

Treasury
Republic of Latvia

The Treasury Public Report for 2016



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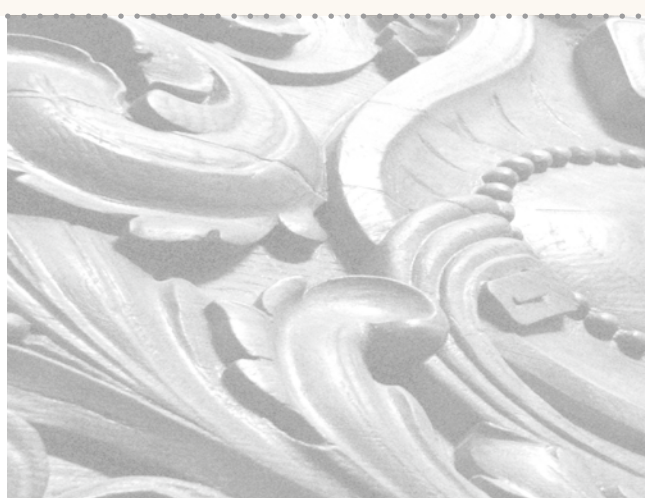


Abbreviations Used in the Report

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*, the official currency unit of the EU



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The Treasurer's Statement

The year 2016 marked the conclusion of another strategic three-year operational cycle of the Treasury. The strategic planning of activities in line with the state's priorities and consequently implemented measures are important factors when assessing the work performed, as well as when planning the strategic objectives and tasks in fields overseen by the Treasury for the next period.

Since 2015, the situation on the financial market, as well as the Treasury's activities in the field of central government debt and cash management, have been substantially influenced by the monetary policy of the European Central Bank, which has been aimed at stimulating economic growth in Europe by setting negative short-term deposit rates and implementing the Public Sector Asset Purchase Programme. The measures implemented by the European Central Bank facilitated a drop of euro base rates to historically lowest levels, as well as a significant decrease of the credit risk premium of Latvia and other eurozone states, whereas short-term cash placement options (incl. in balances of accounts) with positive profitability became very limited, with short-term and medium-term borrowing options with a negative interest rate being present at the same time.

Having regard to this unique situation, selecting the time to carry out borrowing on international financial markets in 2016 was affected by certain political events: the United Kingdom's European Union membership referendum in June, as well as the United States' presidential election in November. In order to avoid serious fluctuations and uncertainty on the financial markets prior to and after the respective events, the planned amount of EUR 1.3 billion to be borrowed in 2016 was split into two equal shares, with the longer term (20-year) bonds being issued in May, and 10-year bonds being issued in October. Active communication with government security investors, as well as the stable position of the state's credit rating within the "A" rating group, attracted more and more investors who invest in bonds of developed countries with lower rate levels, thus facilitating the fixing of the lowest borrowing rates among Central and Eastern European states in both issues for the respective term of securities in 2016.

High demand and competition between investors at all auctions of government domestic debt securities organised in 2016 ensured the raising of funds with financially favourable conditions by fixing the historically lowest interest rates and, for the first time ever, negative average weighted rates for bonds. By carrying out additional issues over a period of several months, the largest domestic debt security programme of a single series up till now – three-year bonds in the amount of more than EUR 200 million – was created.

By focusing on the efficient granting and servicing of state loans, financing was ensured for the implementation of essential public infrastructure and social projects, thus facilitating timely access to the financing of EU funds and promoting the development of the national economy. In 2016, local governments raised 100% of financial resources in the form of loans from the Treasury, thus proving the ability of the Treasury to provide financially favourable conditions and quality service without increasing the total cost of projects.

In order to ensure the availability of quality services at a technologically high level, in 2016 investments continued the information systems supporting the services of the Treasury: the necessary measures to stabilise, secure and ensure the continuity of operations of the information systems were carried out. Exchange of financial information data was carried out in line with the ISO 20022 standard. The provision of electronic services has made the central government budget implementation process significantly more efficient – budget execution procedures have been standardised, the bureaucratic burdens of clients and residents have been reduced, and preconditions for the repeated use of information have been developed.

The implementation of the new policy initiative (2015–2018) "Ensuring Financial Accounting Process Standardisation in State and Local Government Institutions" has been continued to ensure the conformance of financial statements to the guidelines of international public sector accounting standards, and to ensure that requirements for the accounting and disclosure of information in the public sector are determined in a detailed manner. Latvia's current conformance with the standards was initially valued as average, however, it is planned to reach high level conformance after completing the implementation of the new policy initiative. While realising the respective measure, investors and international rating agencies will receive information (statements) on the financial situation of the state, which corresponds with the best international practice and is comparable between states, and serves as preliminary work for the implementation of the European public sector accounting standards. In 2016, the second stage of the policy initiative was realised – 29 guidelines were developed, and the requirements thereof will be adapted in Cabinet regulations on accounting and preparation of statements in the public sector. Norms for the implementation of the accruals principle in accounting will be set in regulatory enactments according to the standards.

The certification of expenses of the new 2014–2020 Programming Period of European Union funds and the conclusion of the 2007–2013 Programming Period of

European Union funds has been ensured. The 2007–2013 Programming Period of European Union funds is Latvia's first full seven-year period, which was officially concluded on 31 March 2017 with the concluding document prepared by the Ministry of Finance and the Treasury being submitted to the European Commission, providing a substantial contribution to the development of the state's national economy and raising the well-being of the society. The Audit Authority has acknowledged that the final statements of expenditure prepared by the Treasury give a true view of the expenditure made within the framework of the programme; the expenditure was incurred in line with the law and correctly, thus approving the conformity and efficiency of the EU fund management and control system created within the state.

In 2016, by studying options to centralise the accounting process, a model for enhancing the efficiency of the accounting process of central government institutions was prepared, and approved by the Cabinet on 25 October 2016. The initiated project foresees the gradual centralisation of the accounting function of central government institutions and its handover to the Treasury.

External auditors have given positive assessment regarding the activities of the Treasury in 2016 – in February 2017 the Quality Control and Information Security Management Systems were audited within an integrated management system, and commended in particular for their integrity and good management. The Treasury's accounting service was assessed for the first time, and successfully certified according to internationally recognised quality and information security requirements. The Treasury expresses gratitude to every employee for their professionalism, awareness and interest in the provision and development of the institution's processes, serving as a guarantee for the achievement of strategic objectives and quality performance of tasks during everyday work.



