THE TREASURY
OF THE REPUBLIC OF LATVIA

The Treasury Public Report for 2013

Contents

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Abbreviations Used in the Report

ERDF	European Regional Development Fund
EU	European Union
ESF	European Social Fund
EUROSTAT	Statistical Office of the European Union
GDP	Gross domestic product

Units of Measurement

EUR	*Euro*, official currency unit of the EU
LVL	Lats, national currency unit of the Republic of Latvia

Translation by SIA Skrivanek Baltic

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The Treasurer's Statement

The Treasury has had yet another dynamic year full of new challenges. It engaged in the implementation of a number of projects of national significance – the introduction of the euro as the national currency of Latvia falling within the area of competence of the Treasury, projects aimed at developing the government securities market, as well as ensuring measures for the implementation of the borrowing strategy and reduction of the central government debt servicing costs in the medium term, developing and optimising the internal processes of the institution.

In 2013, the Treasury actively engaged in the euro introduction process both through cooperating and contributing to the Euro introduction project initiatives coordinated by the Ministry of Finance and through implementing the euro implementation measures at the Treasury: getting the Treasury's information systems operational in the euro environment starting from 2014, developing the redenomination, payment and accounting principles for the central and local government debt, state guarantees, securities and loans and ensuring the implementation thereof.

The Treasury continued to improve its services by ensuring the changeover of e-services to web-based technologies and access to the e-service via a single e-services portal thereby standardising budget implementation procedures and reducing the administrative burden.

With a view to developing and exploiting the potential of the domestic financial market to the most, the Treasury introduced the Primary Dealer System in the central government domestic debt securities acquisition process as a result of which the government securities market became more active, liquid and more attractive to investors, contributing to the maintenance of the historically lowest borrowing rates in the government domestic debt securities auctions and promoting the interest of investors in investments in the government securities of all maturities. These measures contributed to the reduction of the central government budget expenditure in 2013, and will continue to contribute to the borrowing interest rates (and consequently – interest expense) remaining at the optimal level in the coming years.

Yet another measure carried out by the Treasury in 2013 with the aim to develop and activate the domestic market and widen the investor base, was the introduction of a new financial instrument – savings bonds – targeted at private persons. From June 2013 the residents have been given the possibility to widen their investment opportunities by investing in conventional and secure financial instruments and gain practical experience of investing. At the year end savings bonds sales totalled LVL 1.3 m.

The significance of these measures was attested by the Annual Award awarded to the Treasury by the Stock Exchange *NASDAQ OMX* Riga in January 2014 for the exceptional and remarkable performance in the securities market and its development, specifically for the Primary Dealer Model introduced by the Treasury and the Treasury's initiative – introduction of the new Latvian government securities – savings bonds.

In 2013, the Treasury pursued its medium-term borrowing strategy in selecting the best timing for the next borrowing in international financial markets. With a view to maintaining as high flexibility in terms of the selection of the timing of the next borrowing as possible, the Latvian delegation held meetings with the European investors in June 2013 and US investors in November 2013, however, owing to the developments in global financial markets which unfavourably impacted the potential borrowing costs, there was no external borrowing in 2013. Conversely, the investor relations measures carried out in 2013 ensured favourable pre-conditions for the issuance of Eurobonds in January 2014.

In November 2013, we marked the 95th anniversary of both our State and the foundation of the Treasury. As the holder of the public purse the Treasury is keeping abreast with its State, and the awareness that we shape and develop this country makes us set new objectives and accomplish them. Expressing appreciation and paying tribute to each and every employee of the Treasury for their efforts, I am pleased with their performance for the benefit of the State and contribution to its development.

Treasurer

Kaspars Āboliņš
Riga, 7 March 2014

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The Operational Strategy of the Treasury for 2013–2015

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On 15 February 2013, the Minister of Finance approved the Operational Strategy of the Treasury for 2013–2015.

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

The Operational Strategy of the Treasury provides for the following **operational directions** for the Treasury:

1) **implementation of a central government budget** that is focused on ensuring an effective and economical central government budget implementation process and improving the services provided by the Treasury in accordance with the best financial management practices;

2) **central government debt management** through securing the necessary financial resources at the lowest possible cost, limiting financial risks and considering the orientation of the Latvian financial market towards joining to the eurozone, as well as securing the implementation of the central government guarantee policy that serves the interests of the State;

3) **cash and state loan management** by securing a financially effective and secure cash management, limiting and monitoring financial risks, securing the necessary liquidity for the government to timely and fully meet its financial commitments, and implementing the state lending policy that serves the interests of the State;

4) **performance of the functions of the Paying and Certifying Authority of the EU policy instruments** by organising and standardising the performance of the functions of the Paying and Certifying Authority in a manner that ensures compliance with the requirements of the granting institutions and the regulatory enactments of the Republic of Latvia, the timely receipt of funds from the granting institutions and that minimises the acceptable risk for the inclusion of ineligible expenditures in the expenditure declarations and reports.

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

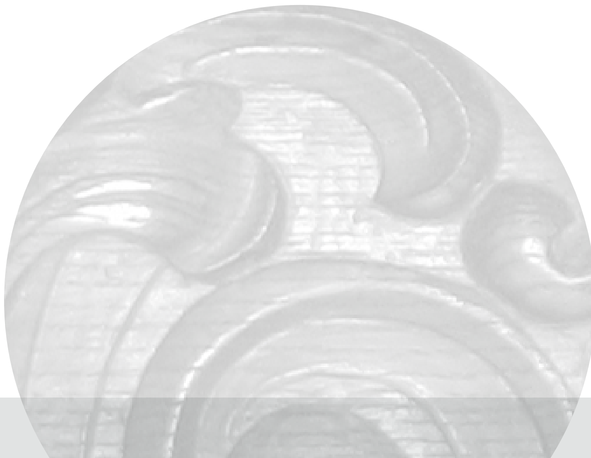
1) quality and risk management;
2) personnel management;
3) the internal control system;
4) the application of information technology and information security;
5) ensuring the lawfulness and legality of procedures;
6) institutional administration;
7) institutional communication.

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

1) effective human resource management, whereby the employee development and their involvement in the attainment of the Treasury's targets are encouraged at all levels;

2) ensuring access to the services provided by the Treasury at a high-standard and conforming to the latest developments in the information technology area level, exploiting the resource optimisation opportunities they afford;

3) effective, economical, fast and secure administration and monitoring of public financial management processes in accordance with the interests of the State and its residents.



Legal status and structure of the Treasury

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

The operations of the Treasury are managed by **the Treasurer**. The Treasurer is appointed and removed from office by the Minister of Finance.

The Treasury has the following **functions**:

1) organising the implementation and financial accounting of the central government budget;
2) allocating expenditure and effecting payments from central government budget revenue;
3) management of central government debt;
4) the functions of the Paying and Certifying Authority for EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism laid down in the regulatory enactments and the National Fund functions delegated by the National Authorising Officer;
5) other functions prescribed by the regulatory enactments.

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

The structure and operational organisation of the Treasury is established by **the Rules of Procedure of the Treasury**, issued on 20 February 2012 in accordance with the State Administration Structure Law.

In order to limit the financial risks to the maximum extent possible, **the structure** of the Treasury has been based on the principle of segregation of functions (similar to banks and European debt management bodies).

1) client service and financial transactions;
2) financial risk management;
3) maintaining of accounting records and drafting of reports.

To ensure unified decision-making, the following **committees** remained active in 2013:

Audit Committee – to facilitate the effective implementation of the internal control function at the Treasury and to improve the internal control system established by the Treasury with a view to ensuring the accomplishment of the Treasury's strategic goals, safeguarding its resources and establishing and maintaining effective control measures.

Euro Changeover Committee – to develop proposals for the implementation of the euro in the areas falling within the competence of the Treasury and to coordinate the engagement of the structural units of the Treasury in the measures to introduce the euro.

Committee for the Management of Information System Changes – to ensure a coordinated review and execution of requests for changes to the Treasury's information systems.

Credit Committee – to facilitate credit risk management by coordinating the activities of the structural units of the Treasury on matters involving the monitoring of state loans, state guarantees and counterparty limits.

Quality and Risk Management Committee – to facilitate continuous improvement of the Treasury's performance and services conforming to the interests of the State, its residents and clients, through implementing effective quality, risk and information security management.

Resource Liquidity Committee – to promote sound cash management in compliance with the tasks defined in the Treasury's Cash Management Strategy for ensuring liquidity management.

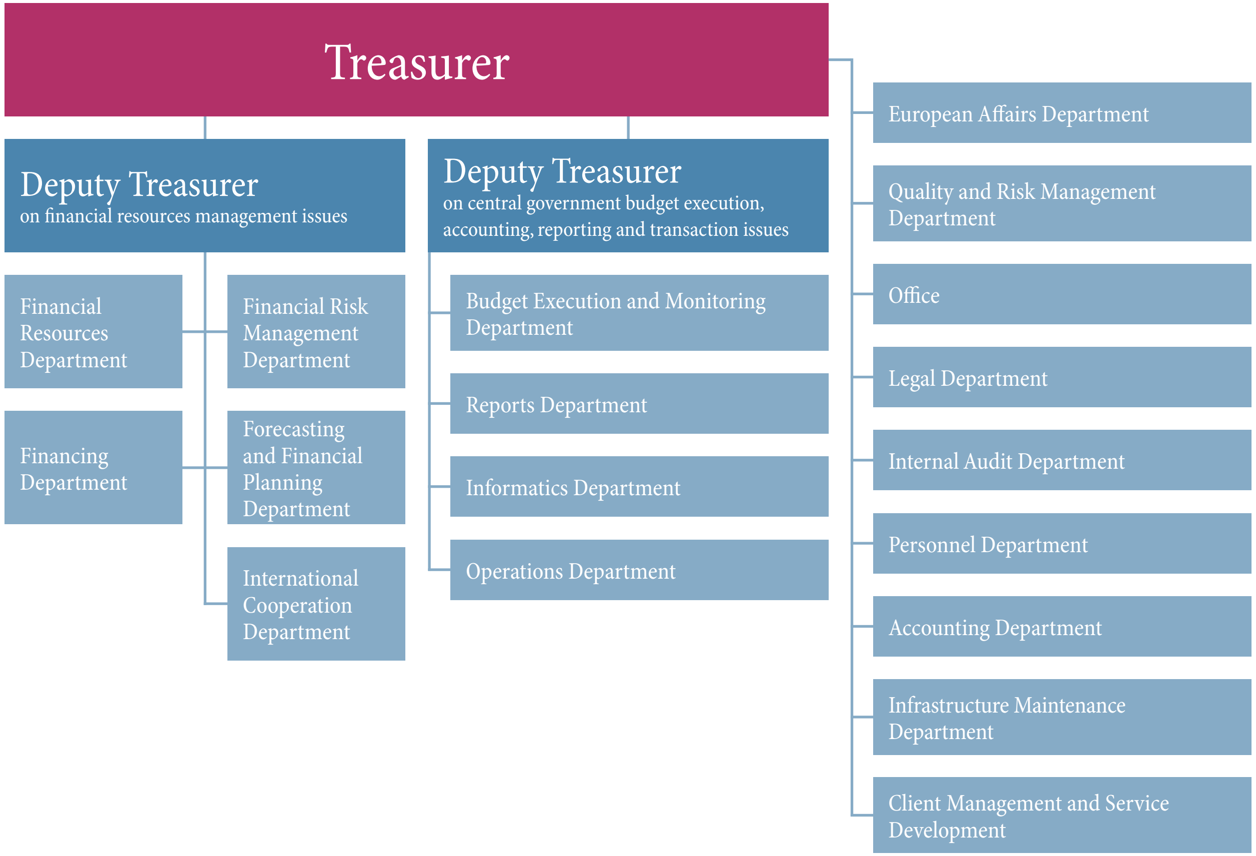
Management Committee – to ensure effective management of the Treasury's staff and financial resources with a view to accomplishing the objectives defined in the Operational Strategy of the Treasury.

Central Government Budget Accounting Committee – to organise the implementation and updating of the Treasury's central government budget financial accounting policy and to ensure effective accounting policy change management.

Legal status and structure of the Treasury

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

Organisational chart of the Treasury



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Activities of the Treasury in 2013

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1. Implementation of the Central Government Budget

1.1. Operational Principles and Areas of Development

The Treasury, as a direct administration institution subordinate to the Ministry of Finance, has been tasked with organising the implementation and financial accounting of the central government budget and granting expenditure allocations and executing payments[1] within the limits of the appropriations specified in the annual central government budget.

In implementing the central government budget, the Treasury maintains a Comprehensive Central Government Budget Planning and Implementation Information System, in which budget accounts for budget implementers are opened; central government budget revenue is accounted for by reference to the appropriations in the annual central government budget and financing plans registered with the Treasury; expenditures are allocated and grants are issued from the general revenue using the electronic budget payments system *eKase*; the processing and execution of payment orders from the Treasury clients are ensured and information on the taxes and duties paid into the central government budget accounts of the bodies administering government budget payments is provided.

With a view to ensuring uniform accounting for public finances, the Treasury drafts legislation concerning accounting at central and local government budget institutions, defining uniform accounting principles and methods, a single chart of accounts and a reporting system that is based on the classifications of financial information approved by the Cabinet, thus enabling the obtaining of good quality information regarding the implementation of the central government budget both under the cash flow principle and the accruals principle.

[1] *In accordance with the Cabinet Regulation "Procedures According to which the Treasury Provides Payment Services"*

The reports submitted by central and local government budget institutions are aggregated in *ePārskati* ["eReports"], a single budget reporting system used by the Treasury as well as the Ministry of Finance, the State Audit Office, the Bank of Latvia, the Central Statistical Bureau and other public administration authorities.

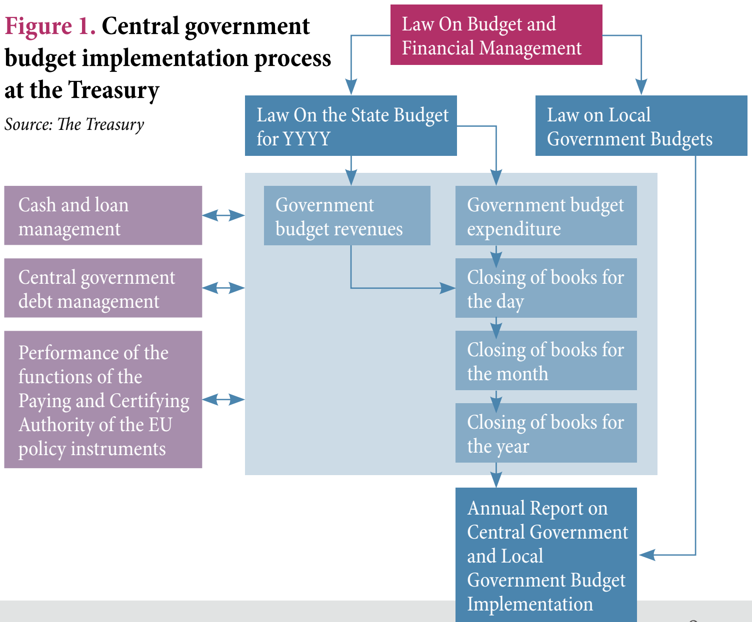
The Treasury has to ensure the performance of the financial commitments of the Republic of Latvia, making timely and full annual membership contributions to international financial organisations on behalf of the Republic of Latvia and payments into the capital and/or reserves of the international financial institutions in which the Republic of Latvia holds capital shares, thus ensuring that the commitments assumed by the country are met.

