee training and approves the training plan for the following year. During 2008, 211 (84.4%) of public servants and employees participated in 687 training courses. In 2008, the Treasury tried to focus on adequate, specially-prepared corporative training: mainly attracting the Treasury's employees as lecturers, who, within their area of expertise, conducted training for colleagues on central government debt and asset management, compliance with fire safety requirements, annual financial statement preparation, as well as acquiring basic knowledge regarding information security. The Treasury also continued its cooperation with experts from training companies, that adapted their training programs to the particular training needs of the Treasury in various fields, ensuring training in budget accounting, client service, emphasizing compliance with the basic principles of the Treasury's Client service manual and verification of the functions of the Unified Central Government Budget Planning and Execution Information System that is being implemented. In addition, knowledge in the area of management development is being improved in trainings organized by international institutions.

In order to improve the personnel training function, the Personnel Training Process description was supplemented, in which significant changes were made that introduced adjustments to the training needs analysis, course selection and training administration process.

5.3. Quality and risk management

The **quality management system** was developed in the Treasury to improve the services rendered by the Treasury so that they comply with the interests of our clients and regulatory requirements, by using the Treasury's improvement possibilities and available resources.

In 2008, improvement of the processes implemented by the Treasury was carried out, thereby ensuring integration of the quality management system and risk management, the risk monitoring mechanism, analysis of qualitative and quantitative ratios orienting to targets-results necessary to make decisions on improving the procedures and services rendered to clients.

In 2008, SIA Ernst & Young Baltic carried out the evaluation of the EU Structural Fund and Cohesion Fund management and control system for the planning period of 2007 - 2013 at the institutions involved in the system, including the Treasury. The said evaluation confirmed the efficiency of the developed quality management system and the conformity thereof with the requirements of regulatory enactments, as well as the conformity of the Treasury for performance of the functions of a paying and certification authority.

Also in 2008, the quality management system of the Treasury was assessed within the framework of **external supervision audits** and was acknowledged as corresponding to the requirements of the standard ISO 9001:2000 "Quality Management System. Requirements". At the end of 2008, the Treasury started **adapting the quality management system to the requirements of the ISO 9001:2008 standard** and is already planning the certification in accordance with the new standard version in 2009.

The Treasury continually improves the quality management system to ensure its conformity, not only with applicable legislative requirements, regulatory enactments and the ISO 9001:2008 standard, but also to ensure a balance between the satisfaction of clients' needs and the control functions ensured by the Treasury and to create confidence in clients in the stability of the quality of services rendered by the Treasury.

5.4. Internal control system

The internal control system of the Treasury is established, based on basic elements of an internal control system: control environment, risk assessment, control activities, information and communication, monitoring. Internal control within the structural units of the Treasury is one of the means to prevent potential loss. In order to reduce risks inherent in the administration of transactions, the Treasury implements the **double authorisation principle**, which determines that transactions have to be validated by at least two independent employees. Transacting is governed by internal quality management documents.

The **results of internal audits** completed in 2008 confirmed that overall the established internal control system provides sufficient and reasonable assurance that the Treasury's assigned tasks are executed in accordance with the strategic objectives, of performance efficiency, data correctness and reliability, compliance with legislative requirements as well as risk management and protection of the resources at the Treasury's disposal against potential losses. The **internal control system** is under continuous development: not only due to legal requirements and regulations, but also to best practices and experience of the financial sector. The **assessment of the Internal Audit Department** was also conducted within the framework of the conformity evaluation of the EU Structural Fund and Cohesion Fund management and control system developed for the planning period of 2007-2013.

In 2008, **recommendation from internal audit** were related to the improvement of the Treasury management system project risk management, the improvement of the quality management system, the improvement of the accounting process of the institution, improvement of the information technology management and improvement of the EU policy instrument accounting. During the accounting period, the Treasury's audit policy was improved, the purpose of which was to ensure a common understanding of the role of different levels of management within the Treasury, the Internal Audit Department and Audit Committee and mutual interaction in ensuring common management of control and risk.

Public Communication

Valuable communication between the Treasury and society is possible by ensuring an effective exchange of information. The Treasury informs the mass media on a regular basis regarding relevant issues: it prepares and distributes press releases and provides answers to questions of interest to the mass media.

One of the main priorities of the Strategy is an orientation towards clients, their needs and interests. The Treasury learns about client satisfaction by means of questionnaires.

In order to achieve more effective circulation of information between the Treasury and the public, in 2008 the Treasury developed the Communication Strategy for 2009-2011, in which communication tasks were set to facilitate the achievement of the goals set forth in the Strategy, ensuring identification of the Treasury in the external environment and formation of a positive Treasury image both in the external and domestic environment.

