THE TREASURY

OF THE REPUBLIC OF LATVIA

# Public Report for 2010

# Content

# Abbreviations used in the Report

| | |
|---|---|
| **CDS** | Credit Default Swap |
| **CEB** | Council of Europe Development Bank |
| **EBRD** | European Bank for Reconstruction and Development |
| **EIB** | European Investment Bank |
| ***eKase*** | Electronic payment system of the central government budget |
| **ERDF** | European Regional Development Fund |
| **ESF** | European Social Fund |
| **EU** | European Union |
| **EUROSTAT** | The Statistical Office of the European Community |
| **GDP** | Gross Domestic Product |
| **JSC** | Joint Stock Company |
| **IMF** | International Monetary Fund |
| **NIB** | Nordic Investment Bank |
| **PPP** | Public-Private Partnership |
| **SEPA** | Single Euro Payments Area |
| **EAGGF** | European Agricultural Guidance and Guarantee Fund |
| **FIFG** | Financial Instrument for Fisheries Guidance |

# Units of Measure

| | |
|---|---|
| **LVL (lat)** | lats, the national currency of Republic of Latvia |
| **EUR** | euro |



*Translation by Skrivanek Baltic*

# The Treasurer's Statement

In 2010, heralding Latvia's recovering from the global and local financial crisis and economic downturn, the first improvements in the economy and national economy were observed. The relative assessment of Latvia as compared with other European countries affected by the crisis improved. The strategic progress and the priorities defined by the Treasury for 2010 are closely linked to the measures for overcoming the national financial crisis and stabilisation: further optimising of the central government budget execution, the central government debt servicing costs, as well as ensuring financial sustainability of the state and returning of investor's confidence.

The task of the Treasury is to manage and monitor public financial management processes effectively and safely by ensuring the execution of the central government budget, management of central government debt, cash and state budget loans and implementation of functions as a Paying and Certifying Authority of EU policy instruments. Thus the Treasury in its role as the Latvian financial market participant ensuring the financial management of the central government budget undertakes management of risks essential for the state. We proved how well the Treasury's processes and operations complied with that important status in 2010 (and also at the beginning of 2011) by successfully maintaining the quality management system of the Treasury in line with the requirements of the ISO 9001:2008 standard.

Considering the factors influencing the operations of the Treasury, its management set the following priorities for 2010:

1. increased supervision of national fiscal discipline proscribing inefficient and uneconomical use of central government budget funds, concurrently maintaining provision of client-focused services from the speed and convenience perspective;
2. development and offering current and new Treasury e-services and information exchange to the clients in order to attain significant savings of state budget funds in the years to come;
3. evaluation of the possibilities for rendering the services of the Treasury to a specific group of clients – local governments and their institutions;

4. activities for ensuring the return of Latvia to the international financial capital markets in the very near future;
5. completion of the structural reform of the Treasury.

In order to ensure efficient and safe public financial management and supervision process, as well as to standardize the central government budget financial management procedures, we have made investments in the information systems and developed electronic information exchange with the clients. Thus we ensure the accessibility to the services at a high level of information technologies conforming to the development trends and by using the resource optimisation possibilities to the maximum possible extent.

By releasing the technologically and functionally improved central government budget electronic payment system *eKase* we have additionally ensured introduction of the single sign-on principle, including ensuring the authentication possibility by using a safe electronic signature, submitting cash disbursement requests, foreign currency payment application functionality, etc.

We have introduced material updates to the information system Reports of the Central Government Budget and Local Government Budget ensuring full transfer to electronic submission, signing of reports and exchange of information among the central government and local government budget institutions as from 2011, thus significantly facilitating and automating the procedure for submission and preparation of reports. Reconciliation of transactions to be performed among the central government and local government budget institutions within the scope of drafting annual reports, which like submission of the reports in future will be performed only electronically, ensures transparency of the process and decreases the probability of errors.

At the end of 2010 the Treasury commenced offering SEPA credit transfer to the clients of the Treasury to expedite non-cash settlements in euros and to save central government budget funds related to the bank commissions for processing of payments.

The above, as well as other services rendered by the Treasury, and the structural reform of the Treasury ensures significant saving of state budget funds: the time necessary for rendering the services and the service administration expenses have materially decreased, the client is no longer required to be present at the Treasury to receive services, therefore no representation of the Treasury structural units in the regions of the country is necessary. By using our services, the clients are able to optimise work in their institutions; the residents do not have to pay commission for settlements with the state using payment cards when using the Treasury services in public authorities.

In 2010, when carrying out the borrowing activities for financing of the central government budget deficit and refinancing of the central government debt, ensuring the liquidity reserve necessary for the central government budget cycle and performance of liabilities, borrowing in the domestic market, as well as receipt of funding within the framework of the international loan programme was continued. The overall stabilisation of the financial market, as well as increase of the confidence of the securities market participants caused considerable changes to the levels of the securities market average interest rate. The levels of interest rates at medium-term securities auctions were lower than prior to the crisis. Securities with longer maturities – two, three and five year bonds, were offered to investors. Thus the average central government domestic debt repayment period was successfully prolonged. While upon improvement of the state macroeconomic indicators and during negotiations with the international lenders, the financing requested within the international loan programme was less than initially available. Although the funding of the international loan programme provided significant support in ensuring the creditworthiness of the state in 2010, it is intended in future to ensure financing of the central government budget and debt liabilities by borrowing activities in the domestic and foreign financial markets, as well as by using the balance of resources available in the Treasury accounts.

Pursuant to the delegation for 2011 we have reviewed the procedure for planning and issuing of state guarantees, as well as granting and servicing of the state budget loans. Thus during the guarantee granting procedure the potential state guarantee recipients and the projects to be implemented by them will be assessed according to uniform criteria prior to inclusion thereof in the annual state budget law. The state loan granting procedure within the scope of state budget lending, in its turn, has been simplified by improving the service quality and speed of performance, as well as preventing increase of risks related to failure to recover the state loans.

During performance of the function of the paying authority during the 2004-2006 programming period, the Treasury ensured the closure procedure of the EU structural funds 2004-2006 programmes by sending the final

Declarations of Expenditure to the European Commission in accordance with the procedure and by the deadlines prescribed in the regulatory enactments. At the Treasury's instigation, amendments to the regulatory enactment were made prescribing that for the projects, within the scope whereof support to the commercial activity is provided, the payments to the beneficiaries are made prior to receipt of funds from the European Commission. Thus the time period for receipt of funds for the expenditures incurred within the framework of the project by the beneficiaries was reduced. The regulation includes also a norm for optimisation of the procedure for preparation of expenditure declarations: the Treasury as the authority certifying EU policy instruments will be preparing expenditure declarations in the EU structural funds and Cohesion Fund management information system, while the cooperation/responsible authorities will no more be involved in the process of preparing expenditure declarations. The first payments for implementing the Latvian – Swiss cooperation programme have been claimed and received.

In 2010 the structural reform of the Treasury initiated in 2008 was completed: 87 or 33% of the official positions were liquidated in total, consequently decreasing the operational expenses and the budget funds for remuneration, purchase of goods and services. We were able to carry out the reform by improving the services rendered by the Treasury, thus materially optimising the personnel of the central apparatus and involved in the central government budget execution and control functions, incl. by liquidating 27 Treasury units. The structural reform was completed in December 2010 by terminating servicing of clients on site in Daugavpils, Kuldīga, Madona and Valmiera and by transferring to remote client servicing (servicing of clients on site is performed solely in the Client Servicing and Service Development Department Client Servicing Unit in Riga). By using the options provided by technologies the Treasury will continue improvement and development of services, and the performed structural changes do not reduce the quality of the Treasury services and availability to the clients throughout the entire territory of Latvia.

Upon commencement of its activities in 2011 the Treasury will:

1. continue to develop and offer current and new electronic services of the Treasury not only to the clients of the Treasury, but also as services to residents, the state and the central government budget in total;
2. based on the research process commenced in 2010, offer the possibility for use of the services rendered by the Treasury to the local governments and their institutions;

3. make the processes and mechanisms for supervision of the central government budget execution, as well as indirect management of liabilities more efficient;
4. perform activities to ensure financially profitable and tactically correct return of Latvia to the international financial markets;
5. review and reduce the bureaucratic processes of the institution.

I am grateful for the work performed by the employees of the Treasury in 2010, for unified, professional, targeted and conscientious team work, without which our strategic goals and excellent performance of daily tasks could not possibly be attained. This is our contribution to the improvement of the economy of our country and improving the welfare of the population.

**Kaspars Āboliņš**
The Treasurer
Riga, 1 March 2011

# Operational Strategy of the Treasury

The Operational Strategy of the Treasury is a medium term planning and management document based on the functions and assignments fixed in Treasury Regulations, as well as the financing planned for their execution.

The Strategy prescribes the operational directions of the Treasury, its strategic targets, assignments, results and performance indicators, as well as the budget programmes and sub-programmes corresponding to the operational directions and a summary of its financial indicators. The task of the Strategy is to facilitate the involvement of all Treasury employees in attaining the set targets.

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

The Strategy prescribes the following Treasury operational directions, the execution of which in 2010 is described in this Report:

1. **the central government budget execution**, which is oriented towards ensuring an effective and economical budget execution process and the improvement of services provided by the Treasury in accordance with the best practices of financial management;
2. **central government debt management**, to secure the necessary financial resources, including those on public capital markets, at the lowest possible cost, to limit financial risks and, to the extent possible, promote the financial interests of the State in the process of issuing state guarantees, with consideration given to factors of state macroeconomic stability and the development of the capital market and financial system, which is aimed at the introduction of the euro currency in the medium term;

3. **cash and state budget loan management**, by providing effective and safe cash management, limiting and monitoring financial risks, ensuring the necessary liquidity promptly and in full amount for execution of state liabilities, as well as performing effective granting and servicing state budget loans, with consideration of the necessity to achieve state macroeconomic stability and development targets in the medium term.
4. **Realisation of EU policy instruments Paying and Certifying Authority functions** by organising and standardising the execution of the functions of the Paying and Certifying Authority in a way that ensures the fulfilment of requirements included in legislative acts of the granting authorities and the Republic of Latvia and also the timely receipt of funds from the granting authorities, and also minimises the permissible risk for the inclusion of improperly incurred expenses in expense declarations and reports.

The Treasury observes **unified institution operation principles** to achieve its set targets:

1. quality and risk management;
2. personnel management;
3. effectiveness of the operational management of the internal control system;
4. use of information technology and information security;
5. lawfulness and legality of Treasury activities;
6. institutional administration;
7. institutional communication.

**The principal priorities** of the Strategy are as follows:

1. efficient human resource management, whereby employee development at all levels and their involvement in the attainment of the Treasury's targets is encouraged;
2. ensuring high-level access to the services provided by the Treasury, in accordance with developments in information technology and by utilising the resource optimisation capabilities they afford;
3. efficient and secure administration and monitoring of the public financial management processes in accordance with the interests of the State and its residents.

# Legal Status and Structure of the Treasury

**The Treasury** is a direct administration institution subordinated to the Ministry of Finance. Its operational 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. organising 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 EU policy instruments, the European Economic Area Financial Instrument and the Norwegian Government Bilateral Financial Instrument, and the National Fund functions delegated by the National Authorising Officer;
5. other functions prescribed by laws and regulations.

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

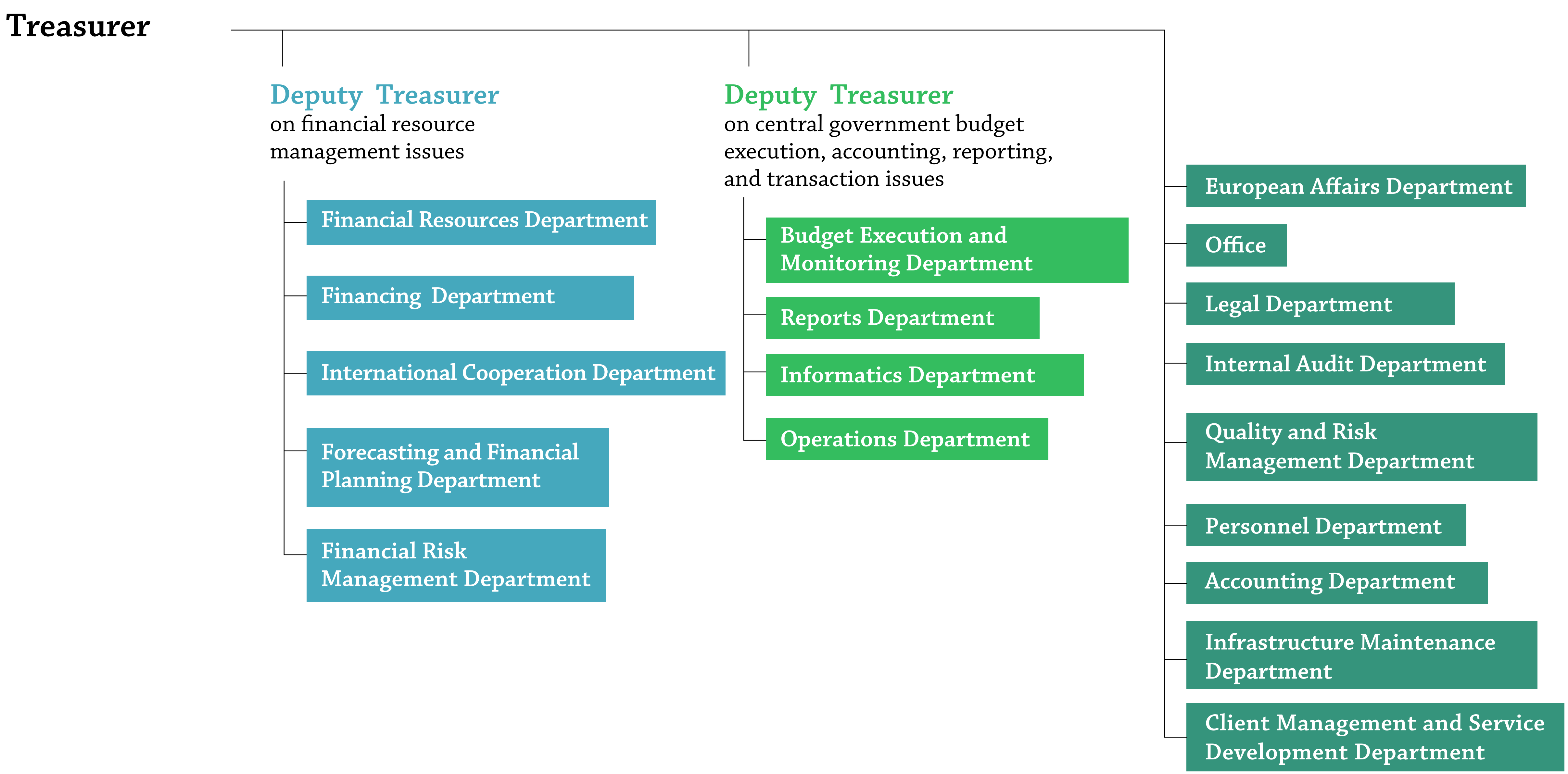
The structure and work organisation of the Treasury is established by the **Rules of Procedure of the Treasury**. Due to the structural **changes in the Treasury** that took place in 2009, new Rules of Procedure were issued 16 July 2009.

In order to limit the financial risks as much as possible, **the structure** of the Treasury has been developed according to the function separation principle (according to the bank and European debt management offices):

1. client servicing and financial transactions;
2. financial risk management;
3. ensuring accounting and preparation of statements.

During the period from 2008 to 2010 the Treasury improved the services rendered and completely converted to electronic settlements using the State budget electronic payment system *eKase*, based on the Administratively Territorial Reform and the economic situation in the country, performed the structural reform by optimising the personnel involved in the performance of the central apparatus and central government budget execution and control function, incl. liquidation of 27 Treasury units**.** The structural reform was completed in December 2010 by terminating servicing of clients on site in Daugavpils, Kuldīga, Madona and Valmiera and by transferring to remote client servicing (servicing of clients on site is performed solely in the Client Servicing and Service Development Department Client Servicing Unit in Riga). **By using the options provided by technologies the Treasury will continue improvement and development of services, and the performed structural changes do not reduce the quality of the Treasury services and availability to the clients regardless of where they are in Latvia**.

# Flowchart of the Treasury's Structure



In order to make unified decisions, the following **committees** continued their work in 2010:

**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 authorised to decide on potential measures for mitigation or prevention of the most significant risks to the Treasury.

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

**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 accounting policy and its compliance with accounting standards, establish accounting policy objectives, improve and update accounting policy and facilitate compliance with the requirements established thereby.

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

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

**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.

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

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

## Activities of the Treasury in 2010

# 1. Central Government Budget Execution

## 1.1. Characteristics of the 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 central government budget, the Treasury maintains **the Unified Central Government Budget Planning and Execution Information System**, where budget accounts for budget executors are opened; grants 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 central government budget; and keeps records of central government budget revenue as well as providing information concerning the taxes and fees collected by 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, while yielding 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 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 institutions.

# 1.2. Organisation of the 2010 Central Government Budget Execution

## Granting and Implementation of Assignations

In 2010 the Treasury allocated **5 192.46 million lats for the central government budget execution**, including 3 561.95 million lats for the central government basic budget and 1 630.51 million lats for the special budget. Funding was allocated to **378 budget institutions** that have **2 041 budget accounts** opened.