Under the procedure laid down in the regulatory enactments the Treasury disburses compensation to rehabilitated citizens, ensures the allocation of personal income tax between the central and local government budgets and the allocation of mandatory national social insurance contributions among special budget accounts, and remits the respective state budget grants to local governments.

1.2. Organisation of the Implementation of the Central Government Budget in 2013

Figure 1. Central government budget implementation process at the Treasury

Source: The Treasury



Implementation of the Central Government Budget

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Granting and Implementing Expenditure Allocations

In 2013, **the Treasury allocated expenditures worth LVL 5,207.73 m** towards the implementation of the central government budget, which included LVL 3,730.81 m for the general budget and 1,476.92 m for the special budget. **Allocations were granted to 203 state budget institutions.**

In 2013, 1,983 general budget expenditure accounts were opened. Compared to 2012, the number of accounts increased by 71 account, which was due to the intensive implementation of the projects co-financed with the EU policy instruments and other foreign assistance. Due to this factor the number of current accounts rose by 754 compared to 2012 and reached 8,494 accounts. Following the decline in the overall volume of donations and gifts, the number of accounts opened by budget institutions to account for the donated funds fell by 10%; there were 144 such accounts.

Accounting and Reporting

Pursuant to the regulatory enactments the Treasury **prepares** official **daily, monthly and quarterly reports and the Annual Report on the Central Government and Local Government Budget Implementation** (the monthly reports are available on the Treasury's website, the Annual Report on the Central Government and Local Government Budget Implementation is published on the Treasury's website upon receiving the opinion of the State Audit Office). **The Treasury ensures that the consolidated annual report of ministries, central government institutions, state budget institutions, derived public persons partially financed from the central government budget and local governments is published on its website.**

The Treasury prepares the **Annual Report on Central Government and Local Government Budget Implementation by consolidating 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 2013, the Annual Report on the performance in 2012 was prepared by **consolidating the consolidated annual reports submitted by 13 ministries, 15 central government institutions and 119 local governments**. The consolidated annual report of ministries and central government institutions comprises the annual reports of State budget institutions, derived public persons partially financed from the central government budget and institutions not financed from the central government budget, while the consolidated annual report of local government budget comprises the annual reports of local government budget institutions[2] and joint local government institutions.

The Annual Report audited by the State Audit Office is the most significant and credible source of information regarding the financial position of the State at the end of the reporting period and the results of the implementation of the central government budget in the reporting year. The opinion issued by the State Audit Office provides assurance that the report gives a true and fair view of the completeness and credibility of the information disclosed in the reports and the quality of the information included in the Annual Report, the users whereof are the Saeima (the Parliament), the Bank of Latvia, various international institutions (European Commission, EUROSTAT, International Monetary Fund and international rating agencies) and potential investors who decide on potential investment in the economy of Latvia based on the information provided in the Annual Report.

In order to include uniform and comparable information in the Annual Report, **the Treasury is engaged in developing and updating the regulatory enactments governing the accounting and reporting of budget institutions.**

In ensuring compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, **measures aimed at improving accounting at the budget institutions have been carried out**, including the drafting of supplements to the existing regulatory enactments and the provision of detailed explanations to the preparers of the reports.

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[2] *To address common tasks, local governments can establish joint institutions upon mutual agreement. Such institutions operate on the basis of bylaws approved by the respective local councils. The bylaws prescribe the competence of a joint local government institution, the procedures of financing, monitoring and liquidation thereof, and the procedures by which withdrawal from the institution takes place, as well as other matters pertaining to the operation of the joint local government institution (e.g., construction board, regional municipal police, etc.).*

Implementation of the Central Government Budget

In 2013, the Cabinet **Regulation specifying accounting procedures at budget institutions** was amended to specify the requirements of the regulation in connection with the introduction of the euro in accounting starting from 2014.

In turn, the 2013 changes to the Cabinet **Regulation on the preparation of the annual report of budget institutions** complemented information disclosure requirements regarding the assessment of the impact of the financial performance of a capital company on central or local government budget expenditure. The amount of information to be provided on non-chargeable transactions carried out between budget institutions has been reduced because budget institutions provide such information in the course of their annual stock-taking and when preparing reconciliation statements on the assets and liabilities transferred/received free of charge. The procedure for the preparation of local government representations regarding the responsibility of the management to the Minister of Finance has been defined as well. The requirements have been clarified with a view to improving the clarity and easier presentation of the information disclosed in the reports and providing more detailed explanations, same as the requirements in connection with the introduction of the euro in the preparation of monthly and quarterly reports.

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

One of the priorities laid down in the Operational Strategy of the Treasury stipulates that the services provided by the Treasury must be available at a high standard and consistently with the latest developments in information technology, exploiting the resource optimisation capabilities they afford. As Latvia was preparing for the changeover to the euro as its national currency from 1 January 2014, the Treasury began to implement measures aimed at adapting the information systems administered and the services rendered by it to the euro within the framework of the project *Adaptation of the Treasury's information systems* financed by the ERDF already at the end of 2012.

In 2013, the Treasury maintained and continued the development of the following services and information systems:

Comprehensive Central Government Budget Planning and Implementation Information System

The Comprehensive Central Government Budget Planning and Implementation Information System that is maintained by the Treasury ensures a full government budget management cycle: from budget planning to implementation to implementation monitoring:

1) **the central government budget planning functionality** ensures the processing of the central government budget and amendments thereto by aggregating data from ministries and central government budget institutions (this function is performed by the Ministry of Finance);

2) **the central government budget implementation functionality** ensures the processes of the Treasury and central government budget institutions in the system, e.g., account creation, the granting and execution of expenditure allocations, the central government budget revenue process, the process of daily, monthly and annual closing, as well as the local government financial equalisation fund and personal income tax allocation process, etc. (this function is implemented by the Treasury).

The Data Warehouse Section of the Comprehensive Central Government Budget Planning and Implementation Information System generates reports on the implementation of the central government budget according to the central government budget structure.

For operating with the euro as the national currency the following has been performed within the Comprehensive Central Government Budget Planning and Implementation Information System:

1) historical data of budgeting plans had been converted in the Budget Planning Section; it was also ensured that in the second half of 2013 it was possible to effect operations in lats in the current period while it was possible to do the planning for 2014 in euros;

2) client account and account balance change, the conversion of the transferable balances, the change of the budget

implementation accounting currency, reconciliations with clients in respect of the preceding period and the creation of non-routine reports to enable the processing of different periods with different accounting currencies has been ensured in the Budget Implementation Section;

3) the conversion of financial transactions denominated in lats to the euro has been ensured, same as the changes in the general ledger and the updating of reports has been ensured within the Debt Management Section;

4) the conversion of historical data for using them in the euro currency while retaining the identity of the original data has been ensured within the Data Warehouse Section. Changes have been made, ensuring the changeover of the national currency settings from lats to the euro. Changes have also been made to reports.

ePārskati, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments

ePārskati, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, is used for the management of the financial and budget implementation reports of budget institutions. The submitters of the budget institution reports submit their quarterly and annual reports to the Treasury and sign them electronically online in the *ePārskati* system, thus ensuring mutual administrative and time savings.

Since 1 December 2013, **the use of the system via web-based technologies has been ensured.** A transitional period was set until 1 February 2014 during which users could use the software installed on their existing work stations as well as authenticate for work in the system in the Treasury's electronic services portal.

In 2013, **the number of institutions which used the *ePārskati* system for the acceptance, verification and approval of reports increased** which helped ensure the timely exchange of information between budget institutions: this is being successfully performed by the Ministry of Culture, Ministry of Finance and Ministry of Education and Science, while the Ministry of Welfare is contemplating starting to use it.

In 2013, **the integration of the Comprehensive Central Government Budget Planning and Implementation Information System and *ePārskati* system was continued** so as to ensure that the reconciliation of the data regarding the budget programmes and sub-programmes of the ministries, central government institutions and their subordinate bodies could be performed in *ePārskati*, which would further provide a possibility to expand the control over the congruence of mutual data using the information provided in the annual report.

For operating with the euro as the national currency it has been ensured that the Budget Reports Section of the *ePārskati* system provides the possibility to obtain historical data for the publishing of reports in euros, by recalculating the data from lats into euros while retaining the integrity of the original data of reports. Changes have been drafted concerning the preparation of the 2013 reports in lats, for ensuring the integrity of the primary data when converting them into euros, thereby ensuring that two versions of the annual report are available. The sign-off of the reports prepared in euros has been ensured to confirm the accuracy of the reports. It has been ensured that reconciliation against the 2013 report data in euros will be possible in the course of the preparation of the reports for 2014. Such a solution has been ensured for quarterly reports, too.

ePlāni, the Financing Plan Processing Information System

The financing plan processing information system *ePlāni* is used for awarding grants and allocations to ministries and central government institutions based on the financing plans prepared and submitted by them. In 2013, **9,288 general budget and special budget financing plans were registered and processed by the system.**

Through improving the *ePlāni* system, the changeover to the application of the system by using web-based technologies, was ensured in 2013. In addition to other improvements of *ePlāni* (new informative reports, the possibility to import data from the accounting systems, etc.), the use of a single e-services portal provides users **more convenient and secure authentication** for work with *ePlāni*.

Implementation of the Central Government Budget

For operating with the euro as the national currency it has been ensured that *ePlāni* provides the functionality for the preparing, approving and submitting of financing plans both for the 2013 budget (in lats) and for the 2014 budget.

eKase, Budget Electronic Payment System

The Treasury renders payment services electronically, using the budget electronic payment system *eKase* and its Online Data Exchange Module. **Through *eKase* the Treasury enables its clients to execute payment orders, view the results of the execution of payment orders and to receive financial information offered by the Treasury: on account status (balance), account turnover statements and a summary of revenues and expenditures or resources to cover expenditures.** The Online Data Exchange Module ensures the automated exchange of information between the Treasury and its clients. The Online Data Exchange Module ensures not only the possibility to request on-line payment data (account statements and account statement for the day that has not been closed yet) and submit payment orders for execution to *eKase*.

For operating with the euro as the national currency it has been ensured that *eKase* provides the functionality for exchanging the accounting currency from lats to the euro; changes have been made to data input forms, data input and verification algorithms, data exchange interfaces. Changes have also been made to reports.

e-Service for the Verification of the Payment Made to the Budget

The section "Verification of a Payment Made to the Budget" on the Treasury's website provides the possibility for payers to verify whether the payment made by him or her has been received in the specified account of the government budget with the Treasury. In 2013, there were more than **20,000 requests** for this e-service.

Credit Cards Tied to Government Accounts

In cooperation with AS Swedbank, the Treasury **provides government budget institutions with the opportunity to use credit cards tied to Treasury accounts for budget expenditures.** Such credit card services are intended for covering expenses incurred by personnel **on business trips and job-related travel and for business purposes**: the employees of central government budget institutions have the possibility to make non-cash payments during their business trips while complying with the requirement of the Law on Budget and Finance Management under which central government budget expenditures are to be made from the accounts opened with the Treasury.

In 2013, **the service** of credit cards tied to Treasury accounts **was used by 112 state budget institutions, and a total of 958 credit cards were issued to them.**

Acceptance of Payment Cards in the Collection of Government Budget Payments

The Treasury provides the payment card acceptance service (via AS SEB banka and AS Citadele banka) to those clients that are institutions administering budget payments and collecting budget payments from private persons. They are provided with the possibility to collect such payments using *VISA Electron, MasterCard, Maestro or American Express* payment cards in a payment card acceptance terminal or in another alternative system.

In 2013, **594 payment card terminals** were installed at institutions administering budget payments in which **786,571 transactions were performed, with a total worth of LVL 31,748,958. A rapid increase in the number of transactions and amounts collected continued** in 2013, which indicates that the residents approve of the service and are increasingly using payment cards in their payments to the state and enjoy the advantages they afford.

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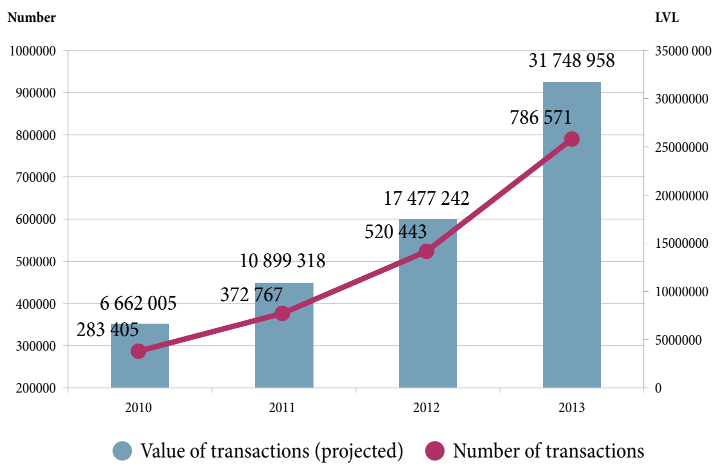
Implementation of the Central Government Budget

Figure 2. Dynamics of the payment card (*VISA, MasterCard and American Express*) acceptance service (2010–2013)

Source: The Treasury



Centralised Financial Accounting Solution

The Treasury continued to maintain the centralised resource management system, *Horizon*, **enabling the financial management, accounting and personnel accounting of the Ministry of Finance and the institutions subordinated to it (departments of the Ministry of Finance) within a single system.**

To ensure the uniform and effective implementation of the accounting process at the institutions subordinate to the Ministry of Finance, the Treasury continued to maintain the accounting of the Procurement Monitoring Bureau and the accounting and personnel management processes of the Lotteries and Gambling Supervision Inspectorate.