Since 2002, the Treasury maintains its Internet homepage (www.kase.gov.lv), where information on the institution and its functions is available. Information on the Treasury's current events is updated and adjusted on a regular basis. It is possible to ask questions as well as submit applications electronically. Visitors to the homepage can receive fast answers to their questions, whereas the Treasury has the opportunity to acquaint itself with questions of interest from their clients and, if necessary, prepare more in-depth information both on the Internet webpage and for distribution in the Treasury units, as well as identify potential problems and prevent them.

The Treasury's development priorities for 2009

Central Government budget execution

1) In collaboration with the Ministry of Finance, to elaborate the unified government finance management system that covers the entire government budget cycle – from budget planning to the execution thereof and supervision of the execution.

2) To create reports and requests in the unified central government finance management system Data Stock in compliance with the structure of financing plans, central government budget and based on what is defined by the system Budget Execution Module.

3) To make changes in the Treasury's central government budget financial accounting policy and to prepare requests for appropriate changes in the Treasury's management system in accordance with the changes in the International Public Sector Accounting Standards, national legislation and financial management processes.

4) To ensure a unified government and local government budget reporting system and statistical report system – to complete introduction of the new software.

5) To ensure the possibility of using payment cards when collecting government budget payments and payments for services rendered by budget institutions.

6) To introduce a new *eKase* system.

7) To improve the provision process of the service of credit cards attached to the Treasury's accounts.

8) To continue effective use of information technologies in client servicing, by increasing the share of payments made via *eKase* to 80 %.

9) To make amendments to regulatory enactments that define the procedure of preparation of monthly and annual reports of government budget institutions and local governments and the procedure of preparing the accounting year report, as well as to elaborate the instruction on execution of the central government budget reports.

10) In accordance with changing requirements in the field of central government budget execution, to elaborate instructions on preparation of the financing plans in accordance with the annual State Budget Law.

Central Government debt management

Central government debt portfolio management

1) To conduct implementation of the Latvian Central Government Debt Management Strategy in accordance with the financial market situation, in compliance with the appendix to the Central Government Debt Management Strategy.

2) To evaluate opportunities to reduce the collaboration partner's credit risk by using the CSA (Credit Support Annex) annexes in ISDA agreements.

3) To expand the range of the used derived financial instruments within the framework of the Latvian Central

Government Debt Management Strategy to ensure the central government budget currency and interest risk management, as well as minimize the credit risk of transaction partners.

Borrowing management

1) To elaborate the resource management plan for 2009-2011 by taking into consideration conditions of the financial support granted by international financial institutions for the stabilization of Latvia's economy and growth recovery.

2) To assess the CP (*Commercial Papers*) and MTN (*Medium Term Note*) programmes in comparison with other similar short-term financing alternatives for government budget financing payments and to elaborate a methodological description.

3) To improve the financing necessity of forecasting methods.

4) To analyse investor relationship management in the Treasury and to take measures to improve the investor relationship, in order to implement focused investor relationship management and to set particular measures to be implemented for 2009.

Servicing and supervision of government guarantees

1) To improve the government guarantee planning process by making amendments to regulatory enactments, providing that government guaranteed loans may be included in the annual State Budget Law only after evaluating the already elaborated business plan both in the ministry of the sector and the Ministry of Finance (the Treasury), as well as defining the relation of the government guarantee as the government aid instrument with the Public Investment Programme and state aid policy.

2) To specify norms on the amount of a government guarantee, final repayment date of government guaranteed loans, security of guaranteed loans, supervision of the fulfilment of obligations and re-financing of central government guaranteed loans.

Cash management and government budget lending

Cash management

To continue the organisational activities for risk management of central government budget institutions.

Liquidity management

To conclude additional guaranteed overdraft agreements with international and domestic financial market participants.

Granting and servicing of loans

To make amendments to regulatory enactments regulating granting of central government loans, strictly defining the purposes for which central government loans may be used, as well as to determine other restriction in the field of central government loan granting that are related to maximum central government loan maturity, security, central government loan repayment terms in accordance with the purposes of use, etc.

Implementation of the functions of the Paying and Certifying Authority for the European Union policy instruments

1) To participate in the structural fund for the planning period of 2004-2006 closing procedure by carrying out verification, certification and submission of the Closing Declarations of Expenditure to the European Commission within the time limits and in accordance

with the procedure set forth in regulatory enactments, as well as to prepare the required information for institutions involved in structural funds management.

2) To carry out the required activities in order to ensure performance of functions set to the Treasury as Latvian-Swiss Cooperation Programme paying authority.

Corporate governance of the Treasury as a public administration institution

1) To ensure re-certification of the Treasury's quality management system in accordance with the requirements of the ISO 9001:2008 standard.

2) To elaborate and implement the project on potential Treasury Unit development models (scenarios).

3) To continue the effective use of information technology in servicing clients.