Table 1

Number of Central Government Budget Revenue and Expenditure Accounts at the Treasury in 2009 and 2010

| General government budget revenue accounts | | | General government budget expenditure accounts | | | Special budget accounts | | | Donation and grant accounts | | | Operations accounts | | | Deposited funds accounts | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2009 | 2010 | % | 2009 | 2010 | % | 2009 | 2010 | % | 2009 | 2010 | % | 2009 | 2010 | % | 2009 | 2010 | % |
| 283 | 291 | +2.8 | 2210 | 2041 | -7.6 | 43 | 44 | +2.3 | 305 | 242 | -20.6 | 5787 | 5843 | +1.0 | 615 | 487 | -20.8 |

*Source: The Treasury*

**The number of central government basic budget expenditure accounts** in 2010 as compared with 2009 **has decreased by 169 accounts or 7.6%**. The main reason for decrease of the number of accounts was the structural reforms in the public administration resulting in continuation of the decrease of the number of budget institutions, as well as the number of opened budget expenditure accounts. It is expected that the trend of decrease in the number of institutions and number of opened accounts will continue also in 2011.

In 2010 **1 660 operations accounts were opened and 1 604 accounts were closed**. The main reasons for increase in the number of accounts were intensive implementation of EU structural funds and projects co-financed by foreign financial aid, for whose implementation new operations accounts were opened with the Treasury, while the reasons for closing of the accounts were centralisation of accounting of local governments and the implemented EU structural fund projects. In comparison with the previous years **the number of deposited funds accounts has decreased** by 128 accounts or 20.8% as compared with 2009, which may be explained by the decrease in the number of budget institutions in 2010.

The Treasury performs **granting and implementation of assignations** in accordance with the regulatory enactments prescribing the procedure for granting assignations and grants from the general revenues to the budget performers based on the approved financial plans, as well as prescribes the procedure for use of the preceding year central government budget fund balance. At the end of 2010 additional procedure for suspension, renewal or revocation of the EU policy instruments or foreign financial aid funding was determined, the activities related to terminating of unused assignations to be performed at the end of the year were adjusted, as well as, due to the implementation of the unified user authentication in the information systems of the Treasury, the procedure for authorisation of users in the Financial Plan Processing Information System was determined.

## Accounting and Reporting

Pursuant to the regulatory enactments, the Treasury **prepares** official **daily, monthly, quarterly reports and the Annual Report on the Central Government and Local Government Budget Execution** (the monthly reports are available on the website of the Treasury in the internet, the Annual Report on the Central Government and Local Government Budget Execution is published on the webpage of the Treasury after receipt of the opinion of the State Audit Office).

The Treasury **prepares the Annual Report on the Central Government and Local Government Budget Execution by consolidation of the information from the annual reports submitted by the ministries, central government institutions and local governments**. The structure and scope of the annual report is prescribed by the law On Budget and Financial Management and the Cabinet Regulation Regarding the Procedures for Preparing an Annual Report. In 2010 the Annual Report on the performance in 2009 was prepared by **consolidation of the annual reports submitted by 14 ministries, 12 central government institutions and 144 local governments**. **Ministries and other central government institutions include the annual reports of the central government budget institutions, derived public persons partially financed from the central government budget and institutions not financed by the central government budget**

**in the consolidated central government annual report, while the annual reports of local government budget institutions and joint institutions are included in the local government consolidated annual report**.

**The Annual Report audited by the State Audit Office is the most significant and credible source of information on the financial condition of the nation as at the end of the reporting period and on the budget execution results during the reporting year.** The opinion of the State Audit Office on the Annual Report is very significant confirmation that the report provides a clear and true representation of the completeness and credibility of the information disclosed in the reports. The opinion of the State Audit Office attests the quality of the information included in the Annual Report and used by Saeima (the Parliament), the Bank of Latvia, as well as different international institutions (European Commission, EUROSTAT, IMF, international rating agencies), potential investors that based on the information set out in the Annual Report adopt decision on the potential investments in the economy of Latvia.

The problems highlighted in the opinion of the State Audit Office on the correctness of preparation of the previous Annual Reports have facilitated gathering information on the state and local government property and putting in order the accounting of long-term assets.

In order to include uniform and comparable information in the Annual Report **the Treasury develops and updates the regulatory enactments governing the accounting and reporting of budget institutions**. In comparison with the preceding years the range of subjects, upon which the regulatory enactments developed by the Treasury are binding, has increased, since the amendments to the law On Budget and Financial Management prescribe that the **derived public persons partially financed from the central government budget and institutions not financed by the central government budget shall also submit reports to the Treasury**.

In order to ensure compliance with uniform principles in the financial accounting and reporting of state and local government budget institutions, **arrangements for improvement of budget institution accounting** were carried out, including development of supplements to the existing regulatory enactments, cooperation with other drafters of regulatory enactments within the area of accounting, as well as provision of detailed explanations to the drafters of reports.

In 2010 new Cabinet of Ministers regulations came into effect prescribing **the accounting procedures for central government budget institutions**, adjusting the accounting and assessment methods to decrease the long-term investment value, classification and accounting of lease transactions, recognition and valuation of provisions and accrued liabilities, determining accounting for museum reserves and state or local government real estate held by joint stock companies, as well as explaining determination and accounting of potential liabilities and potential assets emerging as a result of different agreements made, and supplementing the account plan with new accounts necessary for detailed accounting and adjusting the descriptions for application of the existing accounts.

The amendments to the regulatory enactments on preparing the annual report of budget institutions made in 2010, which came into effect as from 1 January 2011, prescribe that the auditors will provide opinions or reports only electronically, thus **ensuring transfer to electronic reporting and archiving. Electronic reconciliation of account balances, payments and transactions made is provided**, which will ensure more operative exchange of information among the transaction partners facilitating transparency of the process and decreasing the probability of errors.

In 2010 for the purpose of supervision of fiscal discipline by the Fiscal Discipline Supervision Committee and at the request of international lenders and the most significant users (EUROSTAT, the European Central Bank, international financial institutions, as well as Saeima, the State Audit Office, the Ministry of Finance, the Bank of Latvia, the Central Statistical Bureau) the Treasury prepared and submitted **additional information on the progress of the state budget execution, most significant financial indicators, by summarising the information from the financial statements of the state and local governments, as well as related and associated companies. The analysis of risks existing in the budget financial management process was performed as well**, by adopting the respective decisions on limiting or eliminating them in 2011 and in the mid-term perspective.

# 1.3. Development of the Services and Electronic Services of the Treasury

One of the operational priorities set in the strategy of the Treasury stipulates that the services provided by the Treasury must be available at a high level and in line with the latest developments in information technology, taking advantage of the resource optimisation capabilities this affords. In 2010 the Treasury maintained and continued development of the following services and information exchange systems for the clients of the Treasury:

## Unified Central Government Budget Planning and Execution Information System

**The Unified Central Government Budget Planning and Execution Information System** supports the full cycle of central government budget management, from budget planning to budget execution and monitoring, as well as making it possible to reduce the transaction processing time and increase the range of services. By implementing this system, the deficiencies of other systems have been eliminated, the number of information systems in use was reduced and the administration of the information and systems was simplified.

The Treasury maintains the Unified Central Government Budget Planning and Execution Information System that ensures the central government budget planning and execution processes in the system:

1. the central government budget planning functionality ensures processing of the central government budget and amendments thereto by summarising the data from ministries and central government budget institutions (this functionality is carried out by the Ministry of Finance);
2. the central government budget execution functionality ensures the Treasury and the central government budget institution processes in the system, e.g. account opening, granting and implementation of assignations, the central government budget revenue process, daily, monthly and year-end closure processes, as well as Local Government Financial Equalisation Fund and personal income tax distribution process (this functionality is carried out by the Treasury).

**The Data Storage** of the Unified Central Government Budget Planning and Execution Information System ensures preparation of reports on the budget execution according to the central government budget structure.

As from 9 November 2010 **the Treasury commenced offering SEPA credit transfer to the clients of the Treasury using the *eKase* system, which is integrated in the Unified Central Government Budget Planning and Execution Information System**. SEPA anticipates introduction of a single integrated euro payment market (in future replacing the national payment systems currently used in Europe), where any client anywhere in Europe will be able to receive euro non-cash payment services on the same basic terms, under the same rights and obligations, in the same fast, safe and simple manner as when currently making domestic euro payments. Geographically SEPA includes 27 EU Member States, Iceland, Lichtenstein, Norway, Switzerland and Monaco.

Transformation of the payment processes using innovative solutions incorporating the entire payment process will materially improve the efficiency of data processing, decrease expenses and facilitate progress to standardisation and automation. Introduction of ISO 20022 XML reporting standard (SEPA credit transfer messaging format) will ensure standardisation of messaging formats and thus will materially decrease expenses currently incurred due to maintenance of the different national payment formats and the related information technology standards, incl. system administration. Besides use of the XML technology provides more flexibility with respect to adaptation of the information systems in future.

Introduction of SEPA payment transaction product ensures improvement of payment data processing efficiency, e.g. replacement of hard copies and/or manual procedures by electronic services, thus improving control over data processing and increasing its efficiency. **Joining the electronic clearing system of the Bank of Latvia compliant with the SEPA requirements ensures a monthly saving of the central government budget expenditure for servicing the Treasury accounts in credit institutions amounting of approximately 4 000 lats**.

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

Those submitting reports for budget institutions may submit monthly, quarterly and annual reports to the Treasury and confirm them electronically in the information system "Reports of the Central Government Budget and Local Governments Budget", which is based on the latest IT solutions and uses the web environment. In order to develop electronic services and online information exchange with the clients of the Treasury and to ensure a unified system of central government and local government budget reports and statistical reports, **material innovations were introduced in the Information System "Reports of the Central Government Budget and Local Government Budget" in 2010, which will ensure full transfer to electronic submission, signing of reports and exchange of information among the central government and local government budget institutions as from 2011,** thus significantly facilitating and automating the procedure for submission and preparation of reports. Reconciliation of transactions to be performed among the central government and local government budget institutions within the scope of drafting annual reports, which in future will be performed only electronically, ensures transparency of the process and decreases the probability of errors. Electronic consolidation and submission of reports both by the auditors and to the Treasury will be performed in 2011, when submitting the reports for 2010.

The introduced **solution will allow ensuring centralised submission of electronic reports for storage in the Latvian National Archive** that was until now performed in hard copy by each institution individually. That will considerably save the resources of the institutions and the Latvian National Archive.

Benefits from the aforementioned innovations **will insure more operative exchange of information among the transaction partners, availability of information in one place, to a wider range of clients and several users simultaneously, will insure processing speed, as well as save a considerable amount of Treasury clients' time and financial resources, especially the institutions consolidating the reports**, i.e. the ministries and local governments, as well as auditors – certified auditors and the State Audit Office. The users of the electronic service will be able to monitor the financial indicators of their institutions and subordinate institutions more comfortably thus obtaining more operative and higher quality information for the implementation of financial management processes.

The electronic information exchange among the Treasury and its clients will ensure availability of services on a modern level compliant with the information technology development trends by utilising the administrative and time resource optimisation possibilities provided by them.

In 2010, by utilising Information System "Reports of the Central Government Budget and Local Government Budget", **the Treasury has ensured a possibility for local governments to perform electronic reconciliation of transactions with the Treasury within the annual inventory process.** Reconciliation of the data for 2009 was performed by districts, regional councils, ministries and their subordinate institutions with respect to paid and received funds from the personal income tax and Local Government Financial Equalisation Fund, from the mandatory social security contributions, duty on business risk, loans granted by the Treasury, term deposits with the Treasury and interest on the account balance. By using the electronic reconciliation among the Treasury and its clients more operative exchange of information is ensured, circulation of hard copies and the necessity for storage thereof is decreased thus providing the possibility for saving the resources of the Treasury and its clients.

In October 2010 **Information System "Reports of the Central Government Budget and Local Government Budget" was integrated with the Treasury External Users Unified Authentication System, ensuring use of uniform authentication solution for all the external information systems of the Treasury**.

## Electronic Payment System of the Central Government Budget *eKase*

The Treasury is into its seventh year of using the electronic payment system of the central government budget *eKase*, which has been elaborated to provide the Treasury services electronically. **Via *eKase*, the Treasury grants remote access to services to clients concurrently guaranteeing the security and confidentiality of information**.

By continuing maximum efficient use of the information technologies in client servicing and resource optimisation, **in 2010 the Treasury released the new version of *eKase***, which has completely superseded the former system and is technologically and functionally superior: **the single sign-on principle has been introduced**, including **ensuring the authentication possibility by using a safe electronic signature,**

**the foreign currency payment processing functionality has been introduced, the report section of *eKase* has been visually and functionally improved, system internal communications solutions and the possibility to personalise system setup has been introduced**.

Introduction of the new *eKase* ensured **the possibility of complete transfer to electronic acceptance of payments for processing**, as well as efficient supervision of the payment orders submitted for processing through control over payment orders that are unusual or create suspicion of violation of regulatory enactments.

In order to assess the security of *eKase* system and its compliance with the generally accepted system security standards, **the Treasury performed the new *eKase* security testing**: no critical *eKase* system operation and client data security threats were established.

In May 2010 the Treasury introduced a new service – **disbursement of cash by using electronic Cash Disbursement Request in the *eKase* system**. The new service replaces the former cash disbursement service – cash disbursements by cheques – and ensures more operative and less bureaucratic procedure for cash disbursements to the clients of the Treasury.

In July 2010 **new functionality** was introduced in *eKase* **that ensures reservation of the amount of foreign currency necessary for performance of payment orders** using a special application form that facilitates the foreign currency application procedure to the clients of the Treasury, reduces the time period used by the Treasury employees for data processing and decreases operational risks related to supply of foreign currency resources.

In November 2010, concurrently with the Treasury joining the SEPA credit transfer system, **functional amendments to *eKase* were made by introducing special SEPA payment order input form**, as well as the payment data processing control system was improved thus increasing the efficiency of payment data processing.

In October 2010 the Treasury commenced **introduction of the unified Treasury electronic services access point (in the Treasury electronic services portal) principle** by ensuring that **authorised information system users of the Treasury clients may access several Treasury electronic services systems** (*eKase*, information systems "Reports of the Central Government Budget and Local Government Budget" and "Financial Plan Processing") from one internet site https://v.kase.gov.lv/login with the same authentication tools. Such technological and functional changes considerably decrease the time required for rendering the Treasury services and the expenses related to administration of services incurred by the Treasury and its clients.

## Information System "Financial Plan Processing"

In 2010 the Treasury introduced the unified Treasury information system for user authentication, within the scope of which the users of the Financial Plan Processing information system were connected to the unified authentication and further on will be able to easily use unified authentication tool for access to any information system of the Treasury.

The Financial Plan Processing information system is used by users from all ministries and central government institutions (88 in 2010). 9 414 central government basic budget financial plans and 177 special budget financial plans were registered and processed in the system in 2010.

In 2010 the work was commenced to ensure the use of the system not only on the ministry and central government institution level, but also on the level of subordinate institutions. After implementation of the project the optimum and modern data exchange process among the institutions, ministries and the Treasury will be ensured in 2011.

## Credit Cards Tied to the Treasury Accounts

As of 1 January 2007, the Treasury in collaboration with JSC Swedbank provides budget institutions the opportunity to perform budget expenditures **with credit cards tied to the Treasury accounts**. Credit card services are provided for expenditures incurred by staff on business trips and visits, as well as administrative expenses. By introducing credit cards tied to the Treasury accounts the employees of central government budget institutions are ensured the possibility to make non-cash payments during their business trips, complying with the Law on Budget and Finance Management, which requires that budget expenditures are to be made from accounts opened with the Treasury.

When the expiry of the agreement on opening and servicing of unified credit card accounts (31 December 2010) was approaching, the Treasury organised a new procurement in 2010 to determine the new service provider for the credit cards tied to the Treasury accounts. As the result of an open tender JSC Swedbank was recurrently chosen to be the service provider and will continue rendering the aforementioned service in future as well.

Based on the experience gained during the preceding procurement, **the Treasury made material changes in the organisation of the service process by considerably simplifying the service processing, account opening, card issuance and financial resources provision procedure** in the new service procurement. The Treasury commenced rendering the new service as from 15 December 2010.

In 2010 the services provided by credit cards tied to Treasury accounts were used by **90 state budget institutions and a total of 787 credit cards were issued to them**.

## Introduction of Payment Cards for Collecting Central Government Budget Payments and Charges for Services Provided by the Central Government Budget Institutions

In 2010 the Treasury in co-operation with JSC SEB banka and JSC Citadele banka continued introduction of the service of accepting payment cards at the institutions administering the central government budget payments.

The agreement entered into by JSC SEB banka and the Treasury provides for free-of-charge installation, servicing of payment card terminals and staff training in the operation of the terminal and the general principles of accepting payment cards.

The essence of the service is **to provide private persons with equal opportunities at all state budget institutions (including institutions and organisations collecting central government budget payments) to use VISA, *VISA Electron*, *MasterCard*, *Maestro* and *American Express* payment cards as a means of payment for services provided by state budget institutions**.

In 2010 the Treasury approved the entitlement of 36 state budget institutions to receive the payment card acceptance service and **a total of 493 payment card terminals were installed at state budget institutions in 2010**. In 2010, **287 823 transactions were performed** using payment cards at state budget institutions, **for**

**a total amount of 6 8311 145 lats**. Comparing those data with the data of 2009, **the number of transactions has increased 2.5 times**, this fact shows that the population has faith in the service and increasingly uses payment cards to pay for the services provided by the state budget institutions.

## Standardisation (Adjustment, Improvement) of the Procedure for Recognition of the Payments made in the Central Government Budget

Pursuant to the delegation set out in Article 25($1^1$) of the law On Budget and Financial Management, the Treasury developed and on 12 October 2010 the Cabinet adopted Cabinet Regulation No. 972 **"Procedure, by which payments into the central government budget are to be performed, and by which they are to be recognised as received in the central government budget, and the requirements for the use of online payment services for transactions with the central government budget"**, which under a uniform terminology govern all types of payment services applicable to the payments to be made into the central government budget and determine a set of uniform procedures for recognition of the payments as received in the central government budget according to each type of payment services.