Treasurer
Kaspars Āboliņš
Riga, 2 May 2017



The Operational Strategy of the Treasury

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 process 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 defines 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 with more favourable terms, limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common market of the Eurozone, as well as ensuring the implementation of the state guarantee process;
- 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 ensuring a state lending process that serves the interests of the State;

- 4) performance of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance 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 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.

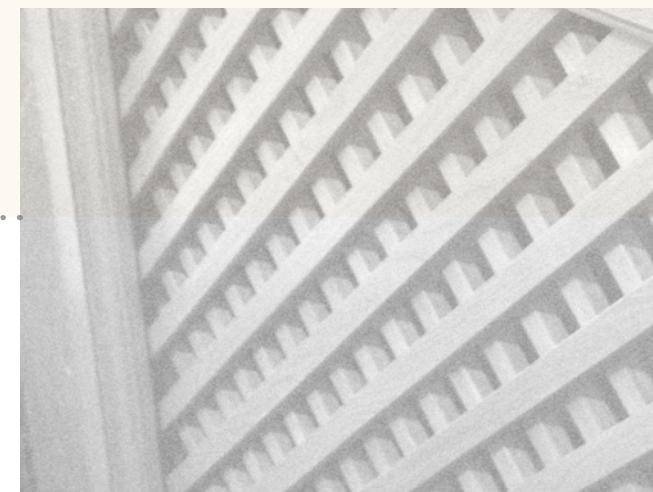
In pursuing its strategic objectives, the Treasury observes unified institutional operating principles in:

- 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 main priorities of the Strategy are as follows:

- 1) effective human resource management, whereby employee development and their involvement in the accomplishment of the Treasury's objectives 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.

The year 2016 concludes the operating cycle of the Operational Strategy of the Treasury for 2014–2016, thus the present report provides an assessment regarding the implementation of the strategy.



Legal Status and Structure of the Treasury

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 and rights of the Treasury are stipulated by Cabinet Regulation No.677 of 3 August 2004 "Regulation of the Treasury".

The structure and operational organisation of the Treasury is established by the Rules of Procedure of the Treasury, issued on 20 February 2012 (on 6 February 2015 new Rules of Procedure of the Treasury were issued).

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 (according to the best practices of financial institutions and European debt management bodies):

- 1) client service and financial transactions;
- 2) financial risk management;
- 3) payments, accountancy and reports.

To ensure unified decision-making, the following committees remained active in 2016:

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 objectives, safeguarding its resources, and establishing and maintaining effective control measures.

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 the credit risk management of the Treasury's counterparties and coordinate the work of the Treasury's structural units.

Crisis Management Committee – to ensure the continuity of the Treasury's operations, efficient coordination of actions and resources in a situation of operational crisis in the

Treasury, fulfilment of the Treasury's functions and restoration of operations as quickly as possible by simultaneously preventing the risk of a bad image.

Quality and Risk Management Committee – to ensure the achievement of the strategic objectives of the Treasury, continuous improvement of the institution's performance and service conformity to the interests of the State and its residents, as well as the needs of clients, by implementing efficient quality management, risk management and information security management.

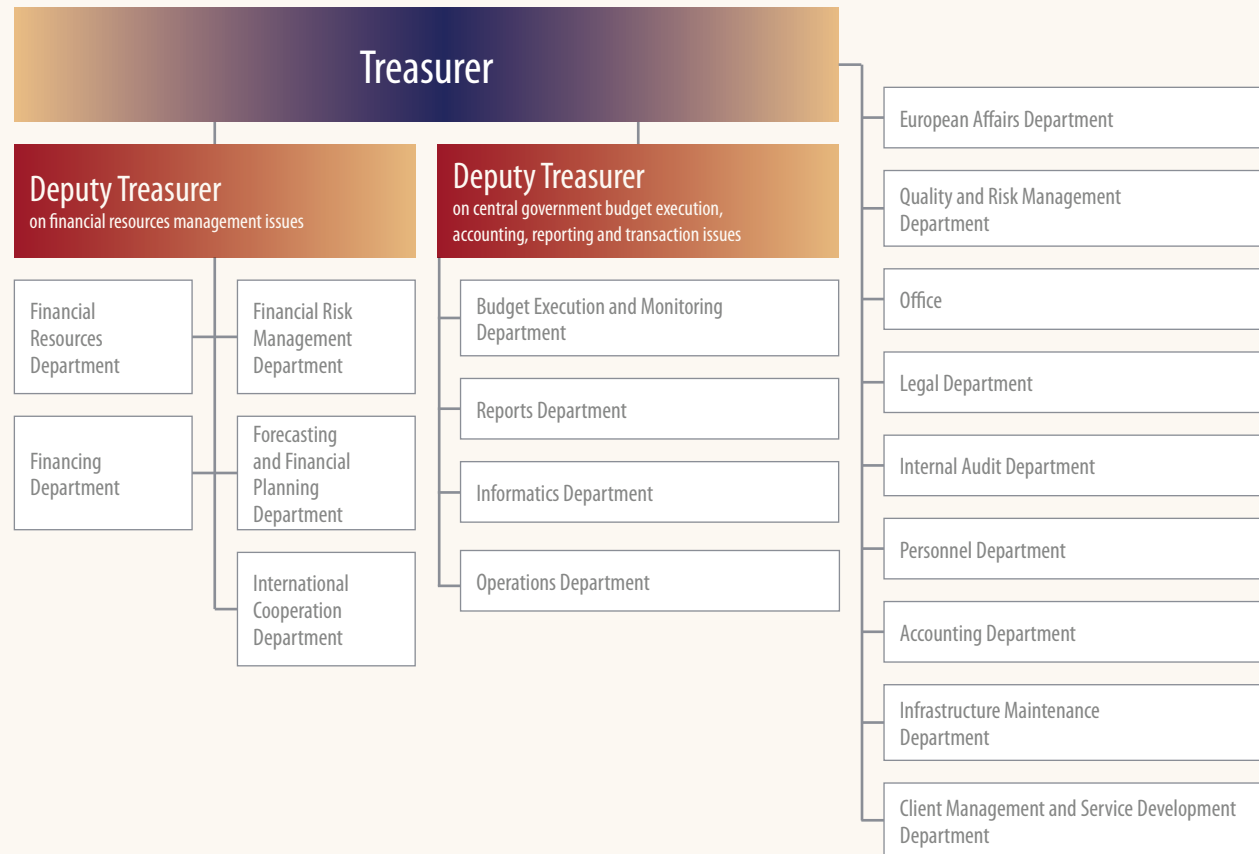
Debt Management Committee – to facilitate effective work and decision-making in the area of central government debt management.