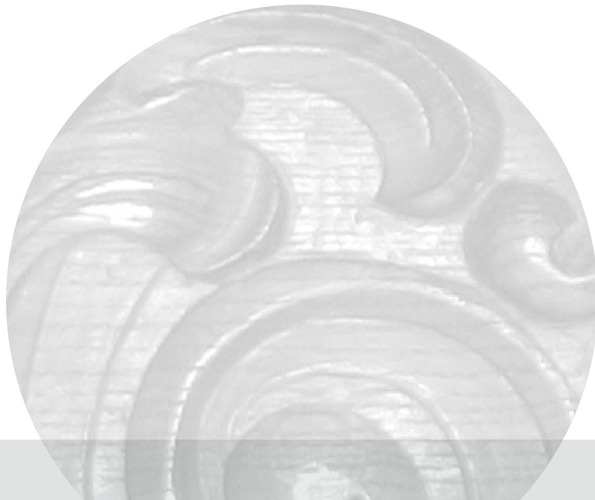
Developing Services for Local Governments

Local governments and the capital companies in the share capital of which central or local government capital has been invested, may use, in accordance with the Cabinet Regulation "Procedures According to which the Treasury Provides Payment Services", **all those payment services provided by the Treasury that enable the possibility to fully implement the budget at the Treasury** (to use a payment account, make credit transfers, deposits and disbursements of cash, use payment card payment and payment card acceptance services).

In 2013, the Treasury surveyed local governments regarding the Treasury's services used and satisfaction therewith. According to the results of the survey local governments are satisfied with the services provided by the Treasury. Furthermore, the Treasury gained assurance that the services offered by the Treasury ensure a more timely exchange of information, faster process performance and significant savings of the central government financial resources – reduction of the time needed to receive the service and the service administrative costs.

Developing Client Relations Management

In 2013, the Treasury's client support via telephone was improved – the Treasury's client service centre was equipped with a call centre to ensure a structured (the topic of the conversation is selected) and faster servicing of client calls and recording of the conversations for the purpose of analysing the client service process.



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1.4. Performance Indicators of the Operational Targets for Central Government Budget Implementation as Defined in the Operational Strategy of the Treasury

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

Operational target	Outcome	Performance indicators	Performance indicators (numeric values) in 2013	
			Projected	Implemented
1.1. In planning and implementing the general budget to apply such uniform classifications that conform to the requirements of international financial institutions and organise an effective, timely and high quality standard government budget implementation process.	1. Uniform budget implemented, budget cash flow accounting and implementation principles have been developed and approved; a positive assessment of the quality of the budget implementation, effective accounting, timely and adequate control of the budget implementation process has been received from external auditors and counterparties.	1.1. Conformance of the financial statements to the main principles of the international accounting standards and the international public sector accounting standards (%).	63	63
1.2. To ensure compliance with the main principles of the international accounting standards and the international public sector accounting standards and to implement the national statistical information programme to a high quality standard.		1.2. Financial statements conform to the requirements of the European Statistics Code of Practice within the framework of the national statistical information programme (percentage share of the requirements of the European statistics Code of Practice).	–	–
2. To increase the availability of the Treasury's services remotely, reducing the administrative burden related to the receipt of services and service administration costs.	2.1. The wishes of the Treasury's clients have been identified and the rendered services have been improved accordingly.	2.1. Satisfaction with the quality of the services received (percentage of surveyed customers[3]).	≥80	100[4]
	2.2. It has been ensured that the Treasury's services can be received electronically.	2.2. Provision of services via electronic service delivery channels (percentage of all services rendered).	≥80	100

[3] *In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service as well as surveys aimed at identifying the satisfaction and needs of a particular client segment are carried out.*

[4] *The measurement was performed using the data of the local government survey on submitting reports to the budget reporting information systems of ministries, central government institutions and local governments.*

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3. To ensure that the management accounting information service is provided to other budget institutions for financial decision-making purposes.	3. The financial and management accounting reports of budget institutions have been submitted using a single information system.	3. It is possible to receive information for management decision-making through the single budget reporting system *ePārskati* (the number of budget institutions).	15	13[5]
4. To ensure the possibility to provide accounting services to other budget institutions.	4. The IT and personnel resources necessary for maintaining the accounting records of budget institutions have been optimised by applying a single data centre principle.	4. An accounting service has been provided to the institutions of the Ministry of Finance and central government institutions (number of institutions).	2	2
5. To ensure the adaptation of the Treasury's information systems to the introduction of the euro.	5. On the day of the introduction of the euro the provision of services in the euro has been ensured.	5. The provision of services in the euro has been ensured (%).	–	–

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[5] In 2013, local governments used the single budget planning module within the comprehensive budget reporting system ePārskati to a lesser extent than projected due to a different planning process.

2. Central Government Debt Management

2.1. Operational Principles and Areas of Development

In accordance with the authorisation from the Minister of Finance, the Treasury performs the management of central government debt as well as organises the issuance and monitoring of state guarantees.

The main principles of central government debt management for the medium term are defined in the Latvian Central Government Debt Management Strategy, which is approved by the Minister of Finance. According to the Latvian Central Government Debt Management Strategy, the goal of the management of the central government debt portfolio is to optimise the servicing costs of central government debt in the long term while limiting the financial risks of the central government debt portfolio. The management of central government borrowing focuses on ensuring a continuous possibility of raising resources in the financial markets on optimal terms.

Latvian Central Government Debt Management Strategy Objective	
To secure resources for meeting financing needs at the lowest possible cost, limiting financial risks and having regard to the development of the national macro-economic situation and the financial system	
Central Government Borrowing Management	Central Government Debt Portfolio Management
The possibility to continuously borrow in financial markets on optimal business terms	Optimising debt servicing costs in the long term; Limiting the portfolio financial risks

Pursuant to the aforementioned central government debt management guidelines the Treasury implements a medium-term strategy in accordance with the following priorities:

1) to carry out gradual and timely borrowing in international financial markets, mainly through organising regular public issuances of government securities with a view to ensuring, having regard to the determined repayment schedules, the refinancing of the central government debt assumed within the scope of the international loan programme on more favourable loan rate and maturity terms;

2) to ensure diversification and expansion of the range of investors in government securities engaging in a regular, ongoing dialogue and work with long-term investors and counterparties to promote that investors of different regions of the world actively participate in the initial placement of the country's external debt securities, as well as ensuring investors an adequate rate of return that, as a priority, allows for limiting financial risks in the long term;

3) to ensure and maintain a range of counterparties which are continuously available for entering into financial transactions;

4) to actively communicate with rating agencies with a view to achieving a favourable impact on the credit rating of the Republic of Latvia in the future; to ensure that a uniform and coordinated view of the situation in Latvia is provided during the process of credit rating determination.

Figure 3. Medium-term borrowing strategy / *Source: The Treasury*

Timely borrowing Flexibility regarding the timing, currency and maturity of the borrowing	Investor base diversification Greater competition among investors – lower rates, wider borrowing possibilities
Exploitation of the potential of the domestic financial market Adequate investment possibilities to market operators	Reserving of loan financing for debt repayment Elimination of refinancing risk

Reduction of debt servicing costs in the medium term

The steps planned for accommodating the total financing needs in the current year and the choice of borrowing instruments that best suit the financing needs are provided for in the **Medium Term Borrowing Plan**, which, having regard to the guidelines laid down in the Latvian Central Government Debt Management Strategy, is developed by the Treasury and approved by the Minister of Finance. Total financing needs, an analysis of the situation in international financial markets, macroeconomic indicators, interest rate forecasts and trends are assessed in the plan, alternative borrowing instruments and different scenarios of the use thereof are evaluated with a view to thereby ensuring the raising of financial resources on terms that are beneficial to the country. The plan provides for the measures aimed at promoting relations with the existing domestic and foreign investors, informing investors of the country's economic and financial situation, promoting the interest of investors about investments in government securities and for other matters related to the planned borrowing.

Figure 4. Preparation of the Medium Term Borrowing Plan

Source: The Treasury

Assessment of financing requirement

- Macro-economic data
- Financial market analysis
- Interest rate forecasts

Borrowing instruments:

- Issuance of medium-term and long-term bonds, T-bills in the domestic market
- Issuance of debt securities in the international financial markets and niche markets
- Borrowing from international financial institutions
- Credit facilities, borrowing from banks
- Savings bonds

Debt management strategy

▼

Financing scenarios – combinations of borrowing instruments (1;2;3;4...)

▼

CaR simulations

▼

The most efficient borrowing scenario

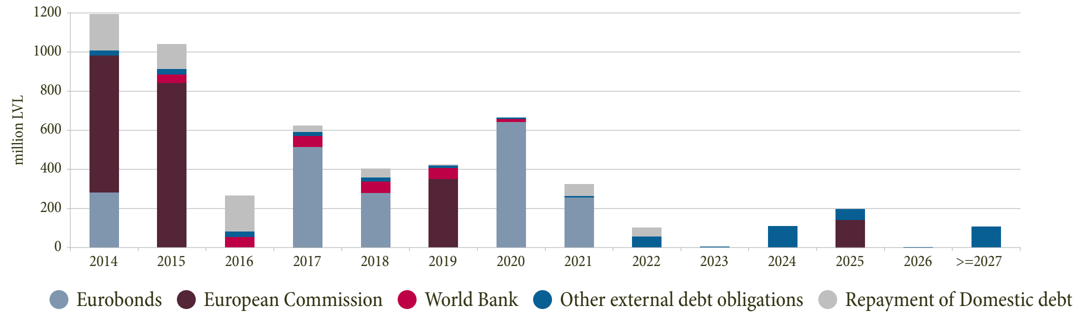

Figure 5. Government debt repayment schedule (obligations assumed until 31.12.2013.) *Source: The Treasury*

Taking into account the considerable amount of debt obligations repayable in the medium term, the largest share of which is made up of the loans from the European Commission issued under the international borrowing programme and due for repayment in 2014 and 2015 and the Eurobonds maturing in 2014 (see Figure 5), a timely raising of adequate financing must be ensured in order to reduce the government debt refinancing risk. The Treasury intends to repay the government debt maturing in the medium term by refinancing the government debt with new loans raised in domestic and international financial markets.

In the coming years, external debt instruments will continue to make up the largest share of the total financial resources to be raised. Borrowing in international financial and capital markets is expected to continue, focusing on public transactions in the global financial markets – the USA and Europe and addressing investors in other regions.

It is intended to continue regular offers of domestic debt securities – both T-bills and bonds – of varying maturity and satisfying the demand in the domestic financial market, thus promoting the development of the securities market and the application of the Primary Dealer System, which has been operational since the beginning of 2013. The Primary Dealer System encourages the emergence of a government securities market that is more liquid and attractive to investors, promoting an increase in investor demand for domestic government securities. Starting from June 2013, the residents are offered the opportunity to purchase government savings bonds (see Chapter 2.3.3) with a view to encouraging investments of potentially new investors – private persons – in the domestic financial market instruments.

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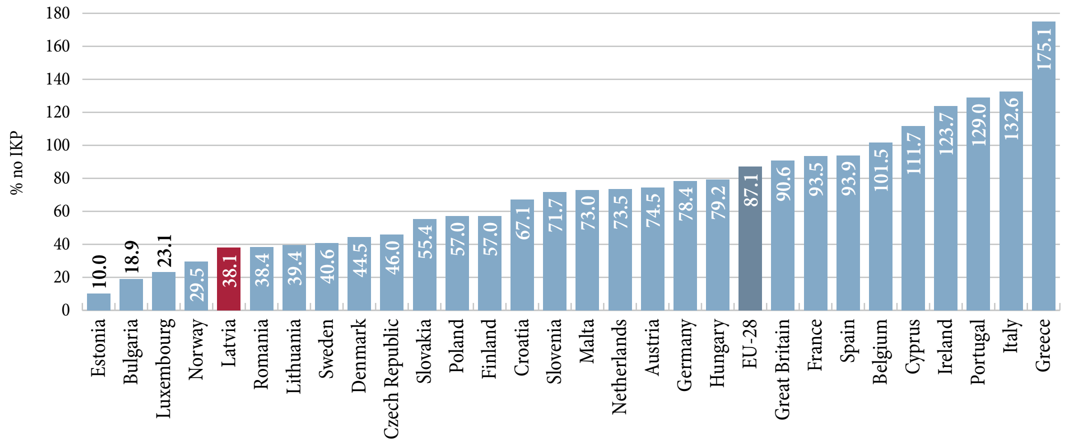
Figure 6.
General government debt at the end of 2013 (% of GDP) under the ESA 95 methodology
Source: EUROSTAT



By continuing borrowing activities in line with the medium-term strategy and pursuing a responsible fiscal policy, it is possible to refinance the assumed government debt obligations on favourable terms, as well as to achieve a reduction in the government debt level in the long term and the stabilisation thereof at a sustainable level.

In accordance with the authorisation by the Ministry of Finance the Treasury, based on the proposals of ministries, evaluates the projects of the applicants to whom state guarantees are to be issued and prepares a shortlist of the applicants to be supported and their projects for inclusion in the annual State Budget Law. The Treasury has engaged in the process of providing state guarantees, organising the conclusion of guarantee agreements and agreements related to them and handling the accounting for the state-issued guarantees.

The relevant priorities that serve the national interests for the implementation of the state guarantee policy in the medium term are as follows:

1) to ensure the quality of the portfolio of state-issued guarantees, through reviewing, among other things, the range of the recipients of state-guaranteed loans and defining the objectives of the state-issued guarantees;

2) to implement an efficient process that is based on global best practices for selecting candidates for state-issued guarantees and for issuing and servicing state-issued guarantees.

2.2. Structure, indicators and changes of the Central Government Debt

The Latvian general government debt level which accounted for approx. 38% of GDP at the end of 2013, was **the fifth lowest among the EU Member States** despite its substantial growth in recent years, and it **was well below the average indicator in the EU** (see Figure 6).

In 2013, the level of general government debt was mainly influenced by the government debt, which fell by LVL 133.8 m, and **reached LVL 5,687.7 m** at nominal value **or 34.8% of GDP** at the end of 2013, **remaining below the maximum level of debt** of LVL 6.9 billion at the end of the year as provided for in the law On the State Budget for 2013 (see Figure 7).