The procedure for recognition of payments as received in the central government budget prescribed in the regulation **will have the most significant influence on the procedure for recognition of the remote (through a payment institution) payments** – the payments made through a payment institution after 1 January 2012 will be recognised as received in the central government budget solely after the Treasury has made the amount received from the payer's payment service provider available in the central government budget account in the Treasury, and the institution administering the central government budget payments has verified the fact of payment receipt . Until 1 January 2012 the institutions administering the central government budget payments are entitled not to apply the above norm, and may recognise the payment made through a payment institution as received in the central government budget, if the payment document contains clearly legible name, last name or company name of the payer and it has been signed by the payer or the payment service provider has approved the payment by its stamp and signature.

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

By improving and developing client service quality, in 2008 the Treasury developed **an online data exchange system** that makes the performance of State administration functions in the field of public finance management more efficient, **ensuring operative exchange of payment data information between the Treasury and the client**. 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 improve the system functionality and develop technical infrastructures of appropriate performance, the Treasury applied for the ERDF funds within Sub-activity 3.2.2.1.1 "Development of Information Systems and Electronic Services" of Activity 3.2.2.1 "Development of Electronic Services and Information Systems of Public Administration" of Measure 3.2.2 "ICT Infrastructure and Services" of Priority 3.2 "Promotion of Territorial Accessibility" of the action programme "Infrastructure and Services", and the submitted project was included in the list of priority projects of electronic management and information society development approved by 15 March 2010 Cabinet Order No. 147.

The purpose for improvement of the on-line data exchange system of the Treasury is **to ensure to all institutions administrating the central government budget payments the possibility to operatively receive data on the payments made into the central government budget accounts**, thus ensuring also operative and complete procedure for payment recognition. Within the project the Treasury intends to perform technical improvement of the on-line data exchange system through the following activities:

1. ensuring automated (server-to-server request) exchange of payment data information between the Treasury as the holder of information and the Treasury client as the user of information;
2. introduction of user interface ensuring authentication of the user's work session, making payment data requests to the Unified Central Government Budget Planning and Execution System, including payment search and on-line receipt of requested data via internet browser (client-to-server request);

3. introduction of user interface integrated in the Treasury external internet site, where any payer specifying the payment reference number may verify that the payment made by him/her has been transferred into the central government budget (receive reply, whether the payment has been recorded in the central government budget account in the Treasury);
4. locating the developed system on the technical resources of appropriate performance.

**In August 2010 the Cabinet supported the on-line data exchange system concept developed by the Treasury**, and in December 2010 the Ministry of Regional Development and Local Governments as the institution responsible for implementation of Sub-activity 3.2.2.1.1 "Development of Information Systems and Electronic Services" of Activity 3.2.2.1 "Development of Electronic Services and Information Systems of Public Administration" of Measure 3.2.2 "ICT Infrastructure and Services" of Priority 3.2 "Promotion of Territorial Accessibility" of the action programme "Infrastructure and Services" approved the application submitted by the Treasury. Pursuant to the project plan, implementation thereof is planned to be carried out within a period of 15 months as from the date of signing the agreement on the project implementation.

## Centralised Financial Accounting Solution

In order to ensure unified financial management, accounting and personnel registration of the Ministry of Finance and its subordinate institutions, at the end of 2010 the Ministry of Finance organised the tender for implementation and maintenance of centralised registration solution. The Treasury will ensure implementation and maintenance of the chosen solution, as well as data export from it to the Treasury data storage for drafting unified management reports within the departments of the Ministry of Finance.

# 1.4. Performance Indicators of the Results of Activities within the Central Government Budget Execution Prescribed in the Strategy of the Treasury

Table 2

Performance Indicators of the Results of Activities within the Central Government Budget Execution

| No. | Result of activity | Performance indicators | Indicators (numeric values) Last known precise measurement (2009) | Planned in 2010 | Performance in 2010 |
|---|---|---|---|---|---|
| 1. | Optimised budget execution process resources | 1. Proportion of the payments processed through the electronic payment system of the central government budget *eKase* in the total amount of payments, %. | 86 | 95 | 99 |
| | | 2. Number of institutions using the Treasury online data exchange system, % of the total number of institutions. | - | 2.4 | Due to the fact that implementation of the project "Improvement of the Treasury Online Data Exchange System" financed by the ERDF has not been commenced due to the reasons beyond the control of the Treasury (pursuant to the approved project application, the commissioning of the system is planned to be performed during the I quarter of 2012), the planned index has not been reached. |
| | | 3. Decrease in number of payments which do not match the economic classification and purpose of payment made to the central government budget accounts (except tax payments), % of the total number of payments. | - | 10 | Since the work on the unified service classifier and the unified supporting document identifier solution, which will ensure attaining the result prescribed in the strategy in mid-term, is in progress, the development and implementation index set for 2010 has not been reached. |

## Activities of the Treasury in 2010

# 2. Central Government Debt Management

## 2.1. Central Government Debt Management Function

In accordance with authorisation from the Minister of Finance, **the Treasury performs the management of central government debt and temporarily free funds, transactions with derivatives and other transactions within the framework of government debt management, as well as organising the issue and monitoring of 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 the 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 **Central Government Debt Management Strategy** approved by the Minister of Finance.

In compliance with the Central Government Debt Management Strategy, **government debt portfolio management** is conservative and aimed at limiting and preventing financial risks, allowing use of derivatives, determined in the Central Government Debt Management Strategy, only to ensure management of financial risks. The approach in **government borrowing management** is to ensure borrowing opportunities, liquidity and beneficial borrowing conditions.

The amount of government borrowing, central government debt level and the respective costs to be set aside to meet the debt obligations are affected by **the size of the total financing requirement**, comprised of the financial balance of the central government budget, the financing necessary for granting central government budget loans, the amount of central government debt obligations to be settled, as well as the amount of the required liquidity reserve to ensure the implementation of the central government budget cycle and commitments. Planned measures to satisfy the total financing requirement within the current year and the choice of financial instruments best suited for financing are prescribed in the annual **medium-term Funding Plan**, which is developed by the Treasury based on the guidelines established in the 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 organises visits by 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-securities). Therefore, the credit rating is an important factor for Latvia in ensuring availability of financing, which affects the borrowing costs. Rating agencies review the credit rating of the Republic of Latvia and its outlook on an annual basis and also assign ratings to each specific government-issued securities. At the end of 2010 **Latvia's long-term foreign currency credit rating is Baa3 (*"Moody's Investors Service"*) and BB+ (*"Fitch Ratings", "Standard & Poor's" and "R&I"*) with a stable outlook** from all agencies. By increasing the country's credit rating outlook to stable the agencies have indicated the resumption of economic growth, considerable fiscal consolidation, ensuring currency exchange rate and resumption of financial sector stability. In order to coordinate cooperation with the international rating agencies and provide the rating agencies with a coordinated opinion and complete and objective information on the developments in the country, in January 2010 on basis of the Cabinet of Ministers order an inter-institutional working group at the request of headed by the representative of the Treasury was formed. Once a year the working group informs the Cabinet of Ministers on Latvia's credit rating and factors influencing it, as well as provides proposals for improvement of credit rating.

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

## 2.2. Central Government Debt Management Strategy

The Central Government Debt Management Strategy outlines **the medium term activities of the Treasury in central government debt management** in accordance with economic development trends, as well as by performing analysis of the situation in the Latvian and global financial markets. The Central Government Debt Management Strategy **sets targets and assignments in government debt management**.

The 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 foreign currency net debt.

**The goal of the Central Government Debt Management** is to maintain possibilities for attracting resources in the international and domestic capital markets on optimum borrowing terms.

The Treasury, if necessary, reviews the Central Government Debt Management Strategy and the compliance of the debt portfolio structure parameters with the macroeconomic and financial market situation and forecasts. In 2010 the Treasury **updated the Central Government Debt Management Strategy** as well by reviewing the central government debt management goals, assumptions and basic principles, as well as setting mid-term tasks for resumption of Latvia's creditworthiness.

## 2.3. Communication with Investors

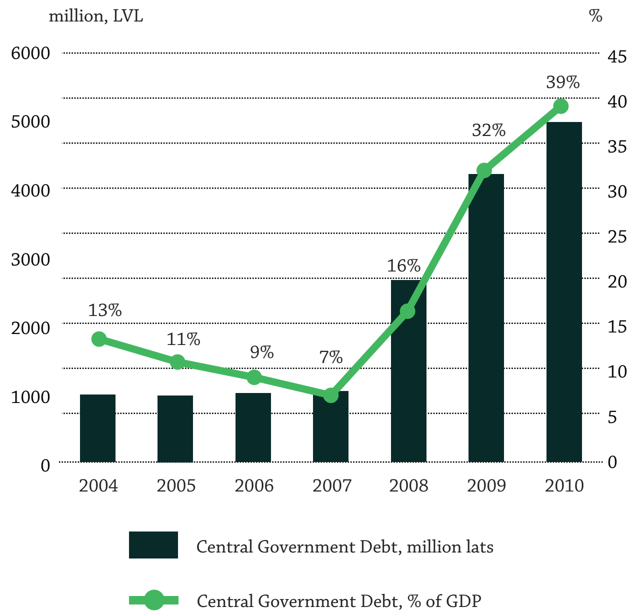
In order to implement purposeful management of investor relations and define the corresponding measures to be undertaken, the Treasury continues informing investors and co-operation partners on a regular basis by preparing the Central Government Debt Management quarterly bulletins and compiling reports of current weekly events.

The Treasury prepares an analytical **Report on Central Government Debt Management** (in Latvian and English) for each year, 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 government debt management, performance indicators and future trends. The Report on Central Government Debt Management is also sent to other bodies implementing government debt management functions in the EU (debt management offices), as well as to several embassies of the Republic of Latvia abroad. The cooperation partners (including banks) expressed their appreciation of this form of presenting information on the latest developments in the Latvian central government debt management.

Once a quarter the Treasury publishes on its website **Central Government Debt Management Quarterly Bulletin** (in Latvian and English), where it provides the current central government budget execution and debt management data, the latest information on the credit rating of Latvia, borrowings made in the domestic and foreign capital markets, debt portfolio management, government securities' auction trends and results, as well as on local government loans.

Every week the Treasury summarises, sends to the investors and publishes on its website a **Weekly Update** (in English) of the most important events in central government budget and debt management, with latest information on the financial sector of Latvia, economics and politics.

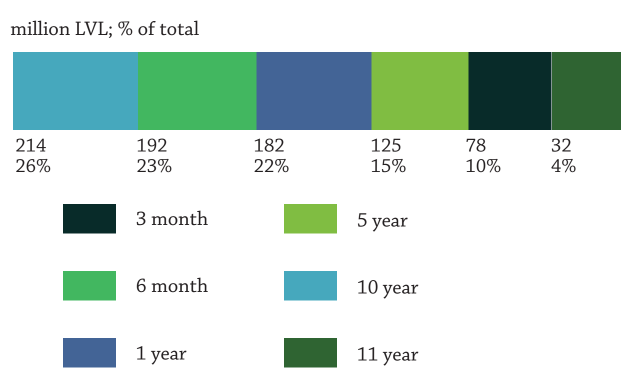
Chart 1. Central Government Debt (nominal value) in 2004-2010 (in millions, LVL/% of GDP)




*Source: The Treasury*

Chart 2. Government Domestic Securities in Circulation

End of 2009




*Source: The Treasury*

# 2.4. Changes in the Central Government Debt in 2010

In 2010, to raise financial resources for the financing the central government budget deficit and the refinancing of central government debt, to ensure the liquidity reserve required for the central government budget execution cycle and to meet obligations **borrowing in the domestic market was continued, as well as funds from the international loan programme were obtained**. In 2010 significant source for covering the total financing requirement was still the funding of the international loan programme: loans were received from the European Commission amounting to 492.0 million lats, from the IMF amounting to 215.9 million lats and from the World Bank amounting to 70.3 million lats.

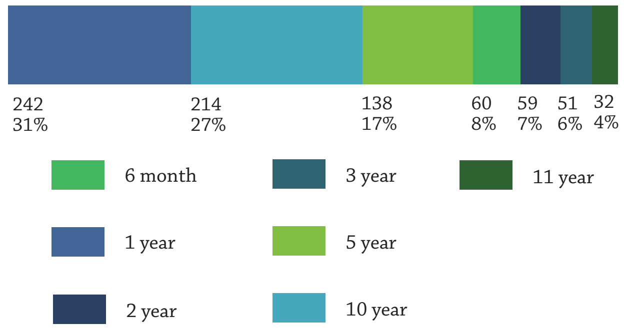
In order to maintain the securities market, ensure sufficient amount of investments for institutional investors and raise resources for covering the financing requirement, the Treasury, as in 2009, continued organising the government securities' auctions **mainly to refinance the government domestic debt obligations**.

**Issues of short-term domestic T-bills maturing in three, six and twelve months, as well as mid-term domestic T-bonds maturing in two, three and five years were used** as central government domestic borrowing instruments **for covering financing requirement** in 2010. **The amount** of resources attracted with securities issues **in the domestic financial market** in 2010 **is 630.3 million lats**.

In 2010, due to the borrowings made and repayment of debts **the central government debt** increased by 773.3 million lats and **reached 4 942.6 million lats** in nominal value **or 39.1% of the GDP** as at 31 December 2010, not exceeding the maximum debt level of 7.500 million lats prescribed in the annual State Budget Law at the year-end (see Chart 1).

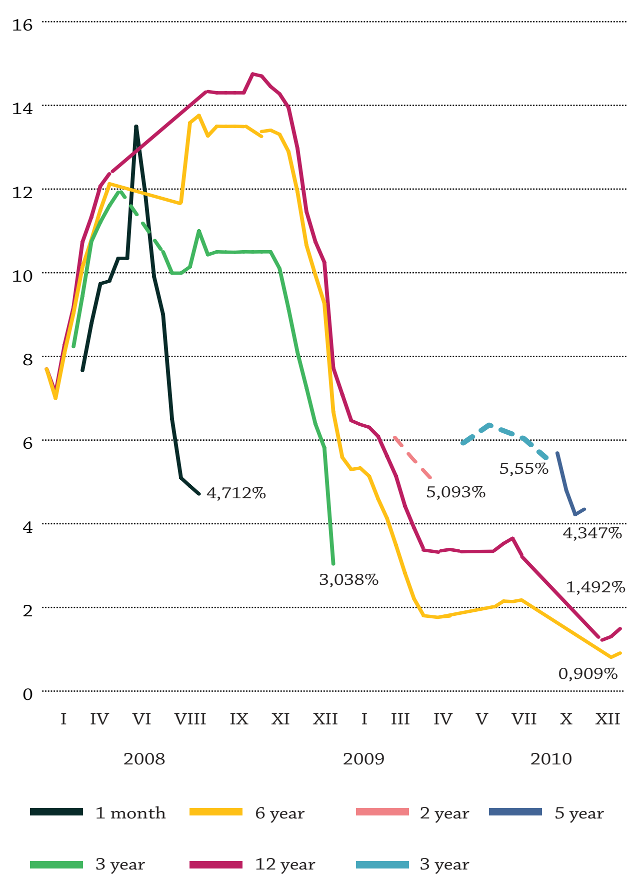
End of 2010

million LVL; % of total




*Source: The Treasury*

Chart 3. Average Weighted Interest Rates at the Competitive Auctions of Government Domestic Securities




*Source: The Treasury*

# 2.5. Central Government Domestic Debt

**The central government domestic debt** in the nominal value as at 31 December 2010 was **796.1 million lats**, the major part of which is comprised of the debt in lats (government domestic securities) worth 796.0 million lats.

In 2010 **decrease in the domestic debt by 111.9 million lats** in the nominal value was observed, incl. lats debt decreased by 27.6 million lats in the nominal value and foreign currency debt – by 84.3 million lats in the nominal value, which was related to repayment of the credit line.

In 2010 the proportion of the types of central government domestic securities in circulation in the domestic borrowing has changed (see Chart 2).

Use of the international loan programme had a positive effect on the prolongation of the lats debt profile and allowed abandoning the issue of short-term (three month) T-bills right at the beginning of the year, and receipt of each successive tranche secured the investor confidence in the market stability, thus allowing transfer to issues of longer term (six and twelve month) T-bills. During the second quarter of 2010, after publishing of positive macroeconomic data, the level of confidence of the investors considerably increased and also the interest in mid-term bonds increased; therefore the amount and frequency of offered short-term T-bills was decreased, and the Treasury mainly focused on the issues of mid-term bonds.