Resource Liquidity Committee – to promote secure and effective cash management in accordance with the Treasury's Cash Management Strategy.

Management Committee – to ensure the 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 an effective accounting policy change management.

Organisational chart of the Treasury



Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

1.1. Operational Principles and Areas of Development

In accordance with the Law on Budget and Financial Management, 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, granting expenditure allocations, and executing budget institution payments 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 System, which is used to open budget accounts for budget implementers, carry out the accounting of central government budget revenue, allocate expenditures and issue grants from the general revenue on the basis of appropriations in the annual central government budget and financing plans registered with the Treasury, process and execute payment orders from the Treasury clients by using the *eKase* electronic budget payments system, and provide information regarding paid taxes, duties and other central government budget revenue to institutions administering government budget payments. By cooperating with banks, providers of payment services, the Treasury provides clients with access to various payment services (acceptance of payment cards, cash deposit and withdrawal, payment cards to pay for business trips and business expenses).

With a view to ensuring the uniform accounting of public finances, the Treasury drafts legislation concerning accounting at central and local government budget institutions by 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 quality information regarding the implementation of the central government budget both under the cash flow principle and the accruals principle. The aggregation of reports submitted by central and local government budget institutions is ensured by *ePārskati* (eReports),

the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, which is not only used by the Treasury, but also by 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 State are met.

Under the procedure laid down in the regulatory enactments, the Treasury disburses compensation to rehabilitated citizens and ensures the transfer of grants from the state budget to the local government financial equalisation fund.

1.2. Organisation of the Implementation of the Central Government Budget in 2016

Granting and Implementing Expenditure Allocations

In 2016, the Treasury allocated expenditures worth EUR 8,237.51 million towards the implementation of the central government budget, which included EUR 5,816.73 million for the general budget and EUR 2,420.78 million for the special budget. Allocations were granted to 184 state budget institutions.

In 2016, 1,729 general budget expenditure accounts were opened. Compared to 2015, the number of accounts decreased by 244 accounts, which was due to the fact that the 2007-2013 EU fund programming period came to a conclusion, whereas the implementation of the projects of the new programming period has not yet been fully started, and the number of state budget institutions has reduced as a result of reorganisation. In comparison to 2015, in 2016 the number of current accounts

dropped by 509 (8,645 accounts in 2016). The reduction in the number of current accounts may be explained by the completion of projects or measures financed within the framework of the previous planning periods, as well as the closing of the respective 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 information from the annual reports submitted by the ministries, central government institutions and local governments. The structure and scope of the annual report is prescribed by the Law on Budget and Financial Management and the Cabinet Regulation regarding the procedures for preparing annual reports. In 2016, the annual report on the performance in 2015 was prepared by consolidating the consolidated annual reports submitted by 13 ministries, 15 central government institutions and 119 local governments.



Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

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

In order to include uniform and comparable information in the annual report, the Treasury develops and updates regulatory enactments governing the accounting and reporting of budget institutions, and organises informative seminars for the persons preparing the reports. In 2016, the people attending the informative seminars provided only positive feedback regarding the initiative.

The new political initiative – “Development of Latvia’s Public Sector Accounting Guidelines and their Implementation Manual (2015–2018)” – continued, and the realisation thereof will ensure the harmonisation of the accounting and report preparation requirements of the public sector of Latvia with the International Public Sector Accounting Standards, thus placing Latvia among countries in which financial reports are prepared according to the best international practice. In 2016, the deliverable “Development of Guidelines (Standards)” of stage II was realised for the implementation of the respective standards in the regulatory enactments of the Republic of Latvia.

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 provided by them, which also correspond with the guidelines brought forward by the state and approved by the results of national level studies on e-governing efficiency.

A multi-annual project “Modernisation of Accessibility and Usability of the Treasury’s E-Services” (2016–2020) has started, foreseeing improvements to the electronic services portal of the Treasury by enhancing the usability, visual design and functionality thereof, including the implementation of electronic applications for various services and e-services of the Treasury and ensuring integration with the personal identification solution of the State Information Systems’ integrator, which is under the supervision of the State Regional Development Agency.

The realisation of measures related to the project “Improvement of the Data Comparison Process with the Treasury’s Clients Regarding the Balance of Account and Budget Execution” has been ensured – new types of reports on the balance of funds in an account at the end of the year and the turnover report by classification codes have been implemented, and new functionality in the report on the balance of funds in an account at the end of the year has been put forward for coordination and submission to the Treasury.

In 2016, the Treasury maintained and continued the development of the following services and information systems:

Comprehensive Central Government Budget Planning and Implementation Information System

The Comprehensive Central Government Budget Planning and Implementation Information System maintained by the Treasury ensures a full government budget management cycle: from budget planning to 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 process 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 performed 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.

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 monthly, quarterly and annual reports to the Treasury and sign them electronically online in the *ePārskati* system, thus ensuring administrative and time savings. In 2016, there were 4,162 users registered in the system.

An assessment for the development of the *ePārskati*-service has been prepared and the realisation thereof has been started in order to ensure a process for preparing consolidated reports that is automated to the maximum extent, as well as to decrease the risk of errors in the financial report and its interpretations; and measures regarding the improvement of budget financing supervision quality in the system have been assessed.

There has been an increase in the number of ministries that summarise the reports used in the budget expenditure monitoring and control process by using the *ePārskati* system. In 2016, the Ministries of Finance, Education and Science, and Culture were joined by the Ministry of Transport and the Ministry of Environmental Protection and Regional Development.

The procedure for submitting applications in the institutions using *ePārskati* has been improved – documents no longer circulate in paper or electronic document format, as everything is organised entirely by using the *ePārskati* system. The applications are prepared and signed in *ePārskati*, thus ensuring an easier way for clients to prepare applications and the faster processing thereof at the Treasury.

Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

In 2016, the electronic documents of the *ePārskati* system of 2010 were handed over to the National Archives of Latvia for public storage for the first time, thus ensuring the preservation of applications submitted in the *ePārskati* system and their accessibility in a single place by using modern technologies and saving resources on the archiving and permanent storage of the respective data.

ePlāni, the Financing Plan Processing Information System

Ministries or their subordinate bodies use the *ePlāni* system to prepare, approve and submit financing plan projects to the Treasury, on the basis of which allocations and grants are issued from the general revenue. In 2016, 424 users were registered and 7,122 general budget and special budget financing plans were processed in the system.

eKase, Budget Electronic Payment System

The Treasury renders payment services electronically, using the budget electronic payment system *eKase* and its Online Data Exchange Module. Through *eKase*, the Treasury enables its clients to execute payment orders, view the results of the execution of payment orders, and receive financial information offered by the Treasury: on account status (balance), account turnover statements, and summary of revenues and expenditures or resources to cover expenditures. The Online Data Exchange Module of *eKase* ensures the automated exchange of payment data (payment status statement and account statement) between the Treasury and its clients, as well as the option to submit payment orders for execution to *eKase*.