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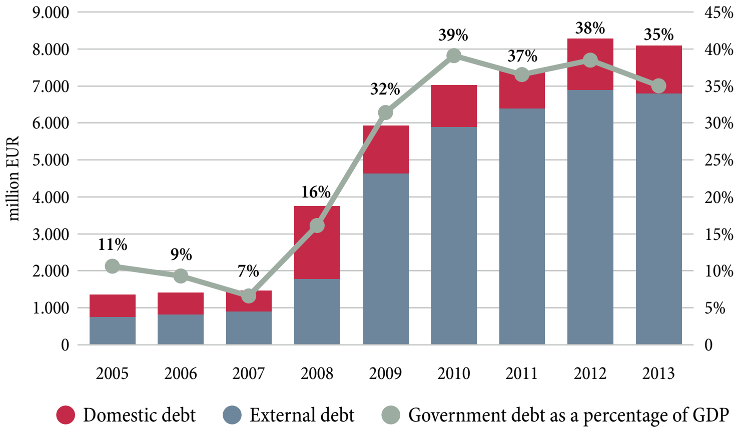
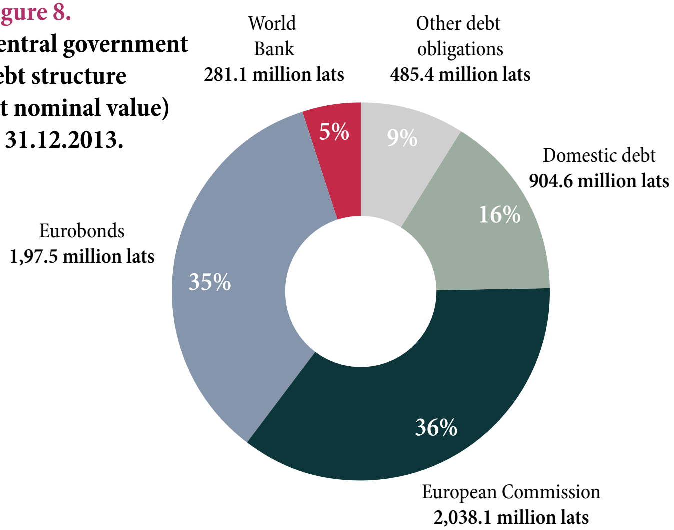
Figure 7.
Central government debt (at nominal value) in 2004–2013[6]
Source: The Treasury



In the structure of central government debt of 2013, **external debt made up the greatest share reaching 84%**, conversely, the **government domestic debt accounted for 16%** of the total central government debt (see Figure 8).

Figure 8.
Central government debt structure (at nominal value) at 31.12.2013.



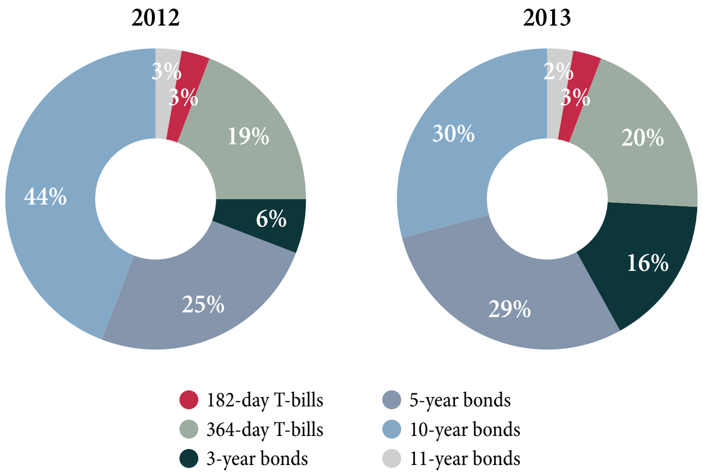
[6] *Operational data*

The central government external debt according to nominal value as of 31 December 2013 stood at LVL 4,783.1 m.

In 2013, central government external debt fell by LVL 64.1 m, which was due to the repayment of several external loans during 2013 in accordance with the previously concluded agreements. The greatest share of central government external debt was made up of loans from the European Commission and Eurobonds issued in previous years[7]. Loans from international financial institutions (e.g. European Investment Bank, Nordic Investment Bank, etc.) capital market for financing various projects make up the remaining external debt obligations (see Figure 8).

At 31 December 2013, the nominal value of the **domestic government debt** was **LVL 904.6 m**, the greatest share whereof consisted of domestic government debt securities worth LVL 679.3 m, which were purchased by the domestic financial market operators (credit institutions and institutional investors) at the public auctions regularly arranged by the Treasury.

Figure 9. Government domestic debt securities outstanding at the end of 2012 and 2013 / *Source: The Treasury*



[7] *Eurobonds are foreign debt securities (bonds) of the Latvian government which are issued in international financial markets in a foreign currency, and which are mainly purchased by foreign investors – banks and institutional investors (investment funds, pension funds, insurance companies, etc.).*

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In 2013, the share of government domestic debt securities increased by LVL 4.2 m in nominal value, the percentage ratio of the types of government domestic debt securities in circulation within the domestic debt portfolio changed as well. The changes were mainly due to the increased assortment of bonds available (see Figure 9).

2.3. Central Government Borrowing Management

2.3.1. Investor Relation Management

In order to implement focused **investor relation management** and define appropriate measures to be taken, the Treasury regularly provides information to investors and counterparties by drawing up the annual Central Government Debt Management Report and quarterly bulletins, and prepares a digest of relevant weekly developments, as well as engages in other communication measures.

Every year the Treasury produces an analytical **Central Government Debt Management Report** in Latvian and English for the preceding year, in order to provide clients and participants of the financial market – including the existing and potential counterparties and investors in government securities – with information on the developments in central government debt management, performance indicators and future trends. The Central Government Debt Management Report is also forwarded to other bodies performing equivalent government debt management functions in the EU (debt management offices) and to the embassies of the Republic of Latvia abroad. This form of presenting information on the latest developments in Latvian government debt management has been positively acknowledged by counterparties (including banks).

Once every quarter, the Treasury posts a **Central Government Debt Management Quarterly Bulletin** in Latvian and English on its website, in which the latest data on government budget implementation and central government debt management and current information regarding the credit ratings of Latvia, domestic and external borrowing, debt portfolio management, trends and results of government securities auctions and local government borrowing is provided.

Every week, the Treasury compiles, forwards to investors and posts on its website **a Weekly Update** in English regarding government budget and debt management and developments in the Latvian financial sector, economy and politics.

As members of the Latvian delegation the representatives of the Treasury hold meetings with investors, foreign investment banks and rating agencies during the Annual Meeting of the World Bank and the International Monetary Fund and organise face-to-face meetings as well, thereby **additionally supporting the dissemination of information regarding investors to the public**.

2.3.2. Credit Rating of the Republic of Latvia

The national credit rating is a critical factor for the availability of financial resources which gets a reflection in the price of the borrowed resources. As part of central government debt management, **for the purpose of establishing the credit rating of the Republic of Latvia**, the Treasury arranges visits by analysts from the three major **international rating agencies – *Fitch Ratings*, *Standard & Poor's*, *Moody's Investors Service* and the Japanese rating agency *R&I*** to Latvia and regularly provides them with comprehensive information on Latvia with a view to facilitating the rating agencies in their taking decisions for the favourable development of the credit rating of the Republic of Latvia. Based on the available information, investors evaluate the prospects of investing in Latvia (including in government securities). Rating agencies not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign ratings to government securities. Once a year, an inter-agency working group led by the Treasury informs the Cabinet on the national credit rating of the Republic of Latvia and the factors affecting it, as well as proposals to improve ratings.

In 2013, all rating agencies raised the credit rating of the Republic of Latvia. *R&I* raised Latvia's credit rating from BBB- to BBB in February, Moody's raised the credit rating from Baa3 to Baa2 in March. Latvia's sound, strong and balanced economic growth was cited as the basis for the raise in its credit rating. Upon Latvia fulfilling the Maastricht criteria and receiving an official invitation to join the eurozone, the credit rating of the Republic of Latvia was raised from BBB to BBB+ by *Standard&Poor's* in June and by *Fitch Ratings* – in July. The most recent raising of the credit rating

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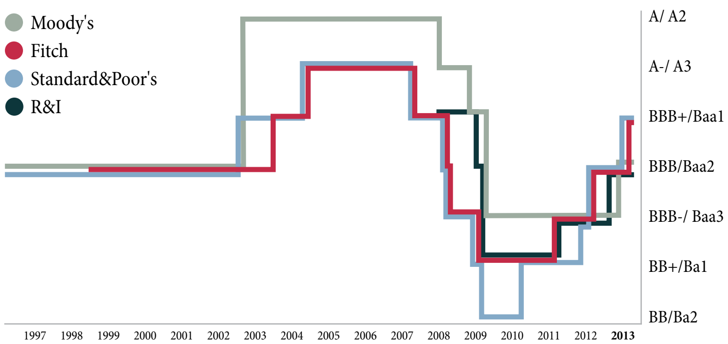
by both the agencies had occurred in November 2012. At the end of the year *Standard&Poor's* also increased Latvia's outlook – from stable to a positive outlook.

Figure 10. Credit Rating History of the Republic of Latvia

Source: The Treasury

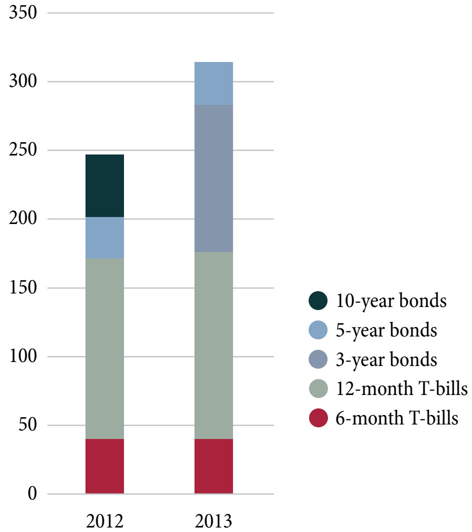


2.3.3. Central Government Domestic Debt

In 2013, the Treasury continued to hold regular auctions of government securities, offering investors short-term and medium-term as well as long-term government securities. As in previous years, the Treasury held 6-and 12-month T-bill auctions, mainly with a view to refinancing and raising relatively cheap liquidity resources and maintaining the domestic government securities market and ensuring the regular updating of the benchmark for short-term lats lending rates in the market. In turn, to ensure investment opportunities in medium-term and long-term government securities for institutional investors as well as longer-term resources for financing the general government budget, **in the beginning of 2013, the Treasury offered a new 3-year bond programme and initiated a new 5-year bond programme in October, which produced great auction results and high demand thereby contributing to the rates being at the lowest levels historically.**

Figure 11. Government domestic debt security issues in 2012 and 2013 by maturity, in LVL m

Source: The Treasury



In 2013, the Treasury sold government domestic debt securities worth LVL 315 m in the primary market, while the aggregate demand was LVL 958 m, which was on average 3.1 times higher than the total supply.

The bid-to-cover ratio of government securities in competitive multi-price auctions held during the year was higher than one, i.e., in most cases **demand exceeded supply by from two to four times.** Somewhat volatile demand levels were observed in June and July which was mainly due to uncertain circumstances in international financial markets and the doubts of market operators concerning the direction in which rates will develop. With the circumstances stabilising in the second half of the year, the bid-to-cover ratio returned to previous levels.

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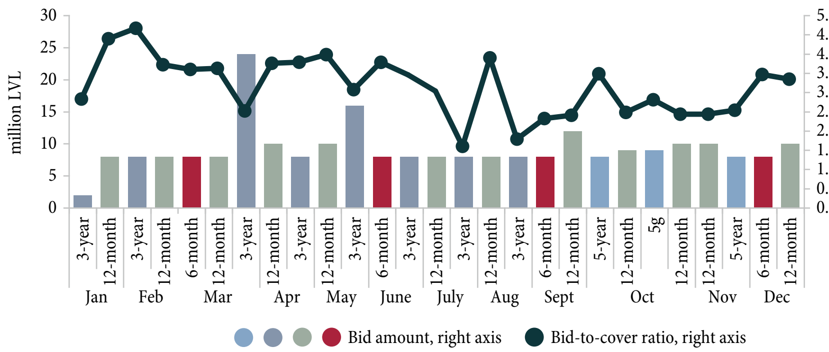
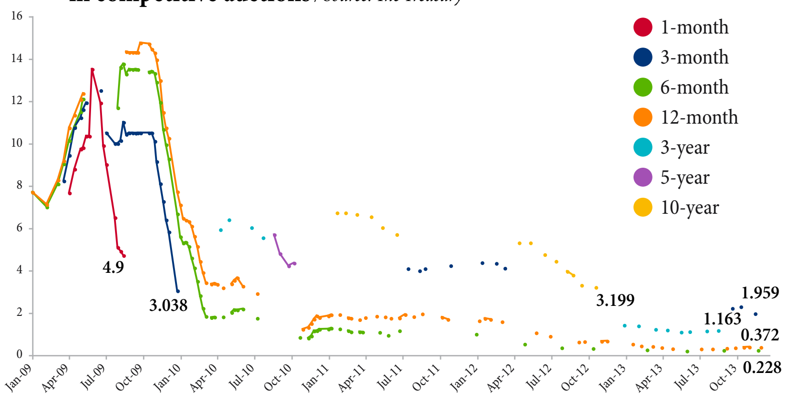


Figure 12. Activity in the primary market of government securities in competitive multi-price auctions

Source: The Treasury

In the auctions held in 2013, the rates remained at the lowest levels historically, with a slight difference in the level of the rates in the first and second half of the year. The decrease in rates in the first half of the year can be explained by the favourable rate development trends in the global financial market, the high liquidity of credit institutions, the improvement of the credit rating of the Republic of Latvia and the ECOFIN decision of 9 July 2013 to invite the Republic of Latvia to join the eurozone from 1 January 2014. Conversely, in the second half of the year, notwithstanding that the liquidity of credit institutions continued to improve, the rates of government domestic debt securities slightly increased due to an increase in uncertainty in the international financial markets.

Figure 13. Weighted average interest rates of government securities in competitive auctions / *Source: The Treasury*



In the medium term it is planned that regular and demand-satisfying offers of domestic government debt securities and bonds will be ensured, through increasing the debt levels prudently and having regard to the capacity of the financial market.

With a view to developing the domestic government debt securities market, the Treasury introduced changes to the government securities acquisition process by implementing the **Primary Dealer System** from February 2013, aimed at encouraging the development and activity of the government securities market: the emergence of new debt instruments, widening the investor base, a more active, liquid and investor-friendly government securities market, and reduction of the risks associated with central government debt management. As part of the Primary Dealer System, the credit institutions that have entered into a primary dealer agreement with the Treasury may take part in government security auctions. The following credit institutions have become the primary dealers: AS Citadele banka, AS DNB banka[8], AS Nordea Bank Finland Plc, AS SEB banka and Swedbank. In forming the initial group of primary dealers, the Treasury evaluated the current performance of each credit institution in the government securities market and their activity in financial transactions with the Treasury with respect to government debt and asset management matters. Primary dealers perform the functions of an intermediary, central government securities market expert and the facilitator of dialogue with investors. After acquiring the initial placement of central government securities on their own behalf or a client's behalf, primary dealers perform the market maintaining duties in the secondary market.

In June 2013, the Treasury introduced a new domestic financial market instrument – **savings bonds** with a view to attracting private persons as a potential group of investors and expanding investment possibilities for the residents, broadening their practical experience in investing, developing the government securities market in general and facilitating public confidence in the financial market. In this way the Treasury raises additional resources at financial market rates and promotes the accumulation of capital in the domestic financial market.