Table 3

Issues of Government Domestic Securities in 2009 and 2010 Broken down by Maturity

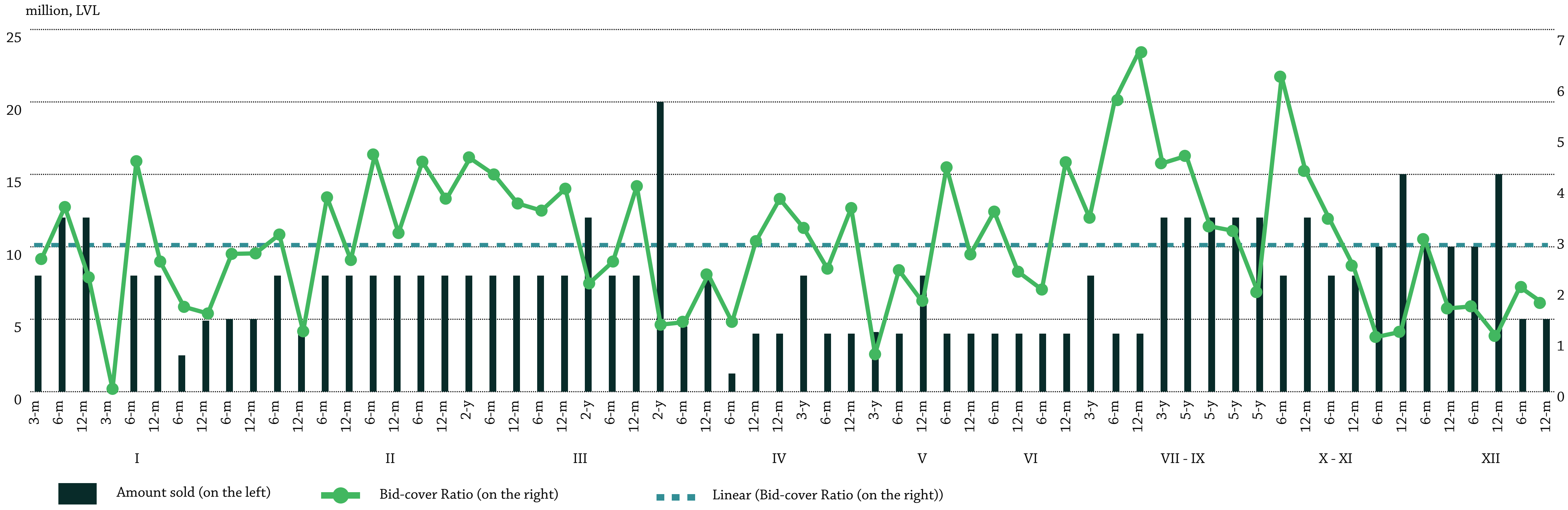
| | **2009 (million lats)** | **2010 (million lats)** |
|---|---|---|
| One month T-bills | 481.78 | - |
| Three month T-bills | 359.41<br>(incl. one issue in euro currency amounting of 50 million euros) | 10 |
| Six month T-bills | 317.32<br>(incl. one issue in euro currency amounting of 50 million euros) | 208.4 |
| 12 month T-bills | 182.4 | 242.5 |
| Two year T-bonds | - | 58.6 |
| Three year T-bonds | - | 50.7 |
| Five year T-bonds | - | 60.1 |

## Borrowings in the Domestic Financial Market

In order to maintain the securities market and ensure sufficient amount of investments for institutional investors, in 2010 the Treasury, as in 2009, continued government securities' auctions: in 2009 the amount of resources raised through domestic borrowing was 1 340.9 million lats, in 2010 – 630.3 million lats, thus in comparison with 2009 **the amount of resources raised in the domestic financial market in 2010 decreased by 745.6 million lats in total**.

Upon stabilisation of the financial market and improvement of the economic data of the country the confidence of the investors in the government securities gradually resumed, therefore the Treasury managed to restart the bond issues in the domestic market. **Orientation of the offer of the Treasury mainly on longer term securities reduced the refinancing risks related to the government domestic debt and ensured fixing of debt servicing costs (especially during the second half of the year) at their lowest levels ever**.

Chart 4. Activity of Primary Market of Government Securities in the Competitive Multi-price Auctions

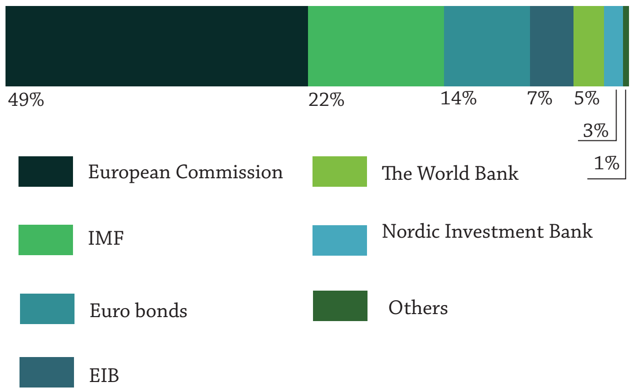



*Source: The Treasury*

At the end of February 2010 the Treasury resumed issue of government securities, initially offering government securities with the two year maturity and gradually increasing thereof to issue of five year T-bonds in September, which allowed refinancing the previously issued government securities by mid-term bonds.

The bid-to-cover ratio in the competitive multi-price auctions during the year was mainly above one, i.e. the demand exceeded the supply – sometimes by even 5-6 times. The average bid-to-cover ratio for short-term and mid-/long-term lats securities did not differ.

Chart 5. Central Government External Debt on 31 December 2010 by Creditors (%)




*Source: The Treasury*

# 2.6. Central Government External Debt

**The central government external debt** in the nominal value as at 31 December 2010 was **4.1465 billion lats.**

In 2010 the central government external debt increased by 885.2 million lats, which was due to the fact that loans from the European Commission worth 700.0 million euros, from the IMF worth 300 million euros and from the World Bank worth 100 million euros were obtained within the international loan programme.

Loans from the European Commission form the major portion of the central government external debt (49%). A slightly smaller portion of the central government external debt is comprised of the IMF loans (22%) and loans in the capital market (14%) that are euro bonds with the maturity in 2014 and 2018 (see Chart 5).

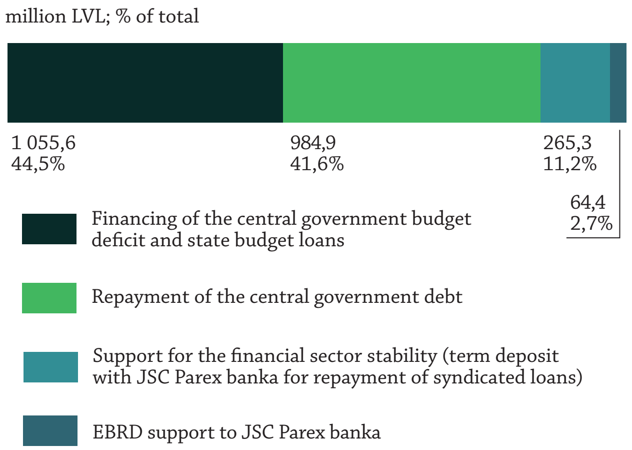
## Borrowing in the External Financial Market

### The International Loan Programme

In order to ensure central government budget financing the Treasury has regularly, on an annual basis attracted financing both in the domestic market through issue of government domestic securities and by borrowing in foreign financial markets. However, due to the global financial crisis and decrease of the Latvia's credit rating availability of financial resources rapidly decreased in the second half of 2008. In parallel considerable liquidity support was provided for the banking sector stabilisation. Therefore the government decided to request loan from the international lenders.

At the end of December 2008, the EC, the IMF, the World Bank, the EBRD and several EU Member States agreed on loan programme to Latvia amounting of 7.5 billion euros. The financing within the international loan programme for stabilisation of the financial system of Latvia, restructuring of national economy of Latvia through increase of competitiveness, as well as for mitigation of the influence of risks preventing economic development thus creating stable basis for sustainable economic growth will be available in portions until the end of 2011.

Chart 6. Application of Resources of the International Loan Programme (as at 31 December 2010, million LVL)




*Avots: Valsts kase*

The commitments approved by the Saeima and the government set out in the letter of intent to the IMF, in the signed memorandum of understanding with the EC, as well as the Latvia's Economic Stabilisation and Growth Revival Programme adopted by the Saeima and supplemented in June 2009 serve as basis for receiving the loan.

A separate agreement on the financial terms of the loan has been made with every lender. The interest rate has been set for each portion of the loan individually, and the schedule for repayment of each tranche has been fixed. Pursuant to the made agreements, the financing of the international loan programme is intended for financing of the central government budget obligations (incl. financing of central government budget deficit and loans, refinancing of central government debt) and for ensuring the stability of the financial sector.

**The amount of the international loan programme of 7.5 billion euros was initially determined based on the pessimistic development scenario. Considering the fact that the actual situation is more positive than initially forecasted, it is not necessary for Latvia to borrow the entire amount of the financing available within the international loan programme.**

The funds of the international loan programme were still a significant source for covering the overall financing requirement in 2010. However, upon improvement of the state macroeconomic indicators and after negotiations with the international lenders **the financing requested in 2010 within the international loan programme was less than initially forecasted**. In 2010 3.1 billion euros were available to Latvia within the scope of the international loan programme; however, an agreement on the of loans borrowing option amounting to 1.9 billion euro were made with Nordic countries, pursuant to which Latvia is entitled to request disbursement of loan if it becomes a necessity. Replacement of the loan from the international loan programme with borrowing option allows limiting increase of the central government debt and expenses for servicing thereof during next years without exposing the execution of the central government budget and obligations to financing risk, provided that consistent performance of the agreements made within the programme is ensured.

Within the international loan programme in 2010 Latvia received loans amounting of **1.1 billion euros, including loans from the European Commission amounting of 700 million euros, the IMF amounting of 300 million euros and the World Bank amounting of 100 million euros**.

During the period from 2008 until the end of 2010 resources amount of 3.0644 billion lats were received within the international loan programme (slightly more than one half of the total initially anticipated amount of the programme), of which 2.3702 billion lats have been used for covering the financing requirement (see Chart 6). 0.4559 billion lats of the balance of the received international loan of 702.7 million lats have been earmarked for the potential financial sector stabilisation activities according to the requirements of the lenders. The balance of the international loan resources disbursed to Latvia in the Treasury accounts of the Bank of Latvia has been deposited in term deposits with the Bank of Latvia.

Table 4

Financing Received and Planned within the International Loan Programme (by years, million EUR)[1]

| **million EUR** | **Received financial aid** | | | **Available financing under the programme** | |
|---|---|---|---|---|---|
| Year<br>Lender | 2008 | 2009 | 2010 | 2011 | TOTAL |
| EU | | 2 200 | 700 | 200 | 3 100 |
| IMF | 600 | 200 | 300 | 600 | 1 700 |
| The World Bank | | 200 | 100 | 100 | 400 |
| EBRD | | 100 | | | 100 |
| Nordic countries[2] | | | | 1 900 | 1 900 |
| Czech Republic, Poland | | | | 300 | 300 |
| **Total** | **600** | **2 700** | **1 100** | **3 100** | **7 500** |
| **Received by the end of 2010:** | | | **4 400** | | |

*Source: The Treasury*

Continuation of the international loan programme in accordance with the concluded agreements and presence of the international lenders in Latvia is still a significant factor for maintenance of investors' confidence and resumption of economic growth, which, in its turn, is a precondition for return of the independent borrowing

1 The amounts are rounded up.
2 An agreement made on the borrowing option until the end of 2011.

capability of the state in the financial markets in order to ensure repayment of loans borrowed within the international loan programme or refinancing thereof in the financial markets according to set deadlines.

## Loans from EIB and CEB

On 30 October 2008 an agreement was signed with the EIB on the loan for ensuring state budget co-financing for the EU structural funds and Cohesion Fund projects during the 2007 – 2013 programming period. On 26 February 2009 the agreement amount was increased to 750 million euros, of which 225 million euros have been received. **The loan is meant for co-financing the EU structural funds and Cohesion Fund projects in the 2007-2013 programming period** in areas that are of particular significance for the development of Latvia. These include projects to promote entrepreneurship and, in particular, innovation. The funds will also be available for the development of employment: for the promotion of higher education, continuing education and life-long education and for investments in the development of infrastructure: for the development of the transportation system, information technology and environmentally friendly energy sources.

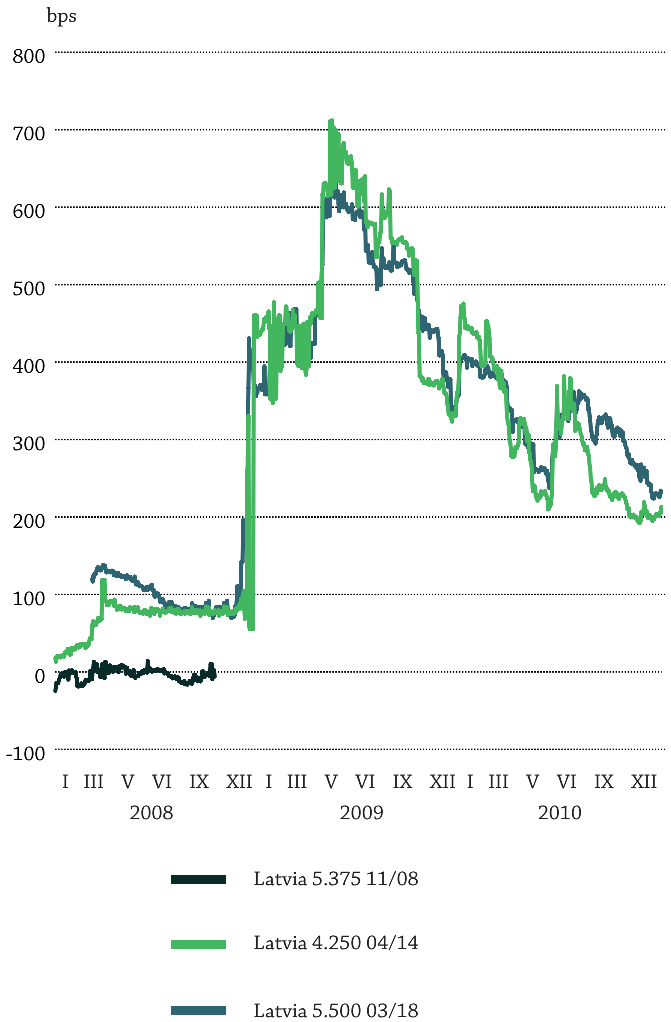
According to the agreement the deadline for submission of the loan disbursement request is 30 October 2011, and the next tranche, which shall not exceed 150 million euros, may be requested as from 2011. Therefore, considering the mid-term borrowing strategy of the Treasury, **the loan from the EIB shall be deemed as the additional resource attraction possibility**.

On 30 April 2009 Latvia and the CEB signed an agreement on the co-financing of projects in the educational sphere, improvement of city and rural infrastructure, for the total amount of 50 million euros. The first portion of the loan worth 25 million euros has already been received. Decisions on further use of the loan will be taken after submission of the information on the allocation of the previously received funds to the bank to be submitted by the end of 2011.

## Latvia in the Public Capital Markets

The state CDS trading level has a significant role in determining price for new loan resources by investors, especially considering the relatively low volumes of Eurobond trading. The state CDS level shows higher risk

Chart 7. Latvia's Euro Bond Yields in the Secondary Market (Basis points)




*Source: Bloomberg, The Treasury*

level and includes market expectations with respect to future credit risk changes, as well as provides a very fast "response" to the domestic policy events.

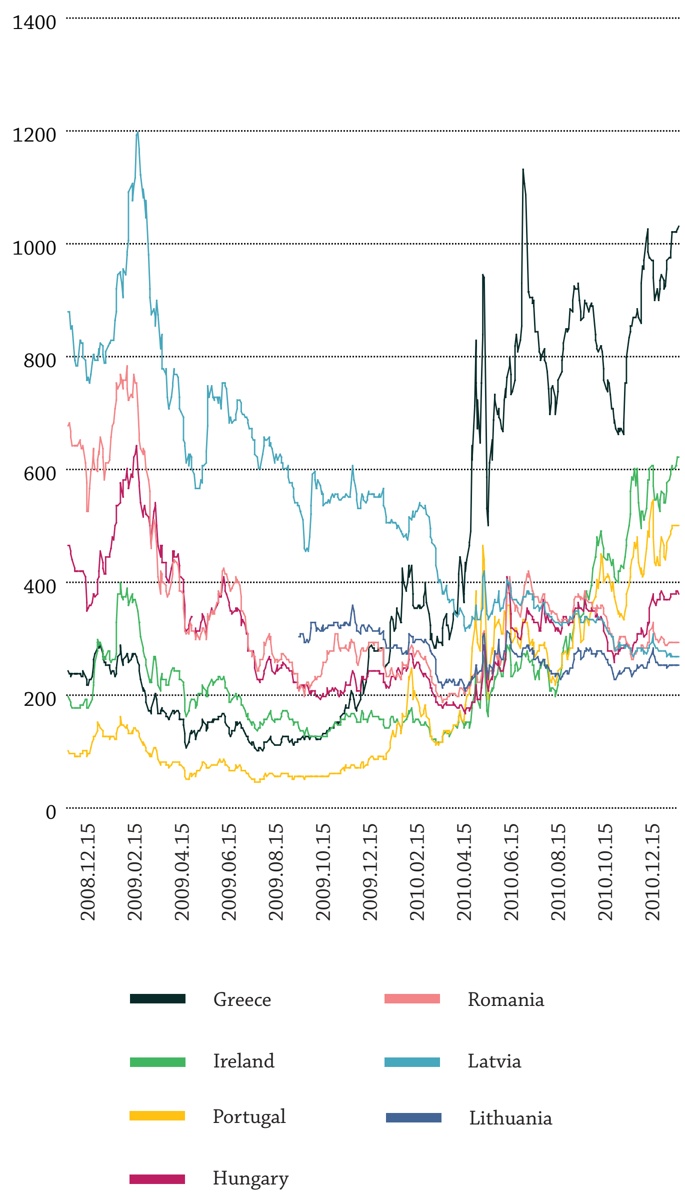
The fluctuations in the financial markets during the year reflected on the secondary trading levels of Latvia's Eurobonds, as well as on Latvia's CDS fluctuations.

Due to overall improvement of the situation in the international and domestic markets that was facilitated by the central government budget expenditure consolidation and economy stimulation measures, return of the GDP growth and the overall increased lats liquidity in the domestic market **Latvia's CDS decreased by 50% as from the beginning of 2010 and was below the 300 basis points at the end of 2010**.