In 2016, exchange of payment data with clients in the FiDaViSta format was ended, being replaced by ISO 20022 XML messages in the “client – bank” and “bank – client” stage. Thus compliance with the requirements of Regulation No. 260/2012 of the European Parliament and of the Council of 14 March 2012 is ensured.

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 www.kase.gov.lv provides the option for payers to verify whether the payment made by the payer has been received in the specified account of the government budget with the Treasury. In 2016, there were more than 30,000 requests for this e-service (25,000 requests in 2015).

Credit Cards Tied to Treasury 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 option to make non-cash payments during their business trips, while complying with the requirement of the Law on Budget and Financial Management under which central government budget expenditures are to be made from accounts opened with the Treasury.

In 2016, the service of credit cards tied to Treasury accounts was used by 109 state budget institutions, and a total of 1,071 credit cards were issued to such institutions.

Acceptance of Payment Cards in the Collection of Government Budget Payments

The Treasury provides the payment card acceptance service (via AS *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 option to collect such payments using *VISA Electron*, *MasterCard*, *Maestro* or *American Express* payment cards in a payment card acceptance terminal or another alternative system.

In 2016, the service provided by the Treasury was used by 98 clients of the Treasury, including 17 local governments. Over the year 765,242 transactions with a total value of EUR 43,962,971 were made with payment cards at the 921 payment card terminals installed at institutions administering budget payments.

Figure 1.

Dynamics of the service of credit cards tied to Treasury accounts (2012–2016)

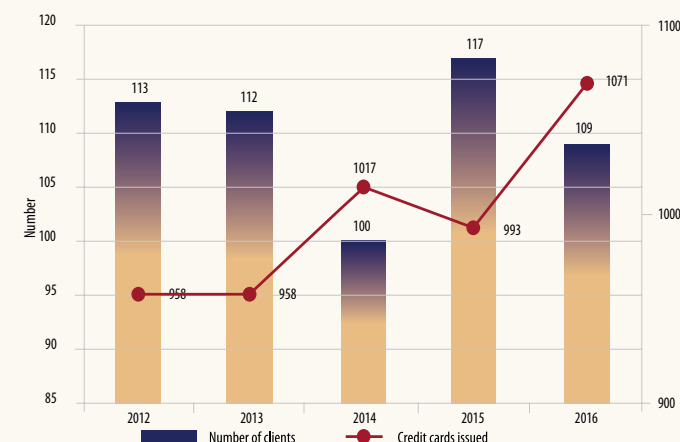
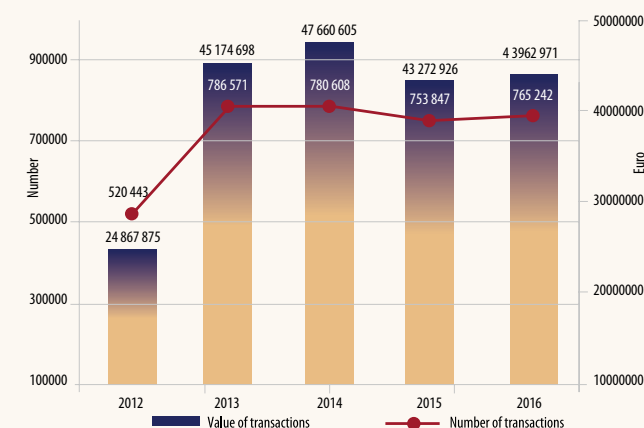


Figure 2.

Dynamics of the payment card (VISA, MasterCard and American Express) acceptance service (2012 – 2016¹)



¹ In 2015, there was a significant drop in the volume of specific general budget income (government dues) items, thus forming a decrease in the total amount of transactions and money collected.

Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

Centralised Resource Management System

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 subordinate 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 process of the Procurement Monitoring Bureau and the Fiscal Discipline Council, as well as the accounting and personnel management process of the Lotteries and Gambling Supervision Inspectorate.

In 2016, by studying options to centralise the accounting process, a model for enhancing the efficiency of the accounting process of central government institutions was prepared, and approved by the Cabinet on 25 October 2016. The initiated project foresees the gradual centralisation of the accounting function of central government institutions and its handover to the Treasury. Starting from 2018, accounting will be ensured for three central government institutions and one institution subordinate to them, whereas starting from 2021 – for 15 central government institutions and two institutions subordinate to them. As a result of the project implementation, it is planned to:

- 1) unburden the central government institutions from carrying out support functions uncharacteristic for their basic activities, thus ensuring the possibility to use the financial resources of the budget and the personnel resources of institutions as efficiently as possible;
- 2) effectively organise the fulfilment of support functions at the Service Centre of the Treasury with the following:
 - by harmonising the accounting processes;
 - by reducing the duplication of actions;
 - achieving the rational use of the involved personnel and the information system by using automation possibilities.

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

Table 1

Performance indicators of the operational targets for central government budget implementation

Result formulation	Performance indicators	Numeric values of performance indicators in 2015	
		Projected	Implemented
1. Uniform budget implementation, 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. Conformance of financial statements to the requirements of the European Statistical Code of Practice within the framework of the national statistical information programme (percentage of the requirements of the European Statistics Code of Practice referable to the Treasury).	–	–
2. The wishes of the Treasury's clients have been identified and the rendered services have been improved accordingly.	2. Satisfaction with the quality of the services received (percentage of surveyed clients ²).	≥85	89,9
3. It has been ensured that the Treasury's services can be received electronically.	3. Provision of services via electronic service delivery channels (percentage of all services rendered).	≥85	100
4. The financial and management accounting reports of budget institutions have been submitted using a single information system.	4. Option for state and local government institutions to receive information for management decision-making and improvement of budget financing supervision quality in <i>ePārskati</i> , the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments (number of budget institutions).	13	7 ³

² 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.

³ Excluding central government structures, but including entities, port and free port authorities and special economic zones controlled and financed by central government structures.

Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

1.5. Assessment of the Application of the Operational Strategy of the Treasury for 2014–2016 in the Implementation of the Central Government Budget

Strategic objective of central government budget implementation: “Implementation and management of the consolidated budget that is oriented towards ensuring an effective and economical budget implementation process and improving the services provided by the Treasury in accordance with the best practices of financial management” – has been achieved to the extent prescribed for 2014–2016 (tasks defined/results to be achieved/performance indicators).