[8] *The Lithuanian AB DNB Banka's – in the secondary market.*

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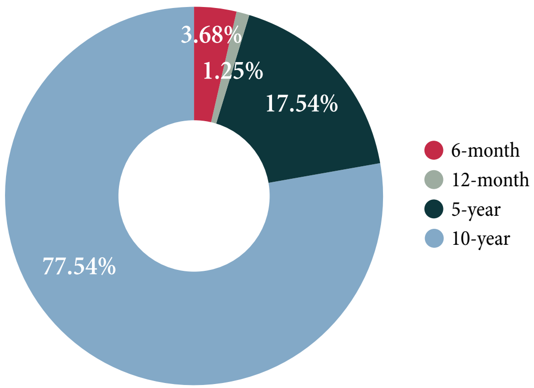
In the website www.krajobligacijas.lv 6-month and 12-month as well as 5-year and 10-year savings bonds are offered to residents. At the end of 2013, the savings bonds in circulation totalled LVL 1.3 m.

Figure 14. Savings bonds in circulation (at 31.12.2013.)

Source: The Treasury



The savings bond implementation project is expected to be continued in 2014, starting the distribution thereof in the offices of VAS *Latvijas Pasts* thereby providing the possibility for residents who do not use bank services to buy savings bonds.

2.3.4. Central Government External Debt

Borrowing in International Financial Markets

The Treasury's experience relating to transactions in international financial markets in recent years shows that under the circumstances of global market uncertainty the timing of borrowing for issuers is largely determined by the use of particular, brief and the most beneficial moments when positive news emerges in financial markets and investors become better disposed towards making new investments. The activities of the Treasury in the area of external debt management in recent years were focused exactly on the exploitation of such beneficial borrowing moments, because it allows the accomplishment of the key objective of **the borrowing strategy – to achieve a reduction of the government debt servicing costs in the medium term** through borrowing in international financial markets on terms favourable to the country.

An essential prerequisite for maintaining flexibility in terms of the choice of the borrowing terms in international financial markets (the timing, currency, amount and maturity of borrowing) is **the maintaining of resource reserves in the Treasury's accounts for the planned repayment of medium-term government debt**. By borrowing in a timely manner and gradually, without delaying large-scale borrowing to the last moment before the performance of substantial debt obligations, **the Treasury eliminates the central government debt refinancing risk and achieves more favourable borrowing terms** (including lower interest rates) as the price of the borrowed resources is not subject to the speculative financial market impact which would have happened had the resources been borrowed just before substantial debt obligations falling due.

In planning and performing borrowing arrangements, the Treasury complies with the requirements on the limits laid down for government debt at the end of the year in the annual State Budget Law.

In 2013, the Treasury developed the first government securities programme for future borrowing in international capital markets ((*Global Medium Term Note programme* (GMTN)). GMTN is a legal framework of external government securities documentation which consists of standardised agreements and has been designed to facilitate Latvia's future borrowing process. The GMTN programme will enable Latvia to issue not only public government securities, but also private placement government securities. The GMTN programme allows the Treasury to efficiently exploit favourable conditions in international financial markets and issue government bonds at favourable interest rates, as well as provides for the possibility to issue government securities in different currencies; the programme does not provide for a time limit for the use of the legal framework or limitations to the amounts of the issues of government securities. The programme also provides for the issuance of government securities if the investor addresses the Treasury through a two-party arrangement and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

In 2013, the Treasury continuously monitored the developments in financial market with a view to evaluating the possibility of borrowing in international financial markets in order to timely secure the resources for the refinancing of the international loan programme in 2014–2015 under the medium-term borrowing strategy. With a view to maintaining as high flexibility as possible in terms of the selection of the timing for the issuance of Eurobonds, the Latvian delegation held a meeting with European and US investors in June 2013 and November 2013, respectively, however, owing to the developments in the global financial market which unfavourably impacted the possible borrowing costs and lowered the need to borrow, the Treasury did not borrow externally. At the same time the investor relations measures carried out in 2013 were a favourable pre-condition for the issuance of Eurobonds in January 2014.

Borrowings from the European Investment Bank and the Council of Europe Development Bank

On 30 October 2008, an agreement was signed with European Investment Bank on a loan to ensure central government budget co-financing for EU Structural Fund and Cohesion Fund projects during the 2007–2013 programming period. In November 2013, changes to the financing agreement providing for an extension of the loan draw request term until 30 October 2014 were agreed upon.

On 30 April 2009, Latvia signed an agreement with the Council of Europe Development Bank on the co-financing of projects to improve the field of education, urban and rural environments, totalling EUR 50 m. On 30 June 2013, the loan drawing term matured, hence no further drawing of funds will be possible. In 2013, a number of loan spending reports were sent to the Council of Europe Development Bank to ensure the placement of all the funds drawn. The bank has approved the placement of all the loan drawn, and therefore the project is considered to have been completed.

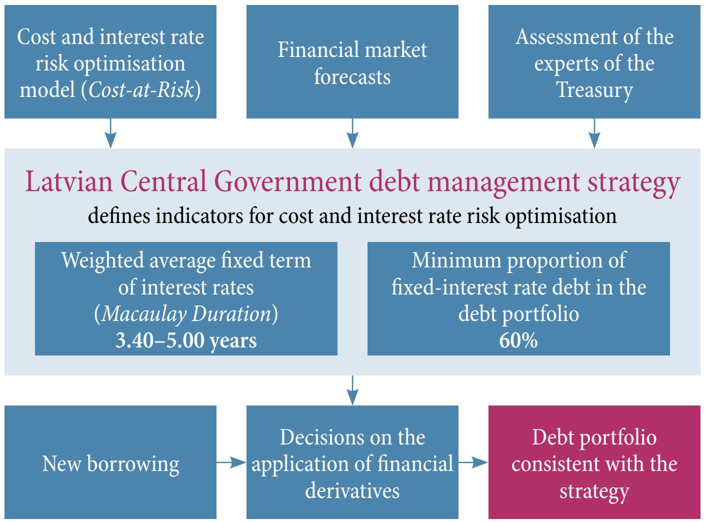
2.4. Central Government Debt Portfolio Management

The objective of government debt portfolio management is to **optimise the cost of government debt servicing in the long term by limiting the financial risks of the government debt portfolio.**

The Treasury assesses the debt portfolio structure parameters laid down in the Latvian Central Government Debt Management Strategy on a regular basis and evaluates the need to change them. With a view to limiting the government debt interest rate risk and optimising the long-term government debt servicing costs, the potential volatility risk measure of costs and interest rates (*Cost-at-Risk (CaR)*) with the probability of occurrence set at 95% reflects the extent to which the interest expense on the debt may be higher than that anticipated in the medium term. Based on the results of the calculations, financial market forecasts and the assessment of the Treasury's experts, the weighted average fixed-period interest rate and fixed-rate ratio values that ensure the best balance between the costs and interest rate risk (see Figure 15) are determined.

Figure 15. General Principles of Central Government Debt Portfolio Management

Source: The Treasury



The division of government debt management into two interrelated processes – central government debt management and central government debt portfolio management – enables the Treasury to meet the central government debt management objective when making new borrowings, and later on, if necessary, to adjust the structure of the central government debt portfolio with derivatives and other available resources for it to be optimal and complying with the requirements provided for in the Latvian Central Government Debt Management Strategy.

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In 2013, all the parameters for the central government debt structure specified in the Latvian Central Government Debt Management Strategy were complied with (see Table 2).

Table 2

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

Parameters	Actual debt structure parameters at 31 Dec 2012		Actual debt structure parameters at 31 Dec 2013		Debt structure parameters defined in the strategy	
Share of the debt in lats	12%		16%		>= 35%[9]	
Domestic debt at year end[10]	LVL 675.10 m		LVL 679.33 m		not less than outstanding at the end of the preceding year	
Maturity profile	< 1 year	< 3 years	< 1 year	< 3 years	< 1 year	< 3 years
	3,7%[11]	41,1%[10]	23,1%[10]	46,1%[10]	< 25%	< 50%
Share of fixed rates	**95.8%**		**78.2%**		**>= 60%**	
Average weighted fixed period of interest rates, in years	4.14		3.41		3.4 – 5.0	
Currency structure of net debt in foreign currencies	EUR 100.53%		EUR 100.07%		EUR 100% (+/- 5%)	

Source: The Treasury

In 2013, the Treasury continued to use the government debt refinancing reserve approach to comply with the maturity profile parameter. Due to the significant amount of debt maturing in 2014 and 2015, the debt maturity profile of up to one year approached the upper limit provided for in the Latvian Central Government Debt Management Strategy. To avoid breaching the timely refinancing possibility assessment limit, the Treasury continued to maintain the government debt refinancing reserve, by setting aside resources for the planned repayment of government debt in 2014 and partially eliminating refinancing risk.

In 2013, with a view to maintaining the *duration* parameter of the government debt portfolio within the limits defined in the Latvian Central Government Debt Management Strategy, the Treasury entered into a new interest rate swap transaction providing for a fixed rate payment, thereby still fixing the government debt portfolio interest rates at the lowest levels historically and providing the opportunity for optimising debt servicing costs and risk.

2.5. State-Issued Guarantees

Cabinet Regulation No. 501 of 1 June 2010 "Procedure by which Requests for State-Issued Guarantees shall be Included in the Draft Annual State Budget Law, and the Procedure for the Issuance and Supervision of the Guarantees" lays down the procedure under which ministries and other central government institutions apply for state guarantees, therefore the relevant line ministries have the opportunity to use state guarantees as a support instrument to ensure the implementation of the projects of the line companies operating under their supervision.

In 2013, state-issued guarantees totalling LVL 8.8 m were issued solely in respect of study and student loans provided for in the annual State Budget Law.

[9] *Under the Latvian Central Government Debt Management Strategy the share of the debt in lats of the government debt portfolio must be at least 35%, on the condition that the debt in lats share of at least 35% is to be ensured in the medium term, if this is in line with the development trends in the national macroeconomic and capital market situation and the overall financial system of Latvia and if the weighted average yield of the medium-term and long-term government domestic securities offered at auctions held by the Treasury is less than 100 basis points above the figure for borrowing options in EUR.*

[10] *The amount of securities in circulation which were issued under domestic law.*

[11] *The maturity profile of the total debt, taking into account the government debt refinancing reserve.*

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Having analysed the experience of other countries, the potential recipients of state-issued guarantees and the purpose of such guarantees and having assessed other elements of state-issued guarantees, **the Treasury revised the principles that underlie the state-issued guarantees** and that are used to ensure the effective use of state-issued guarantees as a support instrument, at the same time reducing the impact of this support instrument on the government debt and budget deficit.

In order to continue the improvement of the state-issued guarantee policy, **the Law on Budget and Financial Management was amended to refine the range of the potential beneficiaries and objectives of state-issued guarantees and to restrict further issuance of state guarantees to private capital companies.**

Figure 16.

Outstanding balance of state-guaranteed loans, in LVL m

Source: The Treasury

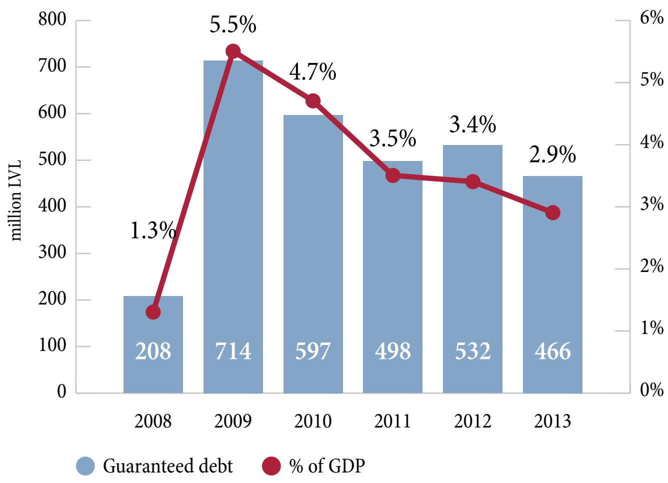
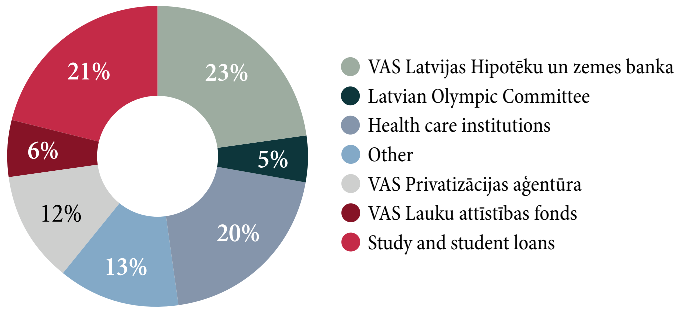


Figure 17.

State-issued guarantee portfolio, by borrower at 31.12.2013.

Source: The Treasury



In 2013, the liabilities of AS Liepājas metalurgs to *UniCredit S.p.A.* of EUR 73.6 m were settled under the signed guarantee agreements because the borrower was unable to perform its obligations.

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

Table 3
Performance indicators of the operational targets for central government debt management

Operational target	Outcome	Performance indicators	Performance indicators (numeric values) in 2013	
			Projected	Implemented
1. To organise new borrowing in the international capital markets of different regions in line with the medium-term borrowing strategy.	1.1. The investor base has been widened and diversified.	1.1. The amount of resources raised from new investors through issuing government securities in international financial markets during the year (the share of government securities purchased by new investors in primary auctions in terms of the total amount of annual issue).	5	–[12]
	1.2. Loans of the international borrowing programme have been refinanced on more favourable terms.	1.2. Conformity of Latvia's government borrowing rate level to the benchmark rate[13] (%).	Not higher than the benchmark	–[14]
2. To promote the development of the domestic financial market and its integration in the eurozone financial market.	2. The government securities remained on offer to operators in the domestic financial market.	2. The value of domestic government debt included in the turnover at nominal value (in LVL m).	Not lower than at the end of the previous year (2012 – 675.1).	679.3

[12] As no borrowings were made in international markets in 2013, the implementation of the performance indicators cannot be assessed.

[13] The benchmark rate is determined by reference to the average rates of the financial and capital market and it is made up of the secondary market rates of the bonds issued in the international financial and capital markets in the secondary market of the new European Union Member States, the credit rating whereof is +/- 2 degrees against that set for Latvia, of which a profit curve with a logarithmic function has been created, as increased by 0.25% – an additional mark-up on raising a new loan.

[14] As no borrowings were made on the international markets in 2013, the implementation of the performance indicators cannot be assessed.

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Activities of the Treasury in 2013

3. Cash and Loan Management

3.1. Operational Principles and Areas of Development

The Treasury's Cash Management Strategy, approved by the Minister of Finance, establishes the objectives, tasks and responsibility of the Treasury in carrying out financially effective and secure cash management while meeting the liquidity requirements and limiting financial risks.