Continuing the onsite communication with the investors commenced in 2009 (in December 2009 the Latvian delegation visited the main financial centres of Europe and the USA to present the progress Latvia has made in overcoming the crisis), in 2010 the delegation of the Treasury, including the Treasurer, had an opportunity to provide information on the current developments in Latvia's economy as well. In May 2010 in Zagreb during the EBRD annual meeting , as well as in October 2010 during the IMF/The World bank annual meeting **the investors expressed their appreciation with respect to the central government budget consolidation measures implemented in Latvia, as well as the regularly provided information on the current developments in the economy of Latvia**. The gradual return of investors' confidence is proven by the decrease of the CDS level below 300 basis points from almost 1,200 basis points in March 2009. The increased interest of cooperation banks in the return of Latvia to the international financial market is observed as well.

However, due to the comparatively high spread the measures for informing the investors will be essential also in 2011. Onsite meetings, e.g. investor presentation prior to issue or non-deal road-show is still one of the most significant types of communication. Such onsite communication has already been planned during the first half of 2011.

Chart 8. 5 year CDS level (Latvia, Lithuania, Hungary, Romania, Portugal, Greece, Ireland), Basis points




*Source: Bloomberg*

# 2.7. Central Government Debt Portfolio Management

In 2010 the Treasury kept updating the Central Government Debt Management Strategy, incl. compliance of the central government debt portfolio structure parameters with the macroeconomic and financial market situation and forecasts. Based on the results of the cost-at-risk model, which taking into account the historic fluctuations of interest rates allows modelling the optimum future debt structure, as well as taking into account the assessment of the financial market and global macroeconomic perspective, the duration period of the central government debt portfolio financial risk management (weighted average fixed period of interest rates) has been increased in the updated strategy from 3.35 +/- 0.35 years to the interval of 3.40-4.00 years.

**In 2010 all debt structure parameters specified in the strategy have been complied with**. Deviation from the limits of the lats debt share is related to the fact that, taking into account the considerable funds borrowed from the IMF, the European Commission and other international lenders, in 2010 it was not possible to borrow funds in lats in the amount that would be adequate for compensation of the increase of central government debt in foreign currencies (see Table 5).

Table 5
Compliance of the Central Government Debt Structure Parameters with the Central Government Debt Portfolio Structure Parameters established by the Central Government Debt Management Strategy

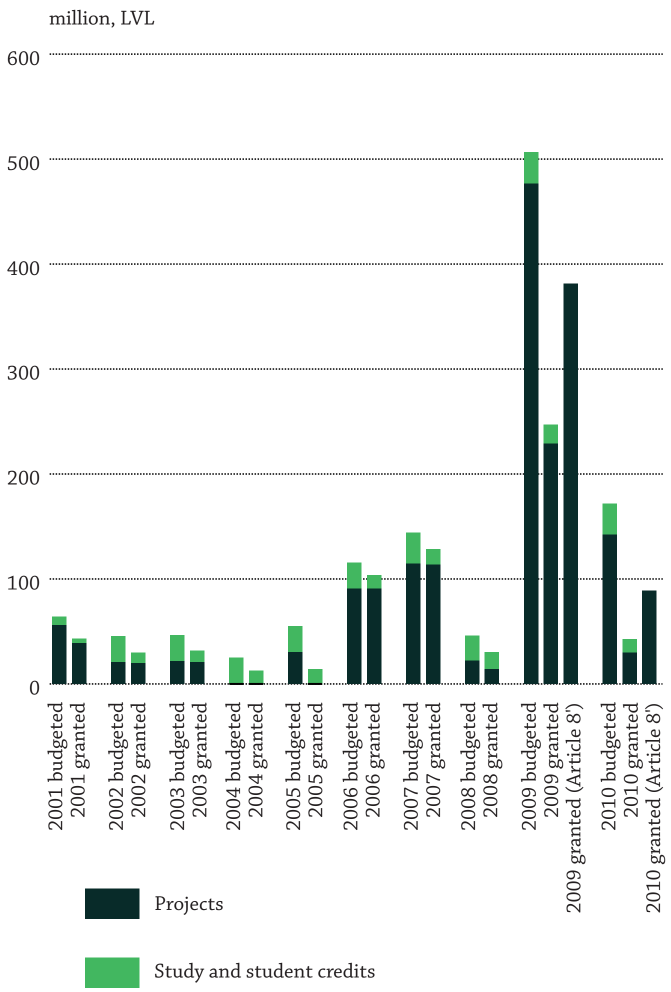
| **PARAMETERS** | **ON 31.12.2009** | | **ON 31.12 2010** | | **STRATEGY** | |
|---|---|---|---|---|---|---|
| The share of the lats debt | 19.7% | | 16.1% | | >= 35%[3] | |
| Maturity profile | < 1 year | < 3 year | < 1 year | < 3 year | < 1 year | < 3 year |
| | 14.3% | 24.3% | < 7.9% | < 24.7% | < 25% | < 50% |
| **Fixed rate proportion** | **66.3%** | | **75.6%** | | **>= 60%** | |
| Duration (years) | 3.08 | | 3.62 | | 3.4 – 4.0 ( 3.35 (+/- 0.35)) | |
| Foreign Currency Net Debt Composition | EUR 100.04% | | EUR 100.05% | | EUR 100% (+/- 5%) | |

*Source: The Treasury*

The deviation of the above parameter complies with the condition set out in the Central Government Debt Management Strategy: to ensure lats debt share of at least 35% in mid-term in accordance with the Latvia state macroeconomic, capital market and the entire finance system development trends, and if the weighted average yield of medium-term and long-term government domestic securities offered at the auctions held by the Treasury is less than 100 basis points above borrowing opportunity level in EUR. Upon increase of demand for government domestic securities more mid-term securities auctions might be held, and that could result in the possibility to resume auctions of long-term securities in the domestic market. Since Latvia's last Eurobond

3 It is stated in the strategy that the lats debt share in the government debt portfolio shall be at least 35%, provided that the lats debt share of at least 35% shall be ensured in mid-term, if that complies with the Latvia state macroeconomic, capital market and the entire finance system development trends, and if the weighted average yield of medium-term and long-term government domestic securities offered at the auctions held by the Treasury is less than 100 basis points above borrowing opportunity level in EUR.

Chart 9. State Guarantees from 2001 to 2010 (in millions, LVL)




*Source: The Treasury*

issue in the public financial market was in 2008, it is hard to assess the borrowing rate convergence. Although it is possible to prepare a comparative calculation of theoretical lats and euro borrowing rates for mid-term and long-term, the convergence of rates would not be considered of full value. The lats market capacity would also serve as restricting circumstance for the increase of borrowings in lats.

To implement the Central Government Debt Management Strategy and to comply with the central government debt portfolio parameters specified therein in 2010 currency and interest rate swap transactions were used to decrease the net debt currency exposure and the share of fixed rates and duration in the central government debt portfolio – both new agreements were made and the previously signed agreements were terminated, as well as the conditions of the concluded transactions were changed.

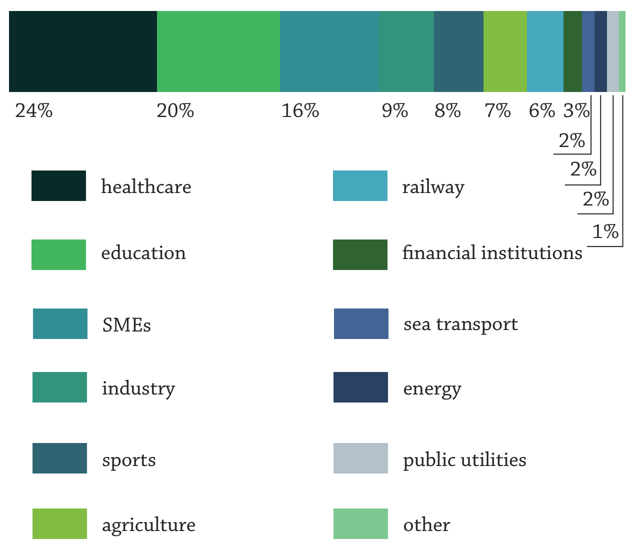
As in the first two quarters of 2010 the long-term and short-term interest rates in the euro area tended to decrease, and in the third quarter of 2010 interest rates were at their lowest levels ever, the market value of valid interest rate swap transactions increased in the first three quarters of 2010 and reached its highest value since the conclusion of those transactions. Pursuant to the updated strategy, in order to increase the duration parameter, as well as to decrease the risk of transaction counterparties, the Treasury decided to terminate particular interest rate swap transactions. At the result of that **in 2010 the Treasury decreased debt servicing costs** through the introduction of interest rate risk management measures.

## 2.8. Issuance of 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.

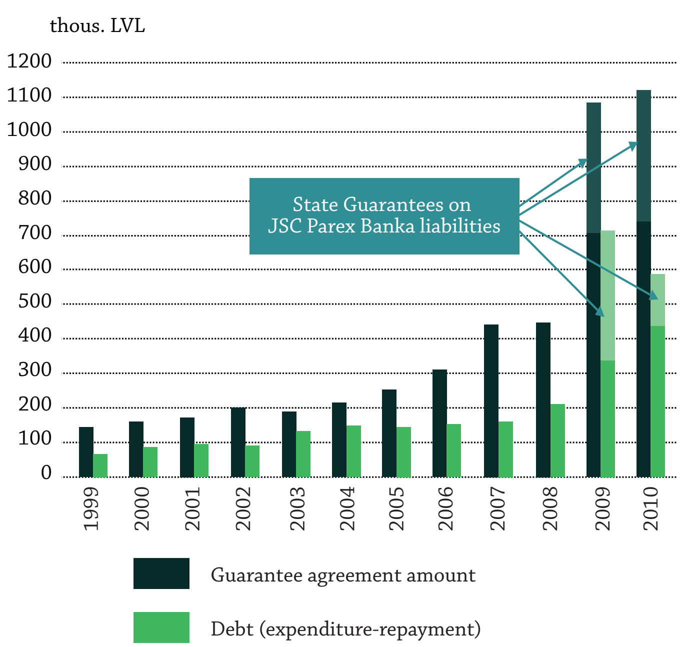
In 2010 **The Treasury reviewed the procedure for planning and issuing of state guarantees**, and developed new Cabinet of Ministers regulation, which:

Chart 10. State Guarantees Issued According to General Procedure, by Sectors (%)




*Source: The Treasury*

Chart 11. State guaranteed debt outstanding (thousand LVL)




*Source: The Treasury*

1. prescribes the procedure, according to which the applicants may apply for receipt of state guarantees;
2. prescribes the place and manner of publication of information on the possibility to receive state guarantees;
3. defines the basic terms for issuance of guarantees;
4. specified the norms for the final guarantee repayment deadline and supervision thereof;
5. increases transparency of the guarantee issuance procedure;
6. determines the procedure for refinancing of state guaranteed loans.

Thus it is ensured that **the potential recipients of state guarantees and the projects implemented by them will be assessed according to uniform criteria prior to incorporation of guarantees in the annual State Budget Law**, since the preceding regulation prescribed for assessment of the guarantees only after their incorporation in the annual State Budget Law.

The annual state budget law provided 29.7 million lats for loans under study and student crediting programme, 71 million lats for the Latvian Mortgage and Land Bank to implement the Company Competitiveness Enhancement Assistance Programme, and 71 million lats for the implementation of the Small and Medium Business Assistance Programme of JSC Parex banka.

The actual government guarantees for obligations under study and student crediting programme issued in 2010 were worth 12.97 million lats. Additionally, according to the regulatory enactment state guarantee of 89 million lats was issued to EBRD for liabilities of the state JSC Latvian Privatisation Agency in 2010.

The state guaranteed loans have been issued also for support of different sectors: 16% for facilitation of development of small and medium enterprises, 24% for healthcare, 20% for education and 9% for industry.

Pursuant to Article 7 of the State Budget Law for 2011, it is planned to issue state guarantees worth in total 162 million lats, of which the majority is intended for the support of state enterprises – a guarantee to state JSC Mortgage and Land Bank of Latvia worth 71 million lats and to state JSC Valsts nekustamie īpašumi (State Real Estate Agency) worth 30 million lats. 28.7 million lats are prescribed for guarantees for study and student crediting. Pursuant to Article 11 of the State Budget Law for 2011, in addition to the guarantees set out in Article

7 it is intended to issue the state guarantee for the loan of JSC Citadele banka from the EIB worth 71 million lats according to the JSC Parex banka State Support Restructuring Plan approved by the European Commission.

At the end of 2010 **the state guaranteed debt outstanding was 597.12 million lats** (see Chart 11), this amount as compared with the preceding year has decreased by 116.681 million lats, since in 2010 JSC Parex banka repaid the syndicated loan of 217.868 million lats; moreover, according to the loan agreement it is planned to repay the syndicated loan in full in 2011.

## 2.9. Facilitating Public-Private Partnership

In 2010 application of the PPP process supervision and implementation mechanism introduced in 2009 was commenced: six PPP projects were submitted to the Ministry of Finance and the Central Finance and Contracting Agency. Pursuant to Cabinet of Ministers Regulation No. 1152 of 6 October 2009 Procedure for conducting financial and economic calculations, determining the type of agreement for public and private partnership and issuing an opinion on the financial and economic calculations, the Treasury participated in the PPP project assessment and supervision mechanism rendering its opinion both on the necessity to adjust the terms specified in the financial and economic calculations, and on the anticipated impact of the projects on the amount of the central government budget long-term liabilities and the central government debt.

## 2.10. Performance Indicators of the Results of Activities within the Central Government Debt Management Prescribed in the Strategy of the Treasury

Table 6

Performance indicators of the results of activities within the Central Government Debt Management

| No. | Result of activity | Performance indicators | **Indicators (numeric values)** Last known precise measurement (2009) | Planned in 2010 | Performance in 2010 |
|---|---|---|---|---|---|
| 1. | Provided financial resources necessary for financing the central government budget execution and refinancing of the central government debt with the lowest possible costs, limiting the financial risks and considering the development of the capital market and financial system of Latvia. | 1. Ensured compliance with the approved central government debt portfolio management indicators (%) | 86.1 | 100 | 100 |
| 2. | Performed activities of investor relationship management programme (investor meetings, telephone conferences, video conferences, development and sending of informative materials) | 1. Implemented investor relationship activities prescribed in the Funding Plan (%) | | 100 | 100[4] |
| 3. | Performed activities aimed at compliance with the Maastricht criteria within the competence of the Treasury. | 1. The general government debt at the end of the year does not exceed the criteria for the level of general government debt in the Maastricht Treaty (% of the GDP). | 19.5 in 2008 (notification of October 2009; since the EU Member States have to submit the notification on the central government budget deficit and debt to the European Commission by 1 April, data on the amount of the general government debt of 2009 become available in April 2010) | in accordance with the criteria | Since the EU Member States have to submit the notification on the central government budget deficit to the European Commission by 1 April, data on the financial balance of the general government budget for 2010 will be available in April 2011.<br><br>Interim assessment – 42.4% of the GDP (criteria – 60% of the GDP). |
| | | 2. Long-term interest rate criteria has been complied with (the rates of the government domestic borrowing ~10 year bonds shall not exceed 2% + the average indicator of three Member States with the lowest inflation ) | 10.88 (September 2009) | in accordance with the criteria | As at December 2010 the Maastricht criteria for the government long-term securities interest rate was 5.20%. The Treasury performance is 10.34%, which is related to the fact that the average 12-month indicator of Latvia (considered to be the Maastricht long-term ratio of each country) is used for the calculation of the Maastricht criteria for the government long-term securities rate. The performance will be approaching the level of the criteria with every successive month due to the successful issue of 10 year bonds. |

4 Pursuant to the Funding Plan, in 2010 the Treasurer participated in several events, where the investors were informed on the current developments in Latvia's economy. Investors expressed their appreciation with respect to the budget consolidation measures implemented in Latvia, as well as the regularly provided information on the current developments in the economy of Latvia. For additional information please refer to Sections 2.3 and 2.6.

## Activities of the Treasury in 2010

# 3. Cash Management and State Budget Loans

## 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 scope of the temporary free resources management the Treasury deposits financial resources in cooperation with local and foreign counterparties. In order to ensure more coordinated liquidity management in the tense financial market conditions, **in 2010 the Treasury deposited temporary free resources only in the Bank of Latvia complying with the terms of the lenders within the international financial aid programme.**

## 3.2. Issuing and Servicing of State Budget Loans

In accordance with the delegation by the Minister of Finance, the Treasury ensures the issue and servicing of state budget loans within the limits established in the annual budget law. The process of awarding state budget loans **is governed by the Law on Budget and Financial Management, the annual state budget law**, as well as Cabinet of Ministers Regulation No.63 of 19 January 2010 **Procedure for issuing and servicing state budget loans**, which simplifies the procedure for granting state budget loans and ensures high quality of service, performance speed without permitting increase of risks related to failure of recovery of state budget loans.

State budget loans **are intended for the following purposes**:

1. budget and financial management;
2. stabilisation of local government finances;
3. investments;
4. implementation of commercial activity assistance programmes;
5. implementation of projects and measures co-financed by the European Union;
6. implementation of projects funded through foreign financial aid.

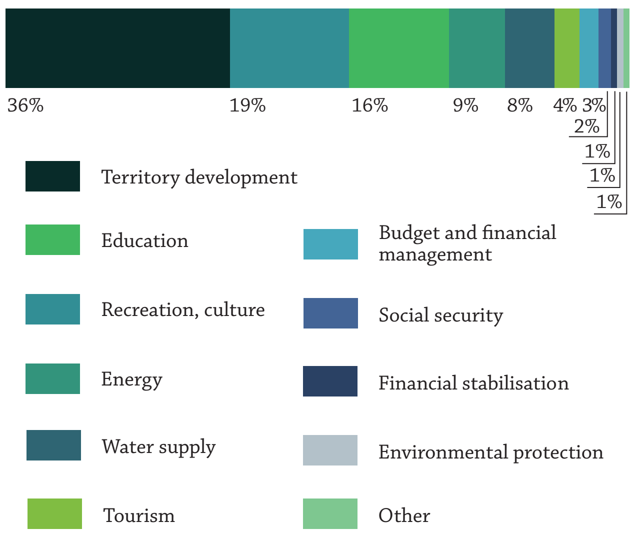
The **circle of recipients of state budget loans** is defined in Article 36 of the Law on Budget and Financial Management. Loan repayments to the central government general budget are planned in accordance with the repayment deadlines and amounts stipulated in the loan agreement.