In 2016, by focusing on services provided in a quality manner and ensuring accessibility to them at a technologically high level, the Treasury continued to invest in the information systems supporting its services: processes were optimised, the necessary measures to stabilise, secure and ensure the continuity of the operations of the information systems were carried out, and financial information data communication formats corresponding with the ISO 20022 standard were implemented. The provision of electronic services has made the central government budget implementation process significantly more efficient – budget execution procedures have been standardised, the bureaucratic burdens of clients and residents have been reduced, and preconditions for the repeated use of information have been developed. Measures for improving the central government budget management, accounting and control process, as well as the conformance of the financial statements to the main principles of the International Public Sector Accounting Standards have been ensured.

Measures for improving the central government budget management, accounting and control process, as well as the conformance of the financial statements to the main principles of the International Public Sector Accounting Standards have been ensured.

The achievement of strategic tasks was facilitated by:

- 1) the accumulated experience in central government budget servicing;
- 2) development of technologies and the application thereof in the field of

financial services, implementation of ePārvalde within the country, growth in the turnover of electronic documents;

- 3) development of the national economy, fiscal policy;
- 4) the volume of financing available for the implementation of functions and development of the services provided;
- 5) availability of personnel resources, competence, loyalty, interest and motivation of personnel;
- 6) modern solutions of information technologies, functionality, stability, integrity and security of information systems;
- 7) efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The complete achievement of certain results was prevented because:

- 1) local governments develop their own financial management information systems and no longer apply to use the possibilities offered by *ePārskati* in budget planning;
- 2) public administration institutions do not have a common understanding regarding efficient management of services and supervision of development projects;
- 3) technological instability of the qualified increased security electronic identification measure provided by *AS Latvijas Radio un televīzijas centrs* when ensuring the identification of natural persons and document authorisation in electronic service systems, as a result of which the efficient use of increased security electronic identification measures is encumbered.

Fulfilment of the strategic targets set for the implementation of the central government budget in 2014–2016:

- 1) Unified classifications corresponding with the requirements of international financial institutions have been applied in the planning and implementation of the general central government budget, and an operative and efficient central government budget implementation process has been organised. Measures for ensuring the conformance of financial statements to International and

International Public Sector Accounting Standards have been started and continued (conclusion in 2020). The national statistical information programme has been fulfilled in a quality manner:

- The implementation of the new policy initiative (2015–2018) “Ensuring Financial Accounting Process Standardisation in State and Local Government Institutions” has been started and continued to ensure the conformance of financial statements to the guidelines of International Public Sector Accounting Standards, and to ensure that requirements for accounting and disclosure of information in the public sector are determined in a detailed manner (application of requirements set in regulatory enactments is planned to start in 2020). Latvia’s current conformance with the standards was initially valued at 64%, however, it is planned to reach conformance of at least 88% after implementing the new policy initiative. While realising the respective measure, investors and international rating agencies will receive information (statements) on the financial situation of the state, which corresponds with the best international practice and is comparable between states, and serves as preliminary work for the implementation of the European public sector accounting standards. Two stages of the new policy initiative have been realised during the period of the strategy – analysis of 29 standard requirements and assessment of the conformance of requirements set in the regulatory enactments of Latvia was carried out in 2015, whereas 29 guidelines were developed in 2016 by carrying out discussions with interested parties regarding the best solutions for the public sector of Latvia, and the requirements thereof will be adapted in Cabinet regulations on accounting and preparation of statements in the public sector (development started in 2016). Norms for the implementation of the accruals principle in accounting will be set in regulatory enactments according to the standards. During the next strategy period, the development of regulatory enactments in the field of accounting and provision of statements, as well as the manuals for the implementation thereof, will be complete, thus ensuring a structured explanation of requirements with examples. The manuals will be available to those interested on the Treasury’s website;

Activities of the Treasury in 2016

1. Implementation of the Central Government Budget

- by ensuring compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, improvements have been made to the accounting of budget institutions, including improvements in the normative regulation, as well as detailed explanations for the preparers of statements.
- 2) The administrative burden for the receipt of services and the costs related to service administration have been reduced, thus ensuring quality remote access to the services of the Treasury:
- during the implementation period of the strategy, work was continued on the development of the Treasury's electronic services and information systems for the online exchange of information with clients by using the resource optimisation possibilities provided by technologies and reaching the strategic objective of regular information exchange with clients being entirely carried out electronically;
 - 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 provide, which also correspond with the guidelines brought forward by the state and approved by the results of national level studies on e-governing efficiency (e-index). Studies on the e-index of Latvian state institutions carried out on a regular basis, which, being based on surveys in more than a 100 state institutions, reflect the efficiency of e-governing in state institutions in five fields – efficient organisation of the institution's internal processes, efficient inter-institutional cooperation, efficient document circulation, efficient provision of services, efficient involvement of the public – regularly rank the Treasury in high places in all categories;

- The results of the survey of the Treasury's clients conducted at the end of 2014 (with the aim to ascertain the satisfaction of the Treasury's clients with the services provided by the Treasury, as well as their opinion on the image of the Treasury and the quality, speed and clarity of its communication) affirm the high quality of the services provided by the Treasury (97% of the respondents were generally satisfied with the services provided by the Treasury), surpassing the indicators put forward in the Operational Strategy of the Treasury for the assessment of quality of customer service (≥ 85). Clients have acknowledged that the Treasury is a modern institution (96%), the employees of the Treasury are friendly and responsive (95%), the Treasury is easily accessible (94%), it makes use of the opportunities offered by technology (94%), and its employees are competent and knowledgeable (93%). The same amount of respondents (93%) expressed the view that the Treasury is developing and improving its client-oriented services.
- 3) The option for state and local government institutions to receive information for management decision-making and improvement of budget financing supervision quality in the *ePārskati* Budget Reporting Information System has been ensured: during the period of the strategy, work has been done on improving clients' understanding regarding the advantages of *ePārskati* in the process of budget execution monitoring by providing the option to submit, check and sign various financial documents and receive feedback on them. By switching to the use of the *ePārskati* system only via web browsers, a more convenient and secure authentication has been ensured, and clients can work with *ePārskati* regardless of the location of their computer.

Factors driving the attainment of strategic tasks allow the Treasury to identify the subsequent measures for developing and improving its services, including maintaining the trend that at least 85% of clients are satisfied with the quality of services provided by the Treasury.