The Treasury places its free cash resources, temporarily, in the Bank of Latvia and Latvian and foreign credit institutions or invests them in fixed-income debt securities, thus limiting financial risks in accordance with the investment parameters and counterparty limits which are specified for each counterparty depending on the type of financial instrument as provided for in the Treasury Cash Management Strategy.

The priorities set for cash management are as follows:

1) to maintain and develop long-term partnerships with the operators of domestic and international financial markets (counterparties) with a view to broadening the options for investing cash resources and securing the information required for financial decision-making on both ends;

2) to ensure the compliance of the cash management process with the best financial market practices and the basic principles of financially effective cash placement.

According to the authorisation by the Ministry of Finance, the Treasury organises the government lending process by making financial resources available in the form of state loans in accordance with the concluded loan agreements and by monitoring the financial position of the recipients of state loans, which involves the monitoring of the repayment of state loans and, if necessary, engaging in recovery measures.

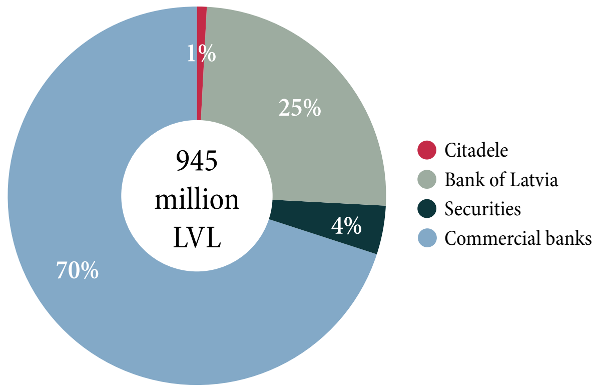
The priorities set for state loan management are as follows:

1) to ensure a transparent and effective state loan management process that serves the national interests, while preventing the issuance of high-risk state loans;
2) to ensure the quality of client service and client satisfaction with the government lending process, including the possibility to conclude agreements electronically.

3.2. Cash Management

In 2013, having regard to the financing needs and circumstances in financial markets, the Treasury ensured the availability of liquid resources required to meet the financial commitments, as well as deposited the temporarily free funds with the Bank of Latvia and Latvian and foreign credit institutions and invested them in fixed-income debt securities. In 2013, the resources available in the Treasury's accounts and funds raised in the domestic and external financial markets were used for ensuring liquidity. In line with the trends in financial markets and the increasing requirements applicable to financial risk management, the Treasury updated **the Cash Management Strategy of the Treasury** which was approved by the Minister of Finance on 30 October 2013.

Figure 18. Cash investment structure (at 31.12.2013.)
Source: The Treasury



3.3. State Loan Management

The range of recipients of state loans is defined in Section 36 of the Law on Budget and Financial Management. It is planned that **loans will be repaid** to the general government budget within the repayment deadlines and in the amount provided for in the loan agreements.

The Treasury monitors state loans and performs debt recovery activities. Where local governments have failed to perform the obligations under the provisions of the agreements, the Treasury is entitled to deduct the outstanding sums from the amount of personal income tax due to the local government or the grant from the local government financial equalisation fund. Where commercial companies have failed to perform the obligations under the signed agreements, claims for repayment are brought to the borrowers or complaints regarding the recovery of the debt and an application to secure the claim are filed with the courts. If a commercial company is being liquidated and debt recovery is no longer possible, the Treasury writes off the cancelled debt obligations of the liquidated commercial company in accordance with the Cabinet Regulation **"Procedures for the Cancellation of State Loans by the Minister of Finance"**. The debt obligations of commercial companies liquidated in the respective budget year are cancelled in the amount prescribed in the annual State Budget Law.

The total amount of state loans to be issued in 2013 was set at LVL 358.6 m, which included the overall increase in state loans stipulated in the annual State Budget Law in the amount of LVL 208 m and the 2013 repayments of state loans issued in the previous years: LVL 150.6 m.

In 2013, the largest share of state loans – LVL 150.1 m, or 55.6% – was issued to **local government bodies** (to local governments – LVL 149.5 m, and to **merchants managed and funded by local government bodies** – LVL 0.6 m).

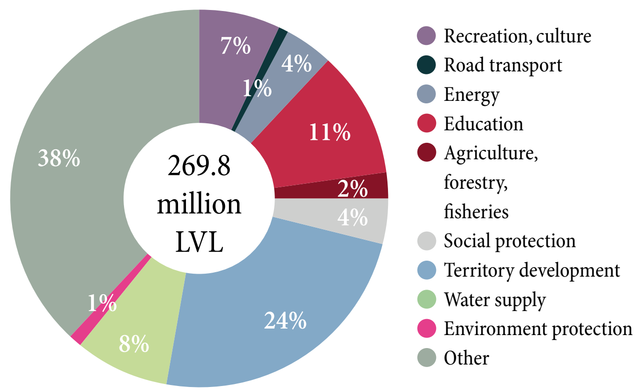
The breakdown of the government loans of LVL 149.5 m issued to local governments:

1) For budget and financial management – LVL 0.2 m;
2) For the investments of local governments – LVL 46.8 m;
3) For the implementation of the projects co-financed by EU – LVL 102.5 m.

The greatest share of the state loans issued to local governments (68.5%) was issued for the implementation of projects co-financed by the EU.

Figure 19. State loans issued in 2013, by purpose

Source: The Treasury



Government loans of LVL 73.8 m or 27.4% of the total government loans were issued to **merchants controlled and financed by the central government bodies, including:**

1) a loan of LVL 70 m was issued to SIA Hipotēku bankas nekustamā īpašuma aģentūra, which has been used to settle the liability of SIA Hipotēku bankas nekustamā īpašuma aģentūra to VAS Latvijas Hipotēku un zemes banka and buy loans from AS Swedbank as prescribed by Section 47 of the law On the State Budget for 2013;

2) a loan of LVL 3.8 m was issued to derived public persons partially financed from the central government budget and local governments (research institutes and universities which have the status of a derived public person) for the implementation of projects co-financed by the EU.

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State loans of LVL 34.5 m or 12.8 % of the total state budget loans were issued to **non-financial merchants**, including:

1) a loan of LVL 3.3 m was issued to water supply infrastructure projects co-financed by the EU (e.g., SIA *Dobeles ūdens*, SIA *Jelgavas ūdens*, SIA *Mārupes komunālie pakalpojumi*, etc.);

2) a loan of LVL 4 m was issued to SIA Daugavpils tramvaju uzņēmums for the implementation of the EBRD project related to renovation of the tram transport infrastructure;

3) a loan of LVL 10.5 m was issued to VAS *Latvijas Pasts* to ensure that the euros were received in cash by VAS Latvijas Pasts from the credit institution servicing it – AS Citadele banka – from 10 December 2013 to 31 December 2013 – for exchanging cash – lats for euros – in the changeover period provided for in Part Two of Section 8 of the Law on the Procedure for the Introduction of the Euro;

4) a loan of LVL 10 m was issued to AS *Air Baltic Corporation* to ensure the necessary cash flows for business activity.

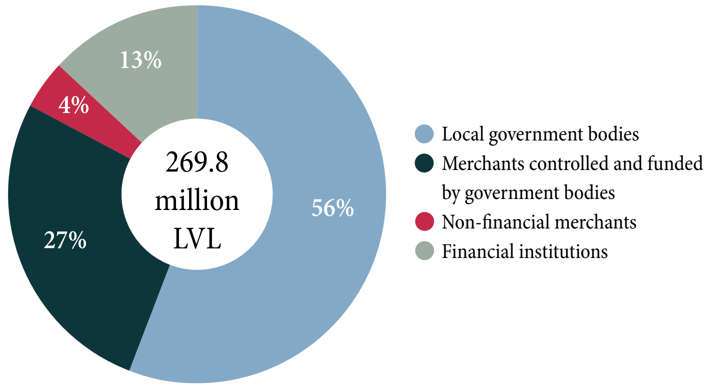
State loans of LVL 11.4 m or 4.2% of the total state budget loans were issued to **financial institutions**, including:

1) a loan of LVL 5 m was issued to VAS Lauku attīstības fonds for granting state aid in the form of loans to persons engaged in performing business activities who wish to buy agricultural land for agricultural products;

2) a loan of LVL 6.4 m was issued to VAS Latvijas Hipotēku un zemes banka for granting state aid in the form of loans to farmers for buying current assets for the production of agricultural products.

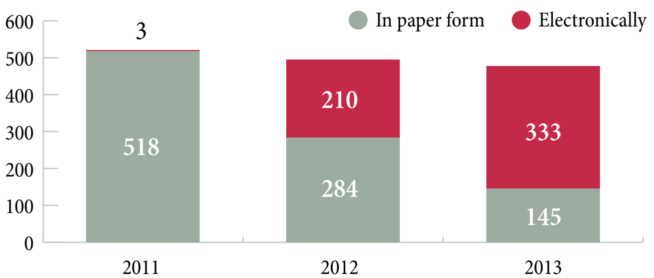
Figure 20. Recipients of state loans issued in 2013

Source: The Treasury



Paragraph 5.1.3 of Section 41 of the Informative report "On Proposals Regarding Ensuring the Wider Usage of the Electronic Signature" of minutes No. 75 of the Cabinet session of 20 December 2011 prescribes that "the flow of documents which are exchanged between the institutions of central and local governments and are signed in paper form shall be effected electronically, including the flow of information of the financial assistance documentation of the EU structural funds, the Cohesion fund and other EU and foreign financial assistance", and in accordance with the Operational Strategy of the Treasury for 2013–2015 state loan agreements shall be concluded electronically thus saving time and financial resources. In 2013, 62.4% of all concluded state loan agreements and memorandums of understanding were concluding electronically, thus the performance indicator (60%) provided for by the strategy of the Treasury was achieved.

Figure 21. Number of agreements concluded with local governments by years / *Source: The Treasury*



Cash and Loan Management

At the end of 2013, the Treasury conducted a survey of its external clients (local governments) with a view to ensuring the quality of services provided to the clients of the Treasury (local governments) and identifying the needs of the clients. The results of the survey support the conclusion that local governments as recipients of government loans are satisfied with the process of the issuance and servicing of government loans in general and at all stages thereof at the Treasury.

3.4. Liquidity Support Measures

In 2013, AS Reverta paid all interest on bonds and redeemed the government support bonds of LVL 40.3 m. At the end of 2013, the worth of AS Reverta's closed issues was LVL 362.2 m. There were no investments into the share capital of AS Reverta in 2013.

3.5. Performance Indicators of the Operational Targets for Cash and Loan Management as Defined in the Operational Strategy of the Treasury

Table 4
Performance indicators of the operational targets for cash and loan management

Operational target	Outcome	Performance indicators	Performance indicators (numeric values) in 2013	
			Projected	Implemented
1. To ensure that the cash management process is consistent with the best financial market practices and the general principles of financially effective cash placement.	1. Secure and as effective as possible cash management consistent with the best market practices has been ensured.	1. Revenues from investments of government budget funds have been ensured in the amount provided for in the annual State Budget Law (implementation as a percentage of the annual plan).	≥100	114
2. To ensure that the process of planning, issuing and servicing of government loans are consistent with the best market practices and high quality standard and effective service rendering principles, consistent with the national interests and developments in financial markets.	2. A transparent, in terms of methodology, productive and effective process of planning, issuing and servicing of government loans that is consistent with the best market practices and serves the national interests has been ensured.	2.1. The quality of the portfolio of issued loans (weighted average repayment probability in per cent).	≥75	87.65
		2.2. Satisfaction with the quality of the services received (percentage of surveyed customers[15]).	≥75	100[16]
		2.3. Provision of services via electronic service delivery channels (electronically concluded agreements and memorandums of understanding (percentage of the total agreements and memorandums of understanding entered into during the year)).	≥ 60	62.4

[15] In accordance with the provisions of the documents laying down the requirements for the quality management system of the Treasury, client satisfaction surveys must be performed not less than once in three years. If necessary, comprehensive client surveys, surveys relating to a particular service as well as surveys to identify the satisfaction and needs of a particular client segment are carried out.

[16] The measurement was performed based on the results of the survey of local governments on the issuance of loans and service process.

4. Implementation of the Functions of the Paying and Certifying Authority for European Union Policy Instruments

4.1. Operational Principles and Areas of Development

Under the requirements of the regulatory enactments the Treasury performs the functions of the Paying and Certifying Authority for the EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism, and the Latvian-Swiss Cooperation Programme.

Under the Law on the Management of European Union Structural Funds and the Cohesion Fund, the Treasury acts as the Certifying and Paying Authority for ERDF, ESF and the Cohesion Fund in the 2007–2013 programming period. As the Certifying Authority, the Treasury prepares and submits statements of expenditure and applications for payment to the European Commission and certifies that the declared expenditure complies with the applicable Community and Member State regulations. Conversely, as the Paying Authority it maintains the accounting for the EU Fund financing received from the European Commission and spent and makes payments to the EU Fund beneficiaries within the shortest possible time frame.

Under the *Concept Paper on the introduction of the European Fund for the Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund in Latvia in 2014–2020* which was reviewed and approved by the Cabinet on 4 June 2013, the Treasury will also perform the functions of the Certifying Authority within the framework of the EU Cohesion Policy Funding, and its tasks will be similar to those defined in the 2007–2013 programming period. Already in 2013, the Treasury engaged in the process of drafting the regulatory framework of the implementation of the 2014–2020 EU Cohesion Policy Funding and began the designing of the management and control system.

For the purpose of performing the functions of the Paying Authority under the Swiss-Latvian Cooperation Programme the Treasury opens and maintains the co-financing accounts of the cooperation programme, verifies the received payment requests for compliance with the Framework Agreement and the provisions of the relevant laws and regulations, approves and submits them to the competent Swiss authorities, make payments after receiving co-financing from the Swiss Confederation and ensures the repayment of unused funds or ineligible expenditure to the Swiss Confederation.

In performing the functions of the Certifying Authority of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism in 2009–2014, the Treasury submits the approved interim financial statements and the final reports of the programme, as well as forecasts to the Financial Mechanism Office, ensures accounting for the funds of the financial instruments, monitors the repayment of unused funds or ineligible expenditure.

4.2. Function of the Paying Authority in the 2004–2006 Programming Period

In 2013, the Treasury received EUR 23.9 m from the European Commission for the final expenditure declarations submitted in preceding years. By the end of 2013, the Treasury had not yet received the final payments in respect of eight projects because the European Commission had not completed the assessment of the final documentation yet.