**The Treasury performs state budget loan monitoring** and, in the event that commercial companies have failed to meet their obligations in accordance with the agreements entered into, **performs debt collection activities**: it submits claims to the borrower regarding the repayment of the loan or submits a complaint to the court regarding the collection of the debt and an application to secure the claim. In cases where a commercial company has been liquidated and no debt collection is possible, the Treasury, in accordance with Cabinet of Ministers Regulation No.389 of 15 July 2003 **Procedure according to which the Minister of Finance discharges state budget loans**, writes off the discharged debt liabilities of the liquidated commercial company. Within the respective budget year, the debt liabilities of liquidated commercial companies are discharged in accordance with the provisions of the annual state budget law.

The total amount of the state budget loans to be granted in 2010was determined to be 245 million lats, including the total increase in the state budget loans specified in the annual state budget law amounting to 208 million lats and repayments of the state budget loans granted during the preceding years amounting to 37 million lats in 2010.

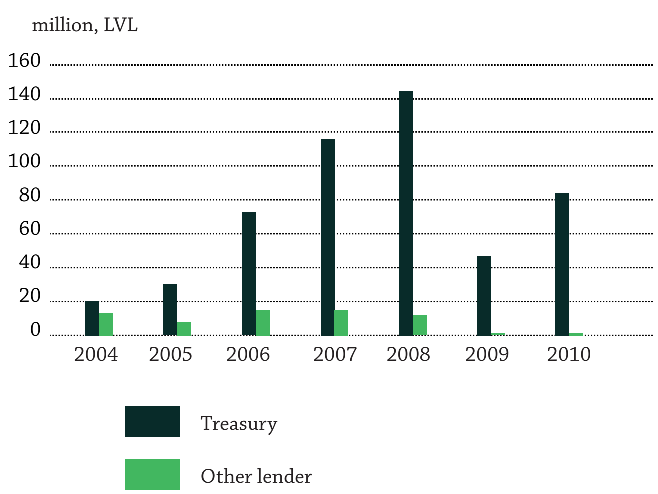
In 2010 the largest amount of the state budget loans was granted to the local governments –in the amount of 86.6 million lats or 74% of the total amount of loans granted by the state. The state budget loans were granted to the enterprises controlled and financed by state structures (state JSC Latvijas Valsts ceļi) – 22.6 million lats or 19% of the total amount of the state budget loans granted. In order to ensure timely availability of financial resources for implementation of the EU projects, thus not delaying absorption of the EU funds, as well as considering the priority of the EU absorption defined by the government, amendments to the regulatory enactments were made and the range of recipients of the state budget loans was increased in 2010 by including port authorities, scientific institutes and higher educational establishments, which have been assigned the status of derived public person. Thus in 2010 the state budget loans amounting to 4.2 million lats or 4% of the total went to several non-financial merchants for implementation of the EU co-financed projects. The remaining amount of the state budget loans went to state JSC Mortgage and Land Bank of Latvia (4.0 million lats or 3% of the total amount).

Chart 12. Breakdown of State Budget Loans Issued in 2010 to local governments by Purposes (%)




*Source: The Treasury*

Chart 13. State Budget Loans to Local Governments from 2004 to 2010 (in million LVL)




*Source: The Treasury*

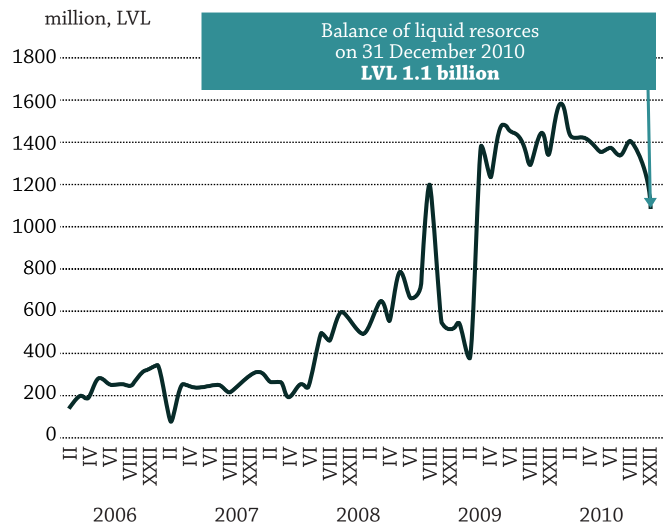
The state budget loan limit was not used in full in 2010 due to the fact that prior to the commencement of the project implementation the recipients of the state budget loan have to perform procurement procedures, which last for several months, and coordination and signing of agreements, as well as due to the fact that some of the borrowers have commenced the project implementation only in the second half of 2010 and will continue also in 2011, amending the initially planned schedules for disbursement of the state budget loans, as well as due to the fact that credit institutions have resumed granting financing as well.

In addition, pursuant to Article 36 (6) of the law On Budget and Financial Management, for the implementation of the aims specified in Article $8^1$ (1) Paragraph 1 of the above law (reduce general economic risks, avoid socio-economic crises or to reduce the impact thereof, and ensure the availability of financial resources in emergency situations), not exceeding 10% from the amount of GDP specified in the annual State Budget Law, a state budget loan amounting to 144 million lats was issued to the state JSC Latvian Privatisation Agency.

**Local governments may only borrow from a different lender with the approval of the Minister of Finance and if the lending terms are more advantageous than those offered by the Treasury**. In 2010, **99% of the total amount of loans** (both from the Treasury and a different lender) **received by local governments were granted by the Treasury**. **The total local government debt** as of 31 December 2010 was amounting of **534.9 million lats**, of which the amount of local government liabilities to the Treasury constituted 396.6 million lats.

It is planned that state budget loans amounting of 208 million lats will be granted to the state budget loan recipients prescribed in Article 36 of the State Budget Law in 2011.

Chart 14. Balance of Liquid Resources in the Treasury (million LVL)




*Source: The Treasury*

# 3.3. Liquidity Management

**The objective** of liquidity management is **to ensure availability of cash to meet financial liabilities** 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 the intention of complying with the liquidity requirements:

1. Monitors the stock of liquid resources as well as compliance with the liquidity limits and size of the liquid resources reserve;
2. Timely identifies and prevents situations that may impair liquidity and result in a payment or liquidity crisis;
3. deposit temporarily free funds so as to maintain an adequate stock of liquidity that would ensure the required liquid resources reserve and compliance with liquidity limits within the relevant period.

In managing financial resources, the Treasury observes the liquidity requirements , thus reducing the risk of a payments or liquidity crisis occurring. Based on the results of the analysis performance the of liquidity requirements set for 2009, as well as considering the liquidity management practice, **the procedure for calculation and determination of liquidity ratios was optimised and simplified** in 2010.

**In 2010, the Treasury ensured the availability of the required liquid resources, based on financing requirement and financial market developments, as well as deposited temporarily free funds solely in the Bank of Latvia**. In 2010 the resources granted to Latvia under the international loan programme, as well as balance of the resources available in the Treasury accounts and resources attracted in the domestic financial market were used to ensure liquidity.

At the end of 2010 **the balance of resources available in the Treasury accounts was worth 1.1 billion lats** (incl. the resources earmarked for the stabilisation of financial sector worth ~ 456 million lats).

The liquid resource reserve held in the Treasury accounts raised investors' confidence in the ability of Latvia to meet its liabilities, which was proven by the consistent decrease and stabilisation of domestic financial market rates in 2010, the government security rates reaching their lowest levels ever. In future, when determining the amount of liquid resource reserve and the necessity for maintenance thereof, more attention will be paid to the analysis of fiscal risks with due consideration of the value and probability of emergence of such risks.

## Support Measures for Ensuring the Liquidity of JSC Parex banka

In 2010, upon the authorisation of the Minister of Finance, as part of the support measures to ensure the liquidity of JSC Parex banka, the Treasury placed a new fixed-term deposit with the bank with the right to extend the deposit upon the expiry of the term, and also extended the fixed-term deposits placed in 2008 and 2009, as well as terminated two deposits placed in 2008.

JSC Parex banka restructuring measures were carried out in 2010, by splitting the bank into two banks and establishment of JSC Citadele banka. Restructuring of the Treasury term deposits was performed concurrently with the restructuring of JSC Parex banka. 16 term deposits placed by the Treasury for the total amount of 635 million euros or 446 million lats (equivalent) with gradual maturities up to 5 August 2015 were in effect as at 31 December 2010.

The guarantees issued for JSC Parex banka liabilities to the syndicate as part of the measures to support the liquidity of the bank (see Section 2.8) were still in effect in 2010, as well as the bank's capital was increased.

After restructuring of JSC Parex banka on 1 August 2010 JSC Citadele banka was established, where a part of the term deposits previously placed by the Treasury with JSC Parex banka were restructured by placing eight term deposits with JSC Citadele banka, four of which worth 12 million lats (equivalent) have been terminated already in 2010. As at 31 December 2010 four term deposits of the Treasury worth 186 million euros or 131 million lats (equivalent) were in effect.

## 3.4. Performance Indicators of the Results of Activities within the Cash Management and State Budget Lending Prescribed in the Strategy of the Treasury

Table 7

Performance indicators of the results of activities within the cash management and state budget lending

| No. | Result of activity | Performance indicators | Indicators (numeric values) Last known precise measurement (2009) | Planned in 2010 | Performance in 2010 |
|---|---|---|---|---|---|
| 1. | Efficient and safe cash management. | 1. Ensured interest income from the investment of funds of the central government budget in the amount prescribed in the annual state budget law (% compliance with the annual plan). | 113.7 | 100 | 100[5] |

5 Pursuant to the interim data of the Treasury, interest income from deposits and account balances in 2010 were worth 40.7 million lats or 146% of the amount prescribed in the State Budget Law for 2010.

## Activities of the Treasury in 2010

# 4. Implementation of the Functions of the Paying and Certifying Authority for EU

# 4.1. Function of the Paying Authority During the Programming Period from 2004 to 2006

In accordance with the provisions of EU Regulations, a **Paying Authority is one or several national, regional or local authorities or bodies designated 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 EU interests, as well as effective management and monitoring of structural funds in accordance with the provisions of EU Regulations and guidelines.

**The functions of the Paying Authority are to receive funds from the European Commission and to perform payments to the final beneficiaries within the shortest term and in full amount.**

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

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

1. **EU structural funds** – ERDF, ESF, EAGGF and FIFG;
2. **Cohesion Fund**;
3. **European Community initiative *EQUAL***.

When approving the expenditures included in the EU policy instrument payment requests and expenditure declarations, **the paying authority should verify the correctness, justifiability and compliance of the expenditures incurred within the projects with the provisions of the EU regulations, as well as adequacy of control systems or inspections established by the Intermediate Bodies/ Managing Authority**. In order to ensure that the paying authority **is entitled to request the Managing Authority to introduce additional controls in the Intermediate Bodies/ Managing Authority, as well as to perform financial controls and audits in the Intermediate Bodies/ Managing Authority**.

In order to ensure submission of the EU structural funds final Declarations of Expenditure to the European Commission by the deadline specified in the programme closure schedule, after receipt of the updated information from the intermediate institutions and the managing authority, the paying authority shall adjust the final Declaration of Expenditure documents and submit thereof to the independent structural unit for rendering an opinion. After receipt of the independent structural unit opinion on the final Declarations of Expenditure, on 28 June 2010 the Treasury sent thereof together with the final Declarations of Expenditure to the European Commission. **During the 2004-2006 programming period the Treasury has declared to the European Commission the community expenditures of 656 708 thousand euros in total, or 105% of the available EU structural fund financing assigned**.

Upon submission of the closing documentation to the European Commission the **2004-2006 programming period** closure procedure has been commenced, upon the finalisation of which the European Commission will review the amount of community financing not yet received by Latvia.

Table 8

Declared Community Expenditures and Received Refunds during the 2004-2006 Programming Period, thousand EUR

| Fund | Assigned structural funds | Declared community expenditure | Claimed from EC in total | Amount claimed as final payment | Received[6] |
|---|---|---|---|---|---|
| ERDF | 382 044 | 408 392 | 382 044 | 19 103 | 362 941 |
| ESF | 127 342 | 127 763 | 127 342 | 6 367 | 120 975 |
| EAGGF | 91 848 | 95 373 | 91 848 | 4 592 | 87 256 |
| FIFG | 24 335 | 25 180 | 24 335 | 1 217 | 23 118 |
| Total | 625 569 | 656 708 | 625 569 | 31 279 | 594 290 |

*Source: The Treasury*

**Within the scope of the Cohesion Fund 12 Declarations of Expenditure** have been submitted to the European Commission in 2010, **five of which were final Declarations of Expenditure**, totally **claiming 30 711 thousand euros** from the European Commission. Pursuant to the statements in the decisions of the European Commission on the project approval, the period for eligibility of the Cohesion Fund project expenditure

6 Payments received from the European Commission in the form of advance and interim payments.

expired on 31 December 2010, and the Treasury has paid **45 074 thousand euros or 31 678 thousand lats** from the Cohesion Fund to the recipients of financing in 2010.

**The number of Cohesion Fund Declarations of Expenditure to be submitted to the European Commission continues decreasing, since the programme closing is approaching**, as well as due to the fact that the claimed amount (in the form of advance and interim payments) for the majority of the projects to be implemented has reached 80% (for several projects the European Commission has increased the rate to 90% after receipt of appropriate substantiation), which according to Article 4 of Regulation (EC) No. 1265/99 Amending Annex II to Regulation (EC) No. 1164/94 establishing a Cohesion Fund, is the maximum amount payable within the advance and interim payments. Therefore the interim expenditure declarations for such projects are no longer submitted. Considering the fact that the period for eligibility of the Cohesion Fund expenditures expired on 31 December 2010, the Treasury will perform the necessary inspections in 2011 in order to ensure submission of the final Declarations of Expenditure for 17 projects to the European Commission by the deadline specified in the regulatory enactments.

**Within the European Community initiative EQUAL** on 20 October 2010 **the final payment for the final Declaration of Expenditure submitted to the European Commission** worth 400.4 thousand euros **was received** from the European Commission. It should be mentioned that the European Commission has reviewed the amount claimed for Latvia in full, which means that the European Commission has accepted successful implementation of the programme.

Table 9
Comparison of Expenditures Certified for the European Commission in 2010 with 2008

| | 2009 | | 2010 | |
|---|---|---|---|---|
| **EU policy instrument** | **Sent declarations** | **Declared expenditures, thousands of EUR** | **Sent declarations** | **Declared expenditures, thousands of EUR** |
| Cohesion Fund | 18 | 113 279 | 12 | 71 803 |
| Structural funds | 1 | 12 950 | 4 | 95 469 |
| EQUAL | 1 | 119 | 0 | 0 |
| Total | 20 | 126 348 | 16 | 167 272 |

*Source: The Treasury*

The Treasury is the paying institution also for the Financial instrument of European Economic Area and the bilateral Financial instrument of the Norwegian government .

During the time of operation of the above-mentioned financial instruments, 68 individual projects, three programmes (integration of environmental policy in Latvia, promotion of PPP, cross-border co-operation) and six grant schemes (strengthening of civil society and integration of society, academic research, an NGO fund, a scholarship grants scheme, a project preparation fund, a short-term expert fund) were approved. Active project implementation and absorption of funds continued in 2010, which is evidenced by the increase in number of interim reports submitted and advance payments requested (see Table 10). Six projects were completed and the final payment claims submitted with respect to them were approved by the Financial Instrument Office, and the final payments have been received within the framework of those projects. Considering that, pursuant to the guidelines developed by the European Economic Area Financial Instrument Committee, the period for eligibility of the expenditure incurred within the framework of financial instruments expires on 30 April 2011, pursuant to the terms of the above guidelines, the Treasury shall ensure verification of the received reports on all unclosed projects and submission thereof to the Financial Instrument Office by the end of October 2011.

Table 10

Funds Claimed and Received in 2010 within the Framework of the European Economic Area Financial Instrument and the Norwegian Government Bilateral Financial Instrument, Compared with 2009, (thousand EUR**)**

| | Number of reports sent | | Amount claimed | | Amount received | |
|---|---|---|---|---|---|---|
| **Type of payment** | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Advance | 22 | 10 | 1 210 | 711 | 1 210 | 711 |
| Transitional/ final | 68 | 142 | 7 330 | 16 621 | 6 916 | 16 885 |
| Total | 90 | 152 | 8 540 | 17 332 | 8 126 | 17 596 |

*Source: The Treasury*

**Considering the fact that five agreements were signed in 2009 as part of the implementation of the Latvian-Swiss Co-operation Programme, the implementation of projects was commenced in 2010**. The paying authority verified and submitted to the competent Swiss authorities the first project interim reports and claims for funds for receipt of payments. In 2010 an advance payment within the framework of the largest project "Implementation of Local Government Activities by Ensuring the Transportation of Schoolchildren and Related Support Measures" was verified and submitted to the competent Swiss authorities, requesting 3 million CHF.