With the period of the Operational Strategy of the Treasury for 2014–2016 coming to a close and having evaluated the results of its implementation and the degree of attainment of the strategic objectives and tasks, as well as in view of the regulatory framework and the factors affecting the operations of the Treasury, the Treasury has defined new performance indicator values for the attainment of the strategic objective of the central government budget implementation for the next strategic planning period (2017–2019):

- 1) applying unified classifications corresponding with the requirements of international financial institutions in the planning and implementation of the general central government budget, and organising an operative and efficient central government budget implementation process;
- 2) ensuring the conformance of financial statements to the main principles of the International Public Sector Accounting Standards, and executing the national statistical information programme at a high standard of quality;
- 3) reducing the administrative burden for the receipt of services and the costs related to service administration, thus ensuring quality remote access to the services of the Treasury.



Activities of the Treasury in 2016

2. Central Government Debt Management

2.1. Operational Principles and Areas of Development

In accordance with the regulation, the Treasury performs the management of the central government debt, as well as the evaluation of state guarantee documents and monitoring of commitments of state guarantees according to regulatory enactments.

The main principles and objectives of central government debt management for the medium term are defined in the Central Government Debt Management Strategy, which is approved by the Minister of Finance. According to the Central Government Debt Management Strategy, the objective of the management of central government debt is to ensure the financial resources required for the refinancing of central government debt and implementation of the central government budget with the lowest possible costs, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the eurozone. The objective of central government borrowing management is to ensure the constant option of raising resources in international markets and in the domestic market with optimal borrowing transaction terms. The objective of government debt portfolio management is to optimise the costs of government debt servicing in the long term by limiting the financial risks of the government debt portfolio in the following order of priority – debt refinancing risk, liquidity risk, currency risk, interest rate risk, counter-party risk.

By ensuring central government debt management according to the Central Government Debt Management Strategy, the Treasury realised the medium-term borrowing strategy in line with the following priorities:

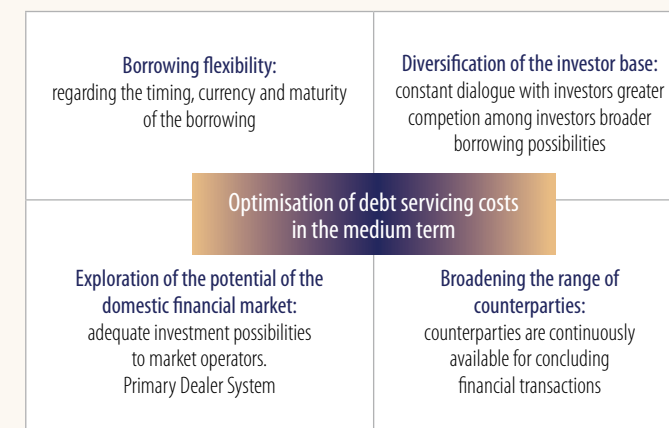
- 1) ensuring borrowing in the international financial markets with public issues of government debt securities by retaining flexibility in relation to choosing the time, currencies and repayment terms of loans in order to ensure borrowing with favourable conditions;

- 2) ensuring the diversification and expansion of the range of government security investors through regular and continuous dialogue and long-term work with the investor community and counter-parties, in order to facilitate the active participation and competition of investors from various global regions in the primary placement of external government debt securities in international markets, thus limiting financial risks in the long term;
- 3) ensuring and maintaining the range of counter-parties that are continuously available for entering into financial transactions;
- 4) maintaining a constant and regular supply of government securities in the domestic financial market according to the domestic investor demand in order to use the potential of borrowing in the domestic financial market and promote the functioning and development of the domestic financial market;
- 5) maintaining the supply of savings bonds to households in order to ensure the raising of resources from a group of investors that has been less active, as well as promoting residents' trust in the financial market, thus facilitating the government security market development in general;
- 6) facilitating active communication with credit rating agencies and ensuring the provision of a single and coordinated opinion regarding the situation in Latvia within the process of credit rating calculation, in order to have a positive impact on the advancement of Latvia's credit rating.

By continuing borrowing activities in line with the medium-term strategy and pursuing a responsible fiscal policy, it is possible to ensure borrowing with favourable terms, as well as maintain the government debt at a sustainable level in the long term.

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

Figure 3.
Medium-term borrowing strategy





Activities of the Treasury in 2016

2. Central Government Debt Management

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

Latvian general government debt, which is formed by central and local government structure consolidated debt, accounted for approx. 40.1% of GDP at the end of 2016. Latvian general government debt is still one of the lowest of EU member states, and also well below the average indicator in the EU (see Figure 4).

The level of general government debt is mainly influenced by central government debt⁴, which increased by EUR 600.3 million in 2016 and reached EUR 9,702.3 million at nominal value or 39.0% of GDP at the end of 2016 (see Figure 5). The increase in debt (compared to 2015) is related to the borrowing carried out on international financial markets in the amount of EUR 1.3 billion in 2016 to provide funding for both covering the financing requirements of the current year, as well as repaying the central government debt in the amount of USD 1 billion in the beginning of 2017.

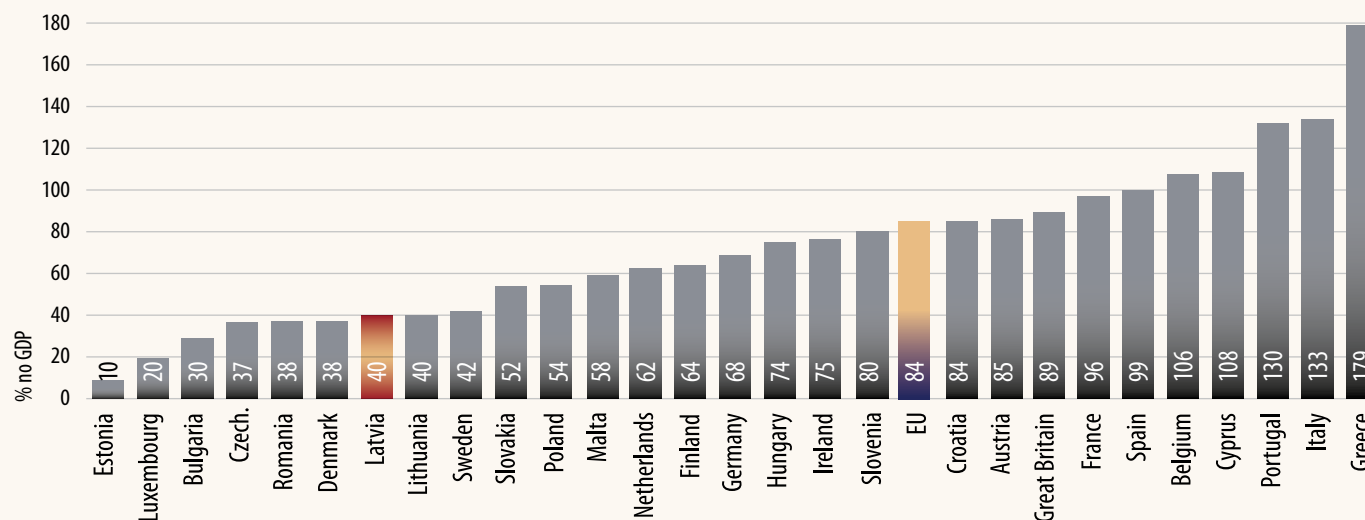


Figure 4.
General government debt at the end of 2016 (% of GDP) under the ESA '2010 methodology
Source: EUROSTAT