Implementation of the Functions of the Paying and Certifying Authority for European Union Policy Instruments

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

As part of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism (the 2004–2009 programming period), individual projects, programmes (integration of environmental policy in Latvia, facilitation of public and private partnerships, cross-border cooperation) and grant schemes (strengthening of civil society and social integration, academic research, a non-governmental organisation fund, a scholarship grant scheme, a project preparation fund, a short-term expert fund) for the total amount of EUR 45.5 m were implemented. The Treasury began the submission of final reports to the Financial Mechanism Office as early as in 2010. It submitted the last two final reports to the Financial Mechanism Office in 2013 and received EUR 81 thousand in respect of them. Thus, **all requested payments have been received and the absorption of the funds of the financial instruments of the 2004–2009 programming period has been completed.**

The implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Instrument of the 2009–2014 programming period occurs mainly in the form of programmes[17], thus ensuring the more effective implementation of financial instruments. By the end of 2012, the donor states had approved all programmes submitted by Latvia. In 2013, the implementation of the programmes and the submission of expenditure reports were started. The reported expenditure mostly related to the establishment of a partnership for programme management and project. In the beginning of 2013, the Treasury drafted the relevant documents governing the quality management system to ensure the verification of the reports and submission thereof to the donor states under the procedure laid down in Regulations and regulatory enactments. **In 2013, the Certifying Authority verified 17 interim reports and submitted them to the Financial Mechanism Office, requesting EUR 1 m from the donor countries; the amount received in respect of the submitted reports was EUR 0.6 m** (the amount received was less than that applied for because the funding has not been received in respect of all the requests submitted in November).

[17] *Technical assistance to the recipient country and funding for mutual relations at the national level are implemented as a project.*

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

By the beginning of 2012, all agreements within the framework of the programme had been signed. The total obligations assumed within the framework of the programme equalled 100% of the total available funding, i.e. CHF 54.9 m (excluding the Scholarship Fund allocation).

In 2013, as part of the Latvian-Swiss Cooperation Programme the Paying Authority **verified and submitted two advance and 18 interim refund applications** for the amount of CHF 4.5 m, and received CHF 5 m in respect of the submitted refund applications (the amount received was higher than that applied for because one of the applications for funding submitted in 2012 was paid for by the Swiss competent authorities in 2013). By the end of 2013, two projects had been completed within the framework of the programme; the last interim refund application has been submitted in respect of one of the programmes; thus there are eight ongoing projects/programmes.

4.5. Functions of the Certifying and Paying Authority in the 2007–2013 Programming Period

In 2013, the Treasury received the audit report of the European Commission regarding the review of the EU Structural funds and the Cohesion Fund management and control system for the accounting of refundable/refunded ineligible payments and the audit report regarding the review of the 2012 action plan developed for the improvement of the management and control system. **Neither report identifies any deficiencies in the operation of the Treasury in the capacity as the Certifying Authority which supports that the European Commission has positively assessed the management and control system established at the Treasury as the Certifying Authority.**

In 2013, within the framework of the EU funds for the 2007–2013 programming period **the Paying Authority executed 6,933 payment orders, including the verification and refunding of 449 advance payments.** The Paying Authority refunded LVL 477,720 (EUR 680,893) to the beneficiaries from the EU fund financing. Advance payments of LVL 66,683 were made within the frameworks of the EU fund projects.

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Implementation of the Functions of the Paying and Certifying Authority for European Union Policy Instruments

In 2013, **the Certifying Authority prepared and verified 45 expenditure declarations and submitted them to the European Commission** within the term provided for in the regulatory enactments.

The requested amount specified in the table is higher than that received from the European Commission because the Treasury had not yet received the funding in respect of expenditure declarations submitted at the end of 2013. At the same time it should be noted that within the framework of Operational Programme 1 the Treasury received advance and interim payments amounting to 95% of the allocated ESF financing from the European Commission, and pursuant to the provisions of the regulatory enactments of the European Commission, the Treasury will no longer receive further interim payments within the framework of the mentioned operational programme despite the fact that expenditure declarations continue to be submitted to the European Commission. The Treasury will receive the remaining 5% of the allocated ESF financing upon completing the programming programme after submitting the final expenditure declaration. According to the data shown in the table, projects are implemented and absorption of financing occurs intensively within the scope of other operational programmes because the amount of declared eligible expenditure and the financing requested from the European Commission has increased compared to 2012.

Table 5

Expenditure Certified to the European Commission and refunds received in 2013 compared to 2012, in thousand EUR

Source: The Treasury, MIS of the EU SFCF [18]

The EU policy instrument	Declared eligible expenditure		Amount requested		Amount received	
	2012	2013	2012	2013	2012	2013
Operational programme 1 (ESF)	123 680	117 691	110 033	100 532	112 275	91 576
Operational programme 2 (EBRD)	134 139	147 273	70 885	82 367	79 401	47 977
Operational programme 3	573 651	671 619	475 476	555 903	522 500	484 101
incl. ERDF	*325 552*	*353 346*	*277 152*	*300 010*	*307 990*	*279 249*
incl. the Cohesion Fund	*248 099*	*318 273*	*198 324*	*255 893*	*214 510*	*204 852*
Total	**831 470**	**936 583**	**656 394**	**738 802**	**714 176**	**623 654**

[18] *The Information System for the Management of European Union Structural Funds and the Cohesion Fund*

4.6. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Paying and Certifying Authority of the EU Policy Instruments

Table 6
Performance indicators of the operational targets for the implementation of the functions of the Paying and Certifying Authority of the EU policy instruments

Operational target	Outcome	Performance indicators	Performance indicators (numeric values) in 2013	
			Projected	Implemented
1.1. To organise and ensure the verification of expenditure declarations and expenditure reports in compliance with the requirements defined by the granting authorities and the laws and regulations of the Republic of Latvia.	1. Certified expenditure has been paid in full.	1. Expenditure received from the European Commission (percentage of the expenditure requested from the European Commission).	100	100
1.2. To comply with the requirements of the granting authorities applicable to the preparation and submission of reports.				
1.3. To establish such a payment system that precludes ineligible expenditure and fraud attempts.				

Activities of the Treasury in 2013

5. Governance of the Treasury as a Public Administration Institution

5.1. Funding of the Treasury and Spending Thereof

The Treasury's financing consists of:

1) a grant from the general revenue;
2) chargeable services and other own revenues:
   - revenue from the servicing of state loans;
   - revenue from the servicing of state guarantees.

In 2013, the Treasury implemented the following general budget programmes and sub-programmes:

1) Programme Central Government Budget Implementation and Central Government Debt Management:
   - Sub-Programme Central Government Budget Implementation;
   - Sub-Programme Central Government Debt Management;
2) Sub-Programme Contributions to International Organisations;
3) Sub-Programme Compensation to Rehabilitated Citizens;
4) Programme State Budget Loans and Repayments Thereof;
5) Sub-Programme Restricted Project Competitions Financed by the European Regional Development Fund (ERDF) (2007–2013);
6) Sub-Programme Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007–2013);
7) Sub-Programme Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism;
8) Programme Grant to the Local Government Financial Equalisation Fund.

The objective of the **Sub-Programme *Central Government Budget Implementation*** is the implementation and monitoring of a general central government budget that is aimed towards ensuring an effective and economical process of the implementation of the central government budget and improving of the quality of the services provided by the Treasury to bring them in line with best financial management practices, organising and standardising the performance of the functions of the Paying and Certifying Authority with a view to ensuring compliance with the requirements of the granting institutions and the regulatory enactments of the Republic of Latvia, timely receipt of financing from the granting institutions and minimising the acceptable risk regarding the inclusion of ineligible expenditure in expenditure declarations and reports.

The objective of the **Sub-Programme *Central Government Debt Management*** is to secure the necessary funding for meeting financing needs at the lowest possible cost, through limiting financial risks and considering the advancing of the Latvian financial market towards joining the eurozone, and to ensure the implementation of such a state guarantee policy that serves the interests of the State, to ensure financially effective and secure cash management, through limiting and monitoring financial risks, and to timely and fully ensure the availability of cash for the performance of the financial commitments of the State and to ensure the implementation of a government lending policy that serves the interests of the State.

The objective of the **Sub-Programme *Contributions to International Organisations*** is to perform the commitments of the Republic of Latvia, by making timely and full annual membership contributions to international financial institutions and organisations and maintain accounting for the capital shares owned by the State.

The objective of the **Sub-Programme *Compensation to Rehabilitated Citizens*** is to ensure the timely and full disbursement of compensations to rehabilitated citizens under the decisions of the local governments submitted to the Treasury.

The objective of the **Programme *State Loans and Repayments Thereof*** is to ensure effective state loan lending and servicing, having regard to the need to achieve the objectives of macro-economic stability and development in the medium term.

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Within the framework of the **Sub-Programme *Restricted Project Competitions Financed by the European Regional Development Fund (ERDF) (2007–2013)*** the following projects, financed by the ERDF, are being implemented:

1) "Improvement of the on-line data exchange system of the Treasury" to ensure the possibility for all the institutions administering the central budget payments to receive payment data information efficiently;
2) "Adaptation of the Treasury's information systems to the introduction of the euro" to ensure operating with the euro as the national currency.

The project is being implemented under 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 the European Regional Development Fund operational programme "Infrastructure and Services".

The EU technical assistance project "Technical assistance to ensure the operation of the Treasury as the Certifying and Paying Authority" has been implemented within the **Sub-Programme *Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007–2013)***. The objective of the project is to ensure high-quality standard and effective performance of the functions of the Certifying and the Paying authority and qualified personnel. Support to ensure high-quality standard and effective performance of the functions of the Treasury as the Certifying and Paying Authority as prescribed in the Law on Management of European Union Structural Funds and the Cohesion Fund has been ensured within the framework of the technical assistance project.

The Treasury has been participating in the implementation of the technical assistance project of the Ministry of Finance *Technical Assistance Fund for 2011–2017* within the scope of the Sub-Programme **Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism**.

Programme *Grant to the Local Government Financial Equalisation Fund*. The financial resources envisaged for the programme represent the funding of the Local Government Financial Equalisation fund to ensure the performance of the requirements laid down in the law On Local Government Financial Equalisation. The Local Government Financial Equalisation Fund implements the equalisation of both the revenue raising capacity and expenditure needs. The grant for the Local Government Financial Equalisation Fund is envisaged to ensure the amount of grants payable to local governments which is made up of the contributions of local governments made to the Fund and the state budget grant. The funding is also envisaged for the transfer of the grant to local governments in respect of the people who were placed in social care institutions - orphanages, old people's homes and centres before 1 January 1998, and transferring the grant to local governments that have the lowest assessed revenues per capita after the equalisation of the local government finances. Funding for regional local governments is envisaged for ensuring the assessed revenues after the equalisation of the local government finances, at 97% of the lower limit of the unequalable financing needs.

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Table 7

Central government budget financing and spending

(Summary by programme, in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**241 975 124**	**250 106 927**	**247 236 209**
1.1.	grants	239 409 765	248 150 452	244 798 496
1.2.	chargeable services and other own revenues	2 565 359	1 956 475	2 437 713
1.3	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**241 038 336**	**242 644 842**	**239 288 355**
2.1.	maintenance expenditure (total)	240 414 718	241 919 468	238 577 769
2.1.1.	running costs	6 000 299	9 389 019	6 780 287
2.1.2.	interest expense	216 297 120	210 493 682	209 856 753
2.1.3.	subsidies, grants and social benefits	74 943	95 000	75 426
2.1.4.	regular payments into the European Community budget and international cooperation	2 598 235	872 137	866 751
2.1.5.	maintenance cost transfers	15 444 121	21 069 630	20 998 552
2.2.	expenditure for capital investments	623 618	725 374	710 586
3.	**Financial balance**	**936 788**	**7 462 085**	**7 947 854**
4.	Financing	-936 788	-7 462 085	-7 947 854
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services or other own revenues	-936 788	-	-520 286
4.2.	Shares and other holdings in the equity of economic operators	-	-7 462 085	-7 427 568

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Table 8

Central government budget financing and spending for the Programme *Central Government Budget Implementation and Central Government Debt Management* (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**223 492 854**	**220 174 379**	**217 440 449**
1.1.	grants	220 927 495	218 217 904	215 002 736
1.2.	chargeable services and other own revenues	2 565 359	1 956 475	2 437 713
1.3	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**222 556 066**	**220 174 379**	**216 920 163**
2.1.	maintenance expenditure (total)	222 249 524	219 823 108	216 583 679
2.1.1.	running costs	5 952 404	9 329 426	6 726 926
2.1.2.	interest expense	216 297 120	210 493 682	209 856 753
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	306 542	351 271	336 484
3.	**Financial balance**	**936 788**	**-**	**520 286**
4.	Financing	-936 788	-	-520 286
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services or other own revenues	-936 788	-	-520 286

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Table 9
Central government budget financing and spending for the Sub-Programme *Central Government Budget Implementation* (in LVL)
Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**4 582 876**	**4 163 595**	**4 614 575**
1.1.	grants	2 017 517	2 207 120	2 176 862
1.2.	chargeable services and other own revenues	2 565 359	1 956 475	2 437 713
1.3	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**3 646 088**	**4 163 595**	**4 094 289**
2.1.	maintenance expenditure (total)	3 339 546	3 812 324	3 757 805
2.1.1.	running costs	3 339 546	3 812 324	3 757 805
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	306 542	351 271	336 484
3.	**Financial balance**	**936 788**	**-**	**520 286**
4.	Financing	-936 788	-	-520 286
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services or other own revenues	-936 788	-	-520 286

Table 10

Central government budget financing and spending for the general budget Sub-Programme *Central Government Debt Management* (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**218 909 978**	**216 010 784**	**212 825 874**
1.1.	grants	218 909 978	216 010 784	212 825 874
1.2.	chargeable services and other own revenues	-	-	-
1.3	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**218 909 978**	**216 010 784**	**212 825 874**
2.1.	maintenance expenditure (total)	218 909 978	216 010 784	212 825 874
2.1.1.	running costs	2 612 858	5 517 102	2 969 121
2.1.2.	interest expense	216 297 120	210 493 682	209 856 753
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

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Table 11

Central government budget financing and spending for the general budget Sub-Programme *Contributions to International Organisations* (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**2 254 855**	**8 334 222**	**8 294 319**
1.1.	grants	2 254 855	8 334 222	8 294 319
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**2 254 855**	**872 137**	**866 751**
2.1.	maintenance expenditure (total)	2 254 855	872 137	866 751
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	2 254 855	872 137	866 751
2.1.5.	maintenance cost transfers	-	-	-
2.2.	capital expenditure	-	-	-
3.	**Financial balance**	**-**	**7 462 085**	**7 427 568**
4.	Financing	-	-7 462 085	-7 427 568
4.1.	Shares and other holdings in the equity of economic operators	-	-7 462 085	-7 427 568

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Table 12
Central government budget financing and spending for the general budget Sub-Programme Compensation to Rehabilitated Citizens (in LVL)
Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**74 943**	**95 000**	**75 426**
1.1.	grants	74 943	95 000	75 426
1.2.	chargeable services and other own revenues			
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**74 943**	**95 000**	**75 426**
2.1.	maintenance expenditure (total)	74 943	95 000	75 426
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	74 943	95 000	75 426
2.1.4.	regular payments into the European Community budget and international cooperation			
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Table 13