Table 11

Funds Claimed and Received in 2010 within the Latvian and Swiss Co-operation Programme, (million CHF)

| | Number of reports sent | Amount claimed | Amount received |
|---|---|---|---|
| **Type of payment** | 2010 | 2010 | 2010 |
| Advance | 1 | 3 000 | 3 000 |
| Transitional/ final | 10 | 3 072 | 3 058 |
| Total | 11 | 6 072 | 6 058 |

*Source: The Treasury*

# 4.2. Function of the Certifying Authority and Paying Authority during the programming 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 programming 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 **paying authority** is to ensure accounting of the EU Funds financing received and used from the European Commission and to make **payments to the final beneficiaries within the shortest possible time.**

In 2010 **within the framework of the EU funds for the 2007-2013 programming period** the paying authority **verified and made 5 673 payment claims, including 1 282 advance payments**. The paying authority **disbursed 268.049 million lats** (378.041 million euros) **from the EU funds to the beneficiaries**. The Treasury paid 172.294 million lats as advance payments within the framework of the EU fund projects.

In 2010 **at the initiation of the Treasury amendments to the Cabinet of Ministers Regulation No. 418 of 26 June 2007 "Procedure according to which central government budget funds are to be allocated for the implementation of projects co-financed by a European Union fund and the procedure for the execution of payments and the preparation of the declaration of expenditure" were made**, prescribing that for the projects, whose scope covers support to the commercial activity , the payments to the beneficiaries are made prior to receipt of funds from the European Commission, thus **the time period for receipt of funds for the expenditures incurred within the framework of the project by the beneficiaries was reduced.**

Cabinet of Ministers Regulation No. 1041 of 9 November 2010 "Procedure according to which central government budget funds are to be allocated for the implementation of projects co-financed by a European Union fund and Cohesion Fund, as well as the procedure for the execution of payments and the preparation of the declaration of expenditure" (replacing Cabinet of Ministers Regulation No. 418), prescribes that **after ensuring the functionality for preparation of expenditure declarations of the EU structural fund and Cohesion Fund management information system the certifying authority will be preparing expenditure declarations in the system and the cooperation/responsible authorities will not be involved in the process of preparing expenditure declarations, thus optimising the process.**

In 2010 the certifying authority received from the cooperation and responsible authorities and **verified** within the time period prescribed by the regulatory enactments **195 Declarations of Expenditure and submitted 40 Declarations of Expenditure to the European Commission**.

Table 12

Expenditures Certified for the European Commission and Refunds received in 2010, compared with 2009, million EUR

| **EU policy instrument** | **Number of declarations of expenditure submitted** | | **Eligible expenditures declared** | | **Requested from EC** | | **Received** | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| 1.Operational programme (ESF) | 6 | 13 | 23 592 | 176 728 | 19 868 | 143 699 | 19 868 | 135 187 |
| 2.Operational programme (ERDF) | 8 | 8 | 219 108 | 55 214 | 167 232 | 35 594 | 160 623 | 41 156 |
| 3.Operational programme | 9 | 19 | 156 210 | 207 202 | 123 856 | 174 198 | 63 254 | 234 800 |
| *incl. ERDF* | 5 | 10 | 40 365 | 105 567 | 34 301 | 92 110 | 28 348 | 98 063 |
| *incl. Cohesion Fund* | 4 | 9 | 115 845 | 101 635 | 89 555 | 82 088 | 34 906 | 136 737 |
| Total | 23 | 40 | 398 910 | 439 144 | 310 956 | 353 591 | 243 745 | 411 143 |

*Source: The Treasury*

In 2010 amendments to Council Regulation (EC) No. 1083/2006 laying down general provisions on the ERDF, the ESF and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 were made, and additional advance payments within the framework of the ESF and Cohesion Fund were made, thus the advance payments received from the European Commission in 2010 were worth 52.822 million euros.

Table 13
Advance Payments received from the European Commission in 2010

| EU policy instrument | Advance payments received in 2010, million EUR |
|---|---|
| 1.Operational programme (ESF) | 22 026 |
| 2.Operational programme (ERDF) | 0 |
| 3.Operational programme | 30 796 |
| *incl. ERDF* | 0 |
| *incl. Cohesion Fund* | 30 796 |
| Total | 52  822 |

*Source: The Treasury*

In 2010 the Ministry of Finance provisionally determined the responsible authorities that will ensure implementation of the EEA financial instrument and the Norwegian government bilateral financial instrument for the 2009-2014 programming period. Pursuant to that decision, the Treasury will be performing the functions of certifying authority for the aforementioned instrument. Considering the fact that the implementation requirements of the granting authority have slightly changed, in 2011 the Treasury will participate in the development of the regulatory base for implementation of instruments and quality management system documents.

# 4.3. Performance Indicators of the Results of Activities within Implementation of the Functions of the Paying and Certifying Authority for EU Policy Instruments Prescribed in the Strategy of the Treasury

Table 14

Performance Indicators of the Results of Activities within Implementation of the Functions of the Paying and Certifying Authority for EU Policy Instruments

| | | | Indicators (numeric values)[7] | | |
|---|---|---|---|---|---|
| **No.** | **Result of activity** | **Performance indicators** | Last known precise measurement (2009) | Planned in 2010 | Performance in 2010 |
| 1. | Completely paid certified expenditures. | 1. Payments received from the EC, % of the payments requested from the European Commission. | 99.62 | 100 | 100 |

7 The cases when the European Commission applies financial adjustments or withdraws claims of debitors' not timely paid by another authority are not taken into account.

## Activities of the Treasury in 2010

# 5. Corporate Governance of the Treasury as a Public Administration

## 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 2010, the Treasury implemented the following **general budget programmes** and **sub-programmes**:

1. Programme "Central Government Budget Execution and Central Government Debt Management":
   - sub-programme "Central Government 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 Equalisation Fund".

The objective of the **sub-programme "Central Government Budget Execution"** is the ensuring of an effective and economical budget execution process and the improvement of services provided by the Treasury in accordance with the best practices of financial management.

The objective of the **sub-programme "Central Government Debt Management"** is to secure the necessary financial resources, including those on public capital markets, at the lowest possible cost, to limit financial risks and, to the extent possible, promote the financial interests of the State in the process of issuing state guarantees, with consideration given to factors of state macroeconomic stability and the development of the capital market and financial system, which is aimed at the introduction of the euro currency in the medium term.

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 central 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, and to perform the actions required for the process of collecting delayed payments.

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

Table 15
Central General Government Budget Financing and its Application
(summary by programme, 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) | **233 749 752** | **254 536 693** | **253 438 068** |
| 1.1. | Grants | 231 842 443 | 252 920 218 | 251 029 871 |
| 1.2. | Service charges and other self-generated revenue | 1 907 309 | 1 616 475 | 2 408 197 |
| 1.3 | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 220 190 749 | 254 536 693 | 252 151 594 |

| | | | | |
|---|---|---|---|---|
| 2.1. | Maintenance costs (total) | 219 129 676 | 254 198 922 | 251 878 936 |
| 2.1.1. | Running costs | 7 843 656 | 8 037 977 | 6 561 235 |
| 2.1.2. | Interests | 198 473 804 | 233 941 697 | 233 180 357 |
| 2.1.3. | Subsidies, grants and social benefits | 220 969 | 168 551 | 167 351 |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | 5 438 350 | 2 197 800 | 2 117 096 |
| 2.1.5. | Maintenance cost transfers | 7 152 897 | 9 852 897 | 9 852 897 |
| 2.2. | Expenditures for capital investments | 1 061 073 | 337 771 | 272 658 |

*Source: The Treasury*

Table 16
Central Government General Budget Funding and its Spending for the
General Budget Programme "Central Government Budget execution and Central 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) | 220 727 681 | 242 310 231 | 241 300 724 |
| 1.1. | Grants | 218 820 372 | 240 693 756 | 238 892 527 |
| 1.2. | Service charges and other self-generated revenue | 1 907 309 | 1 616 475 | 2 408 197 |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 207 370 889 | 242 310 231 | 240 007 720 |
| 2.1. | Maintenance costs (total) | 206 309 816 | 241 972 460 | 239 735 062 |
| 2.1.1. | Running costs | 7 836 012 | 8 030 763 | 6 554 705 |
| 2.1.2. | Interests | 198 473 804 | 233 941 697 | 233 180 357 |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |

| | | | | |
|---|---|---|---|---|
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | 1 061 073 | 337 771 | 272 658 |

*Source: The Treasury*

Table 17
Central Government General Budget Funding and its Spending, General 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) | 5 531 993 | 3 742 258 | 4 533 023 |
| 1.1. | Grants | 3 624 684 | 2 125 783 | 2 124 826 |
| 1.2. | Service charges and other self-generated revenue | 1 907 309 | 1 616 475 | 2 408 197 |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 4 787 543 | 3 742 258 | 3 240 019 |
| 2.1. | Maintenance costs (total) | 3 726 470 | 3 404 487 | 2 967 361 |
| 2.1.1. | Running costs | 3 726 470 | 3 404 487 | 2 967 361 |
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | 1 061 073 | 337 771 | 272 658 |

*Source: The Treasury*

Table 18
Central Government General Budget Funding and its Spending,
General Budget Sub-programme “Central 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) | 215 195 688 | 238 567 973 | 236 767 701 |
| 1.1. | Grants | 215 195 688 | 238 567 973 | 236 767 701 |
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | | - | - |
| 2. | Expenditure (total) | 202 583 346 | 238 567 973 | 236 767 701 |
| 2.1. | Maintenance costs (total) | 202 583 346 | 238 567 973 | 236 767 701 |
| 2.1.1. | Running costs | 4 109 542 | 4 626 276 | 3 587 344 |
| 2.1.2. | Interests | 198 473 804 | 233 941 697 | 233 180 357 |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | - | - | - |

*Source: The Treasury*

Table 19
Central Government General Budget Funding and its Spending,
General 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) | 5 611 380 | 2 197 800 | 2 117 096 |
| 1.1. | Grants | 5 611 380 | 2 197 800 | 2 117 096 |

| | | | | |
|---|---|---|---|---|
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 5 438 350 | 2 197 800 | 2 117 096 |
| 2.1. | Maintenance costs (total) | 5 438 350 | 2 197 800 | 2 117 096 |
| 2.1.1. | Running costs | - | - | - |
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | 5 438 350 | 2 197 800 | 2 117 096 |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | - | - | - |

*Source: The Treasury*

Table 20
Central Government General Budget Funding and its Spending,
General 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) | 250 000 | 168 551 | 167 351 |
| 1.1. | Grants | 250 000 | 168 551 | 167 351 |
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | | - | - |
| 2. | Expenditure (total) | 220 969 | 168 551 | 167 351 |
| 2.1. | Maintenance costs (total) | 220 969 | 168 551 | 167 351 |
| 2.1.1. | Running costs | - | - | - |

| | | | | |
|---|---|---|---|---|
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | 220 969 | 168 551 | 167 351 |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | 250 000 | 168 551 | 168 551 |
| 2.1.5. | Maintenance cost transfers | 250 000 | 168 551 | 168 551 |
| 2.2. | Capital expenditures | - | - | - |

*Source: The Treasury*

Table 21
Central Government General Budget Funding and its Spending,
General 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 | 9 852 897 | 9 852 897 |
| 1.1. | Grants | 7 152 897 | 9 852 897 | 9 852 897 |
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 7 152 897 | 9 852 897 | 9 852 897 |
| 2.1. | Maintenance costs (total) | 7 152 897 | 9 852 897 | 9 852 897 |
| 2.1.1. | Running costs | - | - | - |
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | 7 152 897 | 9 852 897 | 9 852 897 |
| 2.2. | Capital expenditures | | | |

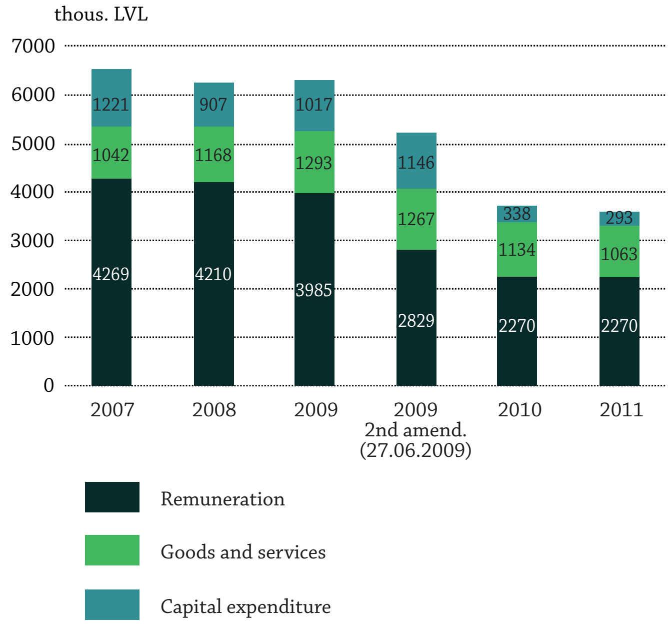
*Source: The Treasury*

Table 22
Central Government General Budget Funding and its Spending,
General Budget Sub-programme “Use of Emergency Funds” (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) | 7 794 | - | - |
| 1.1. | Grants | 7 794 | - | - |
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | 7 644 | - | - |
| 2.1. | Maintenance costs (total) | 7 644 | - | - |
| 2.1.1. | Running costs | 7 644 | - | - |
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | - | - | - |

*Source: The Treasury*

15.attēls. Dynamics of the Treasury Expenditure in 2007-2011 (thousand LVL)




*Source: The Treasury*

Table 23
Central Government General Budget Funding and its Spending,
General Budget Sub-programme "Implementation of the European Social Fund (ESF) Projects and Activities (2007-2013)" (LVL)

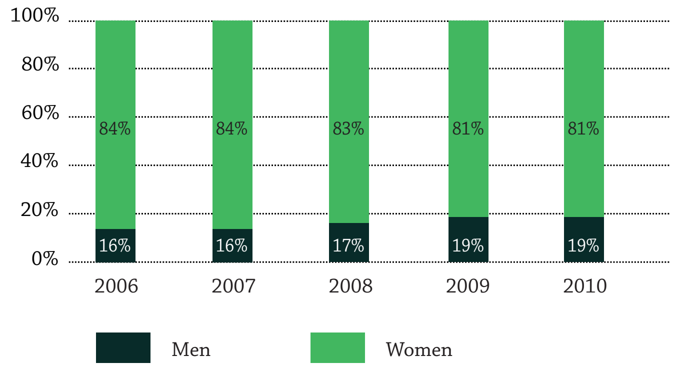
| No. | Financial assets | In the preceding year (Actual) | In the reporting year | |
|---|---|---|---|---|
| | | | Approved by the law | Actual |
| 1. | Financial assets to cover expenditure (total) | - | 7 214 | **6 530** |
| 1.1. | Grants | - | 7 214 | 6 530 |
| 1.2. | Service charges and other self-generated revenue | - | - | - |
| 1.3. | Foreign financial aid | - | - | - |
| 1.4. | Donations and grants | - | - | - |
| 2. | Expenditure (total) | - | 7 214 | 6 530 |
| 2.1. | Maintenance costs (total) | - | 7 214 | 6 530 |
| 2.1.1. | Running costs | - | 7 214 | 6 530 |
| 2.1.2. | Interests | - | - | - |
| 2.1.3. | Subsidies, grants and social benefits | - | - | - |
| 2.1.4. | Regular payments to the European Community budget and international cooperation | - | - | - |
| 2.1.5. | Maintenance cost transfers | - | - | - |
| 2.2. | Capital expenditures | - | - | - |

*Source: The Treasury*

## Dynamics of the Treasury Expenditure

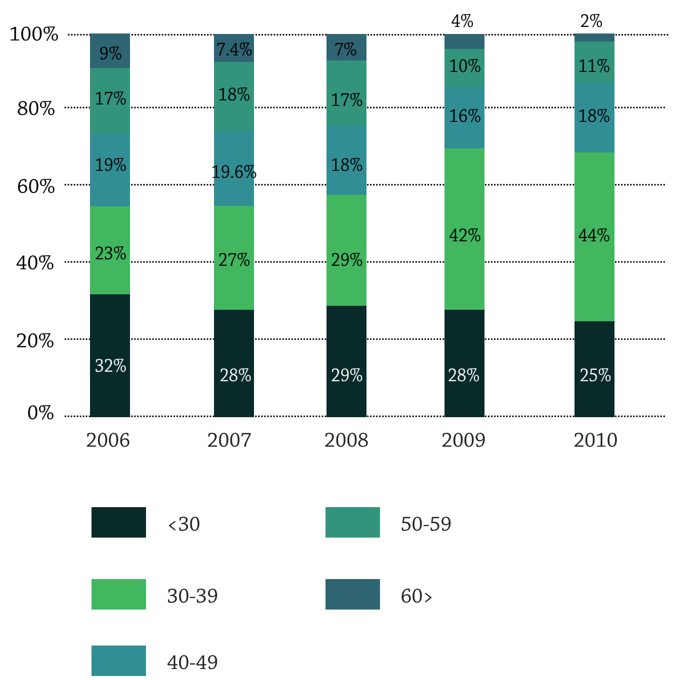
In total as the result of structural reform and resource optimisation of the Treasury (improvement of the services rendered by the Treasury and transfer to the electronic payment system, and the economic situation in the country), incl. optimising resources in the regions, decreasing 87 (33%) official positions, as well as decreasing of operational expenses (premises lease, public utilities, communication expenses, office supplies, vehicles, etc.)

Chart 16. Breakdown of the Treasury Personnel by Gender from 2006 - 2010 (%)




*Source: the Treasury*

Chart 17. Distribution of the Personnel of the Treasury by Age Groups from 2006 till 2010 (%)




*Source: the Treasury*

the budget funds for remuneration, purchase of goods and services in 2010, as compared with 2008, have been decreased by ~1.97 million lats, and the total grant for 2010, as compared with 2008, has been decreased by~56%.