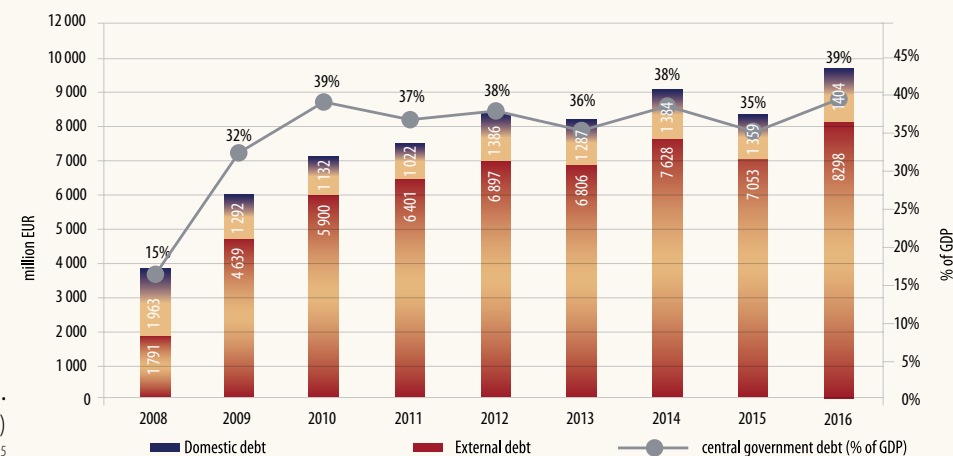


Figure 5.
Central government debt (at nominal value) 2008-2016⁵

⁴ Excluding central government structures, but including entities, port and free port authorities and special economic zones controlled and financed by central government structures.

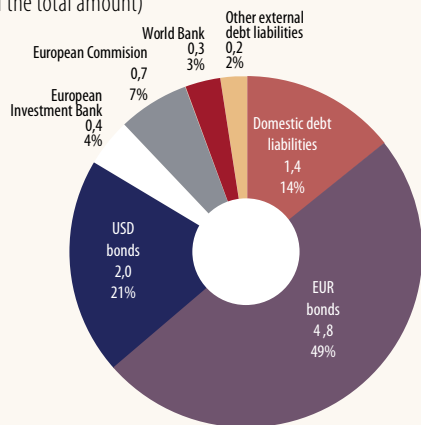
⁵ Optional data - 2016.

Activities of the Treasury in 2016

2. Central Government Debt Management

In the structure of central government debt of 2016, external debt made up the greatest share reaching 86% of the total central government debt (see Figure 6).

Figure 6.
Central government debt structure (at nominal value) on 31.12.2016
(% of the total amount)



The central government external debt according to nominal value as of 31 December 2016 stood at EUR 8,298 billion.

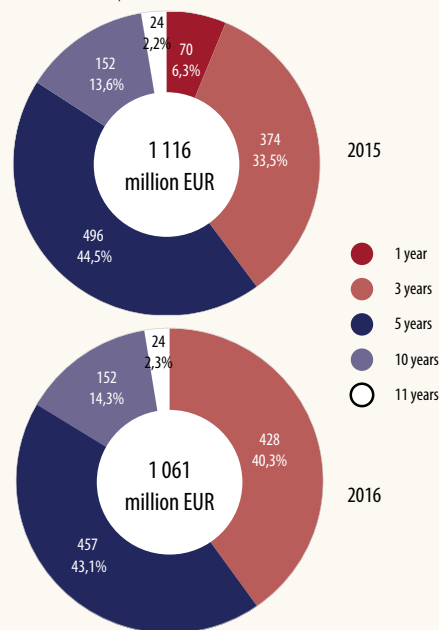
On 31 December 2016, the largest share of the central government external debt was formed by the bonds issued by Latvia on international financial markets, reaching 69% of the central government external debt at the end of 2016.

The domestic government debt according to nominal value as of 31 December 2016 stood at EUR 1,404 billion.

In 2016, the central government domestic debt grew by EUR 45.3 million, which was mainly influenced by an increase in the clients⁶ deposits and account balances placed in the Treasury in the amount of EUR 100.7 million, as well as a decrease in the amount of outstanding domestic debt securities⁷ of EUR 50.7 million and a drop in borrowings by EUR 4.7 million.

On 31 December 2016, the largest share of the central government domestic debt was formed by domestic debt securities issued by the Treasury worth EUR 1.061 billion, which were mainly purchased by domestic financial market operators (credit institutions and institutional investors) at the public auctions regularly arranged by the Treasury. In 2016, the Treasury offered investors to purchase short-term T-bills (with 21-day maturity) and medium-term (three and five year) obligations, and with regard to this the percentage rate of outstanding government domestic debt securities also changed (see Figure 7).

Figure 7.
Government domestic debt securities outstanding at the end of 2015 and 2016,
in EUR million; % of the total sum after the initial term



The remaining share of the central government domestic debt was formed by short notice and short-term deposits, loans, as well as savings bonds and interest-free bonds – total EUR 337.7 million.

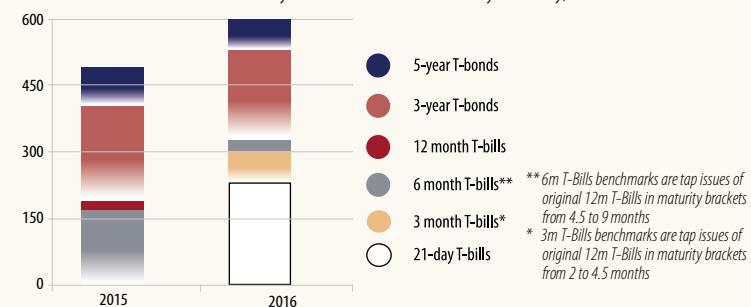
2.3. Central Government Borrowing Management

In accordance with the Central Government Debt Management Strategy, the goal of central government borrowing management is to ensure the constant option of raising resources in international markets and in the domestic market with optimal borrowing transaction terms.