Central government budget financing and spending for the general budget Programme *Grant to the Local Government Financial Equalisation Fund* (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**15 444 121**	**21 069 630**	**20 998 552**
1.1.	grants	15 444 121	21 069 630	20 998 552
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**15 444 121**	**21 069 630**	**20 998 552**
2.1.	maintenance expenditure (total)	15 444 121	21 069 630	20 998 552
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	15 444 121	21 069 630	20 998 552
2.2.	expenditure for capital investments	-	-	-

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Table 14
Central government budget financing and spending for the Sub-Programme *Restricted Project Competitions Financed by the European Regional Development Fund (ERDF)* (2007–2013)
(in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**322 521**	**374 103**	**374 102**
1.1.	grants	322 521	374 103	374 102
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**322 521**	**374 103**	**374 102**
2.1.	maintenance expenditure (total)	5 445	-	
2.1.1.	running costs	5 445	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	317 076	374 103	374 102

Table 15

Central government budget financing and spending for the general budget Sub-Programme *Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013)* (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**31 610**	**45 192**	**39 281**
1.1.	grants	31 610	45 192	39 281
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**31 610**	**45 192**	**39 281**
2.1.	maintenance expenditure (total)	31 610	45 192	39 281
2.1.1.	running costs	31 610	45 192	39 281
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

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Table 16

Central government budget financing and spending for the Sub-Programme *Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism* of the general budget (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**10 840**	**14 401**	**14 080**
1.1.	grants	10 840	14 401	14 080
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**10 840**	**14 401**	**14 080**
2.1.	maintenance expenditure (total)	10 840	14 401	14 080
2.1.1.	running costs	10 840	14 401	14 080
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Table 17

Central government budget financing and spending for the general government budget Programme Use of Funding for Unforeseen Events (in LVL)

Source: The Treasury

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
1.	**Financial resources for covering expenditures (total)**	**343 380**	-	-
1.1.	grants	343 380	-	-
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
2.	**Expenditure (total)**	**343 380**	**-**	**-**
2.1.	maintenance expenditure (total)	343 380	-	-
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	343 380	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

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Treasury Procurement

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open competition, a negotiated procedure and a procurement procedure pursuant to Section 8.[1] of the Public Procurement Law. For undertaking the procurement, the Treasurer establishes, based on his order, a procurement committee that is competent within the field of procurement in respect of which the contract is being awarded. Procurements are registered and the performance of contracts is monitored in the Centralised Resource Management system *Horizon*. In 2013, the Treasury undertook 26 procurements (excluding procurements valued under LVL 3,000) and awarded contracts worth LVL 1,545,428, excluding VAT.

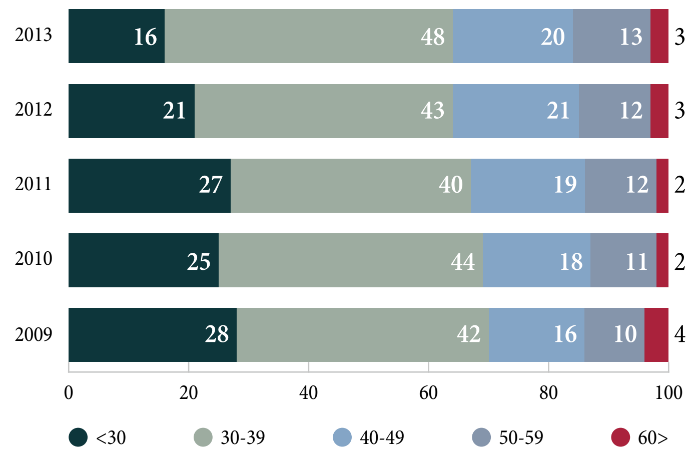
5.2. Personnel and Personnel Management

At the beginning of 2013, there were **186 official positions** at the Treasury: **169 civil service positions** and **17 staff positions,** while at the end of 2013, there were **187 official positions**: **170 civil service positions and 17 staff positions. In 2013, the average number of employees was 186** (including employees on a long-term leave of absence): **169 civil servants and 17 staff.**

In 2013, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 22 and 23).

Figure 22.
Breakdown of the Treasury personnel by gender, 2009 to 2013 (%)
Source: The Treasury

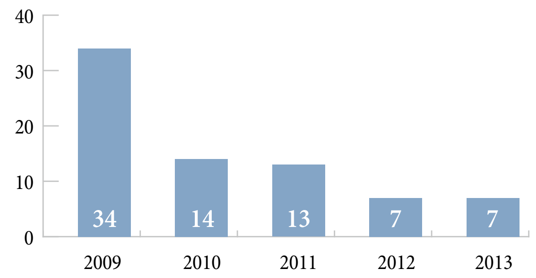
Figure 23.
Breakdown of the Treasury personnel by age, 2009 to 2013 (%)
Source: The Treasury



In 2013, **12 employees or 7% of the total personnel were released.** The percentage change of personnel turnover remained at the 2012 level (see Figure 24).

Figure 24. Released Personnel (2009-2013) (%)

Source: The Treasury



The highly educated and professional personnel of the Treasury is its greatest asset. **98% of the personnel hold university degrees** (of those, 50% hold a master's degree). In order to attract professional personnel, the Treasury cooperates with the institutions of higher education and a recruitment agency. With a view to ensuring a professional and impartial personnel selection process, a selection committee has been established; through using a scoring system and arranging practical tests and interviews in several rounds the committee selects the most suitable candidates. In the reporting year, 22 specialists entered into a civil service or employment relationship with the Treasury.

At the time of approving the annual Training plan training needs are assessed and determined having regard to the strategic direction of the institution, the functions of the structural units and other criteria that justify the need for training for the effective performance of job-related tasks. **In organising the training process** the Treasury has been seeking solutions for the professional development and enhancement of the competencies of its employees, including free workshops and experience-sharing events. Same as in previous years, training organised by the civil servants of the Treasury has been of relevance as well; the training covered areas such as information security, management and mitigation of corruption risks, improvement of the quality management system, and Newcomer Days organised for new employees within the scope of which the employees get acquainted with the functions of the Treasury, the strategic direction and the information necessary on a daily basis.

In 2013, within the framework of the ESF project "Support for Reforms within the Area of Budget and Financial Policy", some civil servants involved in the area of finance were given the opportunity to attend experience-sharing events and specialised advanced training on the best practices and competence of other countries in areas of finance such as the government borrowing strategy and the methods for optimising the cost of central government debt, financial derivatives, credit risk analysis and management, etc. in Latvia and abroad.

5.3. Quality and Risk Management

Since 2006 the Treasury's quality management system has been certified in accordance with the requirements of the ISO 9001 standard. The Treasury has been continuously improving its quality management system with a view to ensuring that it not only conforms to the effective requirements of legislative acts, regulatory enactments and the ISO 9001:2008 standard, but also secures a balance between satisfying the client needs and the Treasury's monitoring functions to be performed having regard to the interests of the State and its residents, and to instil confidence in its clients regarding the consistency of the quality of the services provided by the Treasury.

The scope of activity of the quality management system subject to certification is the implementation of the central government budget, central government debt management, cash and state loan management, the implementation of the functions of the EU Paying and Certifying Authorities and the National Fund management functions, all of which are the main operational processes of the Treasury. **In 2013, the quality management system of the Treasury was successfully recertified**, which provided assurance that the system has been consistently compliant with the requirements of ISO 9001 and it has been continuously improved.

Continuing to improve the services of the Treasury and ensuring the sustainable development of the ESF project "*Improvement and Development of the Quality of Treasury Services*" and the effective application of the project performance indicators in the

Governance of the Treasury as a Public Administration Institution

meeting of the strategic objectives of the Treasury, **the Treasury employs project management methodology for the planning and management of the Treasury's development measures** in accordance with the project methodology implemented in 2012 and improved in 2013. In 2013, applying the principles laid down in the project management methodology, the Treasury implemented a number of projects, including the introduction of savings bonds in Latvian Central Government Debt Management and the adaptation of the Treasury's information systems to the introduction of the euro. The results of the preliminary survey of the employees of the Treasury conducted in 2013 supported a positive assessment of the efficiency of management of the project team work, the quality of communication and work organisation.

In 2013, the Treasury took part in the annual award competition **The Quality Innovation of the Year Competition** aimed at promoting the development of innovations, the recognisability of innovating companies and organisations as well as experience-sharing, and was nominated for the final.

The Treasury's **risk management** is embedded in the quality management system, ensuring the timely identification and implementation of preventive steps, and has a focus on the achievement of the Treasury's strategic objectives. In 2013, the Treasury improved the accumulation and aggregation of the risk management and process measurement information, **by implementing the Risks management module of the Treasury** with a view to ensuring the access of the analytical risk management information and increasing the efficiency of the risk management process.

5.4. Internal Control System

The **internal control system** of the Treasury has been established based on broad key constituents of the internal control system: the control environment, job performance appraisal, risk management, control activities, monitoring, an efficient flow of information and mutual communication.

The Treasury has established a **control environment culture** by ensuring that its operations comply with the quality management system and the code of ethics, which facilitates the engagement of the employees in the improvement of the internal control system.

The Treasury has established an organisational structure with clearly defined responsibility and authority lines, segregation of duties and reporting procedure.

Risk management and quality management are embedded in daily operations and project management which shifts **the control activities** of the Treasury from reactive to proactive. The processes of the Treasury and the controls applied in implementing them have been set out in the internal documents governing the quality management system.

The Treasury performs **the monitoring of the internal control system** through process management, through measuring the process operation quality criteria, through the strategic management process, through analysing performance, performing self-assessments of the risk management process, non-compliance elimination process, implementing the recommendations provided within the scope of internal audits and other assessments with a view to improving the performance of the internal control system.

The results of **internal audits**, **reviews and external audits** performed in 2013, and the **process of implementation of** the external and internal audit **recommendations** all attested to the fact that **the Treasury's internal control system had been functioning well**, and the assessed controls were generally adequate, sufficient and efficient, providing sufficient assurance that the Treasury's risks are being managed and the institutional objectives are being met. The Treasury's internal control system in place ensures the execution of the defined institutional objectives in accordance with the strategic goals and in compliance with the requirements laid down in the external and internal regulatory enactments and documents, and ensures the credibility and adequacy of the reports produced. The Treasury has been continuously improving its processes by adhering to the examples of best practices and the experience of the organisations of the financial sector.

Public Communication

Measures for Public Information and Education

The objective of the Treasury's external communication is to ensure the awareness of its target audience of the activities the Treasury is engaged in and to maintain and improve the created understanding of the matters falling within the competence of the Treasury, strengthen the image of the Treasury as a positive and professional institution and attitude towards it as such by the general public, clients, counterparties, visitors and the media.

Considering the functions delegated to the Treasury, **the Treasury's communication focuses primarily on rendering inter-institutional services, informing of clients and targeted investor relations management** – provision of information to foreign and international financial institutions, credit rating agencies and investors who use the information provided by the Treasury on public debt management, performance indicators and future trends and current developments in the Latvian financial sector.

The communication processes of the Treasury are significantly influenced by the national socio-political and economic conditions. The Treasury remains at the epicentre of events **and the interest of mass media and the public regarding the operations, functions and responsibilities has remained high**. The Treasury regularly informs the mass media about the matters falling within its scope of competence: it prepares and distributes press releases, provides interviews and replies to the questions of interest to the mass media.

In accordance with the **Communication Strategy of the Treasury for 2013–2015, the Communication Plan of the Treasury for 2013** has been developed and approved with a view to ensuring the planning of efficient and successful operations, creating and maintaining a favourable and cooperative environment for internal communication within the Treasury and to develop the image of the Treasury using additional external communication activities.

The Treasury's website **www.kase.gov.lv** provides information on the institution and its functions. Information on the latest developments at the Treasury is posted and updated on the website on a regular basis. It is possible to ask questions and file submissions electronically. Visitors to the website can receive prompt answers to their enquiries, whereas the Treasury has the opportunity to familiarise itself with the issues that are of interest to the general public and clients and, if necessary, prepare more in-depth information to post on the website and for distribution to clients, and identify potential problems and prevent them.

In order to build a two-way communication with the residents, counterparties and other stakeholders more actively, thus promoting awareness of the competences of the Treasury, the Treasury also communicates through the profile of the social networking site *Twitter*.

In June 2013, a new and secure investment opportunity was opened up for Latvian residents – **savings bonds.** The purpose of savings bonds is to provide an opportunity for every Latvian resident to buy government securities, by temporarily lending their money to the State. A website **www.krajobligacijas.lv** has been created for making purchases of savings bonds. It provides all the necessary information and explanations for the purchase of savings bonds. With a view to informing the public regarding the new investment services and purchase opportunities the following public communication has been carried out: the public presentation of the savings bond website with the participation of the representatives of the media, regular press releases on savings bonds sale volumes and a savings bonds advertising campaign.

Events aimed at identifying public opinion regarding satisfaction with the quality of the operation of the Treasury and the results thereof

At the end of 2013, the Treasury conducted a survey of its clients – local governments (93 respondents) to identify whether the local governments were satisfied with the quality of the services received (the *ePārskati* system services and the issuance and servicing of the state loans) and the overall image of the Treasury.

Activities of the Treasury in 2013

According to the results of the survey the local governments are satisfied with the cooperation with the Treasury. Moreover, the majority of respondents were of the view that the performance of the Treasury had improved within the last two years. Those local governments which had pointed out the improvement of the situation, most often based their assurance on the implementation of electronic services (37%), improvement of the speed at which the services were provided (32%) and the improvement of the quality of the services (28% respondents); alternatively they related their positive assessment to the improvement of communication with the employees of the Treasury – the availability of staff, their responsiveness and the clarity of the received information (23%)[19]. 93% of the respondents thought that the Treasury was a modern and development-orientated institution.

The results of the survey will help the Treasury continue to develop and improve high quality and varied services both for the existing and potential clients of the Treasury.

[19] *Considering that every respondent could provide several substantiations to their opinion, the total amount of responses exceeds 100%.*

The Treasury's Development Priorities for 2014

1) To ensure compliance with the main principles laid down in the international accounting standards and the international public sector accounting standards and implement the national statistical information programme to a high quality standard;

2) To continue to increase the availability of the Treasury's services to clients, through reducing the administrative burden for the receipt of services and service administration costs;

3) To secure new borrowing opportunities and borrow in the global and niche financial markets;

4) Implement Phase II in the savings bond central government debt management – distribution of savings bonds through VAS *Latvijas Pasts*;

5) To ensure the performance of the activities falling within the competence of the Treasury in establishing a management and control system for the implementation of the funding of the EU Cohesion policy of the 2014–2020 programming period;

6) To ensure the certification of the Treasury's information security management system according to ISO 27001 requirements in 2014.