### State and Local Government Purchases

The procurements in the Treasury are performed in accordance with the Public Procurement Law by applying an open tender, negotiation procedure and procurement procedure, pursuant to Article $8^1$ of the Public Procurement Law. The Treasurer forms a procurement commission that is competent within the area of the procurement an agreement is made on. Procurements are registered and the agreements are controlled by the accounting software “Horizon”. In 2010 the Treasury performed 21 procurements (excluding procurements below 3000 lats) and made agreements for 1,225,094.00 lats, excluding VAT.

## 5.2. Personnel and Personnel Management

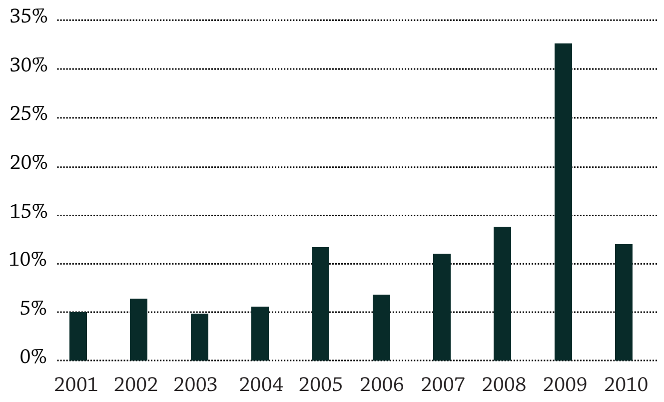
In 2010 the structural reform of the Treasury initiated in 2008 was completed – as from December 2010 the Treasury terminated client servicing in the remaining Treasury units in Daugavpils, Kuldīga, Madona and Valmiera (due to the improvement of the services rendered by the Treasury and complete transfer to the electronic payment system, as well as based on the administrative territorial reform and economic situation in the country), thus the entire personnel of the Treasury is employed in Riga as from 1 December.

The number of official positions in the Treasury in 2010 has remained unchanged – **182 official positions**. The distribution of positions according to the position status has changed: at the beginning of the year there were **164 civil service** and **18 staff positions** in the Treasury, while at the end of the year – **165 civil service** and **17 staff positions**. In 2010 **the average number of employees**, including the employees in long-term absence, was **188,** incl. **170 civil service** and **18 staff positions**.

Breakdown of the Treasury personnel by age and gender have not materially changed in 2010 (see Charts 16 and 17).

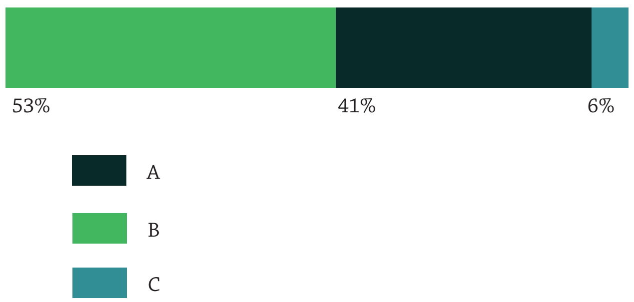
In 2010 **civil servants and staff members, or 34% of the personnel, were laid off** (see Chart 18).

Chart 18. Year-by-year Personnel lay-offs at the Treasury (2000-2010) (%)




*Source: the Treasury*

Chart 19. Results of the Job Performance Appraisal Process in 2009/2010 (%)




**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*

In the reporting year, 24 personnel selection competitions were announced at the Treasury. In the process of personnel selection, civil service or legal employment relations with the Treasury were established by 17 professionals. In order to attract interested parties and to select the most suitable candidates, the Treasury continues its collaboration with mass media outlets, higher education institutions and employment and personnel selection agencies. In order to ensure a professional and impartial personnel selection process, several rounds of candidate selection are organised by using a scoring system and arranging practical tests and interviews.

The Treasury continues its usual practice of promoting the careers of its professionals: eight employees have been given the opportunity to develop their career by moving them to other, higher-level positions, while six employees have been moved to positions in other structural units.

The Treasury pays special attention to introducing new employees to their job responsibilities and the operations of the institution by preparing the new employee's work plan for the test period and familiarising him or her with the functions of the Treasury and the team. At the conclusion of the test period, performance appraisals were carried out for 13 new employees. 92% of them received a positive assessment and continued employment with the Treasury respectively.

Based on the results of the performance appraisals after the test period, eight civil servant candidates were granted the status of a civil servant.

The seventh annual **job performance appraisal** was conducted at the Treasury. Job performance appraisals are used to motivate the personnel and to provide it with feedback regarding job performance, to plan and manage the professional growth and career development of personnel, as well as the training needs. Job performance of 162 civil servants and staff members was evaluated.

The positive results of job performance appraisal (no employee has received appraisal "D" or "E") prove the fact that the employees of the Treasury have reached high level of professionalism and developed their skills through efficient performance of their job duties and involvement in attaining the overall goals of the institution (see Chart 19).

The Treasury's greatest asset is its highly educated and professional personnel. **97% of the employees are university graduates** (44% of employees hold a master's degree).

Despite the limited financial resources, training remains an important area of personnel management at the Treasury. In 2010, **in terms of organising the training process**, the practice of finding solutions for the professional development and enhancement of employee competencies by way of various free seminars and experience-sharing events continued. As in 2009, educational sessions organised by the employees themselves within the scope of their competency continued, providing colleagues with training on internal control, *eKase* telephone assistance, the role of information system resources owner, risk management theory and practice in the Treasury, the Treasury quality management system, data storage, compliance with fire safety requirements and action in case of fire. Collaboration continued with training specialists engaged during the preceding years, e.g. training on amendments to the international accounting and international public sector accounting standards.

Every year, the Treasury assesses the educational and training needs of the civil servants and staff members for the subsequent year. Educational needs are determined by considering the strategic direction of the institution, the functions of the structural unit and other criteria that justify the need for training for the performance of the duties of specific positions.

## 5.3. Quality and Risk Management

A **quality management system** has been created at the Treasury through the use of the Treasury's capacity for improvement and available resources to ensure the compliance of the services provided by the Treasury with the interests of the State, residents and clients, as well as with the requirements of regulatory enactments.

**As from 2006 the Treasury is an ISO certified authority. Since 2009 the Treasury quality management system has been certified in accordance with the requirements of ISO 9001:2008 standard**. In 2010 the first supervisory audit of the Treasury quality management system was carried out according to the requirements of ISO 9001:2008 standard. The scope of the quality management system to be certified is the execution of the central government budget, central government debt management, cash and liquidity management and management of government budget loans, the implementation of the functions of a Paying and Certifying Authority and management of the National Fund, all of which are basic operational processes of the Treasury. The second supervisory audit of the Treasury quality management system is scheduled for 2011, to ensure confidence in the constant compliance of the Treasury's quality management system with the requirements of the standard.

**In 2010 the Treasury in cooperation with the Society Integration Foundation commenced implementation of the ESF project to facilitate improvement of the quality, development and availability of the services rendered by the Treasury throughout Latvia.** 85% of the project is financed by the EU through the ESF, while 15% is financed by the State of Latvia.

The project is implemented within the scope of Sub-activity 1.5.1.3.2 "Improvement of Quality of Public Services at the National, Regional and Local Level" of Activity 1.5.1.3 "Increasing Operational Quality and Efficiency of Public Administration Institutions" of Measure 1.5.1 "Better Regulation Policy" of Priority 1.5 "Administrative Capacity Building" of the supplement to the operational programme "Human Resources and Employment".

The Treasury plans to facilitate the improvement and development of the services rendered by using the results of the sociological research on the quality and accessibility of the services rendered by the Treasury, as well as on the overall image of the Treasury carried out within the project (the research expenses are 3 981.25 lats, excluding VAT).

During the project implementation period from 2 August 2010 until 1 August 2011 the following main activities will be carried out:

1. sociological research by polling the clients of the Treasury throughout the territory of Latvia on the quality and accessibility of the services rendered by the Treasury (see Section "Public Communication");
2. development of the plan for improvement and development of the quality of the Treasury and the services rendered by it, based on the results of the research;
3. development of the methodological material on the improvement and development of the current services of the Treasury and organising educational workshop for the employees of the Treasury.

Implementation of the project will ensure:

1. contribution to balanced development of the territory of Latvia by ensuring the accessibility of the services provided by the Treasury throughout the territory of Latvia, developing and improving quality and diverse services, as well as decreasing the administrative burden and expenses both of the current and potential clients;
2. contribution to facilitation of information society, by providing efficient, economic, easy-to-use and accessible services to the users of the information technology resources and clients of the Treasury throughout the territory of Latvia, concurrently maintaining the generally accepted information security and confidentiality requirements on a high level;
3. positive possibility of compliance with equal horizontal policy, which ensures the possibility to receive services and information in the manner acceptable to everyone, irrespective of the gender, age or disability of the person.

The Treasury is continuously improving its quality management system to ensure that it not only conforms to the effective requirements of legislative acts, regulatory enactments and the ISO 9001:2008 standard, but that it also secures a balance between satisfying client needs and the control functions the Treasury is expected to provide in accordance to the interests of the State and its residents, as well as to instil confidence in its clients regarding the consistency of the quality of the services provided by the Treasury.

## 5.4. Internal Control System

**The internal control system** of the Treasury is established based on the basic elements of an internal control system: a control environment, work performance appraisal, risk management, control activities, supervision, efficient information circulation and mutual communication.

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 Treasury has established **the control environment culture** by ensuring that operations comply with the quality management system and the code of ethics, by introducing and periodically monitoring the strategic direction of the functions, plans and work performance results of the Treasury, ensuring overall risk management procedure and facilitating involvement of the employees in improvement of the internal control system. The Treasury has implemented such organisational structure that clearly defines the responsibility, authority, distribution of duties and procedure for reporting.

The **risk management** and quality management have been integrated in the daily operations, project management, information system management processes of the Treasury that advance the **control activities** of the Treasury from reactive to proactive, thus decreasing the probability of the potential loss and ensuring the continuity of the operations. The processes of the Treasury and the controls to be performed when implementing them, have been set out in the internal documents governing the quality management system.

The Treasury performs **supervision of the internal control system** through process management by measuring the process activity quality criteria, through the strategic management process by analysing the activity results, through control self-assessments in the risk management, incompliance prevention processes, through implementation of recommendations for improvement of the internal control system provided as the result of audits and other assessments.

**The audits and appraisals** performed in 2010 provide confidence that the internal control system implemented in the Treasury facilitates attaining of the strategic goals, protection of resources, development and maintenance of control measures. The Treasury performs the set tasks in accordance with the strategic goals, approved plans and requirements specified in the quality management system documents, works efficiently, in compliance with the requirements set out in the regulatory enactments, performs constant supervision and assessment of operational risks and secures its resources against potential loss. The Treasury is continuously improving the internal control system considering not only the requirements of the laws and regulations, but also the samples of best practice and competence of the financial sector organisations.

# Public Communication

## Activities for Public Information and Education

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.

As in 2009, the communication processes of the Treasury in 2010 were significantly altered by both the global and national socio-economic crisis: the Treasury remained at the epicentre of events and **the interest of mass media and the public in the operations, functions and responsibilities of the Treasury was still topical**.

**The Communication Plan of the Treasury for 2010** was developed and carried out in accordance with **the Communication Strategy of the Treasury for 2010-2012**, to ensure the plan for operative and successful activities and to promote the building of a positive image of the Treasury in the external environment through additional activities.

Since 2002, the Treasury has been maintaining 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 prompt answers to their questions, whereby 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's Units, as well as identify potential problems and prevent them.

## Opinion Polling Activities on Satisfaction with the Quality of Work of the Treasury and Results Thereof

**At the end of 2010 with the mediation of the marketing and public opinion research centre SIA SKDS a survey of the Treasury clients was carried out aimed at querying the clients' opinion on the accessibility, quality of the services rendered by the Treasury and the overall image of the Treasury.**

The Treasury clients are budget financed institutions, local governments, institutions not financed by the state budget, as well as joint stock companies with state or local government capital share that have accounts opened with the Treasury and receive the services rendered by the Treasury. The Treasury does not provide services to private individuals. Within the framework of the project opinion poll, during the time period from 5 to 19 October 2010, some of the Treasury clients, i.e. 512 respondents using the services of the Treasury: industry ministries, educational establishments under the Ministry of Education and Science, culture establishments under the Ministry of Culture,  local governments, as well as the EU fund 2007- 2013 programming period cooperation institutions were polled. The range of respondents was chosen randomly.

SIA SKDS clarified the client opinion on the following services rendered by the Treasury: aggregation and consolidation of central government and local government budget reports, granting of assignations, account servicing, budget execution, servicing of loans and other services.

The results of the opinion poll inspires confidence that generally the clients of the Treasury are satisfied with the work of the Treasury, as well as the majority of the respondents believe that the work of the Treasury has improved during the last two years. According to the analysis of the client opinion on the services of the Treasury the clients have given great weight and positive assessment to the operativeness of the authority's work – 83% of all respondents, employee attitude – 81%, accessibility of services – 79%, ease of use of the services – 76% and thorough information on the service – 69%.

One of the strategic priorities of the Treasury is to attain that all the regular information exchange among the Treasury and its clients is performed electronically, ensuring accessibility of the services rendered by the Treasury on a high level of information technologies compliant with the development trends and using the possibilities for optimisation of administrative, time and other resources provided by them. The majority of the polled clients of the Treasury (79%) mentioned receipt of remote or e-services as very important option. Transfer to e-services was mentioned as the most positive aspect in reply to the question: “What do you consider to be the most positive aspect in the activities of the Treasury?”, and such opinion was substantiated by the speed of the process, as well as saving of time and financial resources.

53% of the respondents considered the possibility to receive individual advice as an essential feature within the cooperation of the Treasury and its clients. Irrespective of the modernisation of e-services and information systems, the clients still value the possibility of being able to call the employees of the Treasury, receiving advice in case of uncertainties or questions. The respondents have positively evaluated the courteous attitude of the employees of the Treasury and the possibility to receive advice. The majority of respondents would like receiving thorough information in future on the work of the Treasury through the direct information channels of the Treasury: on the webpage, by calling the Treasury, on the information pages of the Treasury information system, as well as during the seminars organised by the Treasury.

The above opinion poll will help the Treasury to develop and improve quality and diverse services also in future, decrease the administrative burden and expenses of both the current and potential clients of the Treasury, thus facilitating and attaining considerable savings in the central government budget.

# The Treasury's Development Priorities for 2011

## Central Government Budget Execution

1. To organise efficient process of central government budget execution through standardizing the public financial management procedures.
2. To develop the services rendered by the Treasury and online exchange of information with the clients of the Treasury using the resource optimising options provided by technologies:
   - to improve the *eKase* system by extending the exchange of electronic information with the clients resulting in 100% exchange of regular information with the clients being performed electronically;
   - to ensure the possibility for institutions to receive operative (online) information on the payments transferred into the central government budget accounts;
   - to improve the information system for processing of financial plans and ensure use thereof at the level of institutions subordinate to ministry;
   - to improve the central government and local government budget reporting information system for the central government budget institutions using thereof to reconcile the budget and accounting data in the public sector.
3. To improve the range of services rendered by the Treasury by providing the possibility to the local governments to execute budget in full through the Treasury.

## Central Government Debt Management

### Central Government Debt Portfolio Management

1. To substantiate the debt portfolio management measures on the basic principles determined in the Central Government Debt Management Strategy, and to implement thereof following the financial risk hierarchy by considering refinancing, liquidity and currency risks as the primary risks.
2. To review the topicality of the indicators of the debt portfolio thus searching for the best options for decrease of the burden of central governments debt management expenditure on the central government budget in long-term.
3. To maintain active communication with cooperation partners in order to widen the range of counterparties and increase the scope of cooperation.

### Borrowing Management

1. To return to the international financial markets with public issue by ensuring that loans are available to Latvia within the international loan programme from the European Commission and the IMF, as well as maintaining the borrowing option from the Nordic countries.
2. To continue organising regular government securities' auctions by mainly attracting resources with six and 12 month T-bills and resuming 10 year bond auctions.

### Servicing and Supervision of State Guarantees

1. To develop the basic principles for granting state guarantees considering the experience of other countries in using such government support instrument as the state guarantee.
2. To assess the possibility of reinsurance of the state guarantee portfolio risks.

## Cash Management and State Budget Loans

### Cash Management

To update the Treasury internal documents governing cash management.

### Liquidity Management

To use new financial instruments to increase efficiency of liquidity management.

### Granting and Servicing of State Budget Loans

1. To develop basic principles for granting state budget loans considering the experience of other countries in using such government support instrument as state budget loans.
2. To develop the state budget loan planning process by determining the procedure for inclusion of state budget loans in the annual state budget.

## Implementation of EU Policy Instruments for the Paying and Certifying Authority

1. To provide the necessary support to the Managing Authority in development of regulatory enactments on implementation of the European Economic Area financial instrument and the Norwegian government bilateral financial instrument in the 2009-2014 programming period. To ensure development of the Certifying Authority's management control system.
2. To provide explanations to the responsible and cooperation authorities on filling in the confirmation for preparation of the expenditure declarations.
3. To provide the necessary support to the Managing Authority in improvement of the functionality of the EU structural funds and Cohesion Fund management information system, by not involving the responsible and cooperation authorities in the procedure for preparation of expenditure declarations, and to commence preparation of expenditure declarations by using the system data.

## Management of the Treasury as a Government Administration Institution

1. To maintain the Treasury quality management system in line with the requirements of the ISO 9001:2008 standard.
2. To introduce centralised solution for the financial management, accounting and personnel management of the Ministry of Finance and its subordinate institutions.
3. To take measures for attraction of the ERDF financing and implementation of the project “Implementation of the Customer Relationship Management System in the Treasury”.