Central Government Domestic Debt

In 2016, the Treasury continued to hold regular auctions of government securities. As in previous years, T-bill auctions were held with a view to refinancing domestic short-term debt and ensuring relatively cheap liquidity resources. In January 2016, the Treasury introduced a new type of securities on the T-bill market – government T-bills with 21-day maturity, allowing for the monthly adjustment of liquidity management measures to the execution cycle of the state budget. Where appropriate, T-bills with such maturities are issued at the end of the month and redeemed after 21 days. In 2016, the Treasury started two new bond programmes – with maturity terms of three and five years. At the end of the year, the outstanding amount of the respective bills reached EUR 206.8 million and EUR 36.2 million, respectively. The total outstanding amount of government domestic debt securities of Latvia at the end of 2016 was EUR 55.5 million less than a year before.

Figure 8.
Government domestic debt security issues in 2015 and 2016 by maturity, in EUR million



⁶ Excluding central government structures, but including entities, port and free port authorities and special economic zones controlled and financed by central government structures.

⁷ Including interest-free bonds issued for special purposes according to the Immigration Law.

Activities of the Treasury in 2016

2. Central Government Debt Management

The Treasury sold securities worth EUR 598.2 million on the primary market, including EUR 457.8 million in competitive multi-price auctions. On average, the aggregate demand in competitive multi-price auctions was four-times higher than the supply. The high-level competition between investors (demand/supply correlation) at all auctions provided for the borrowing rates to remain at the lowest levels in history.

After the European Central Bank's decision of 22 January 2015 on the starting of the Public Sector Asset Purchase Programme, when the already low money market rates decreased even more, and after April 2015, when for the first time in the history of the primary issues of government domestic debt securities of Latvia a negative rate was fixed, the rates at auctions in 2016 reached new historically lowest levels. In 2016, all T-bills were issued with negative rates, and for the first time ever a negative rate was also fixed for three-year bonds. The rate drop can be explained by the active participation of primary dealers in auctions, positive rate development trends in financial markets from an issuer's perspective, as well as high liquidity among credit institutions of Latvia.

In order to facilitate the further development of the government security market, the development possibilities of the government security market were assessed in 2016, putting forward suggestions for future actions in the medium term, which are mainly aimed at increasing the liquidity of securities.

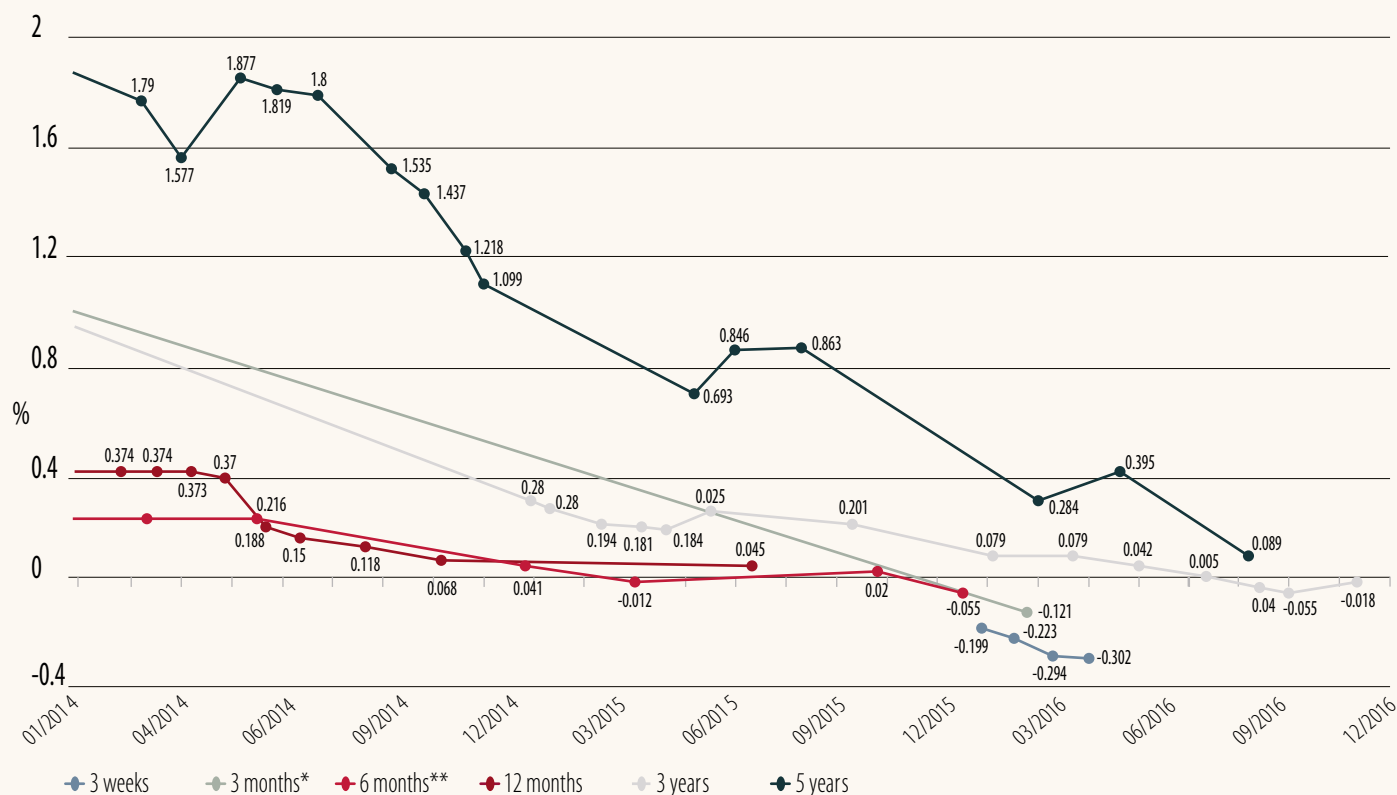
2.3.1.1. Primary Dealer System

In 2016, the Treasury continued to strengthen the Primary Dealer System introduced in February 2013, which is aimed at facilitating the development and activity of the government securities market by promoting the emergence of new borrowing instruments, broadening the investor base, a more liquid and investor-friendly government securities market, as well as the reduction of risks associated with central government debt refinancing. As part of the Primary Dealer System, the credit institutions that have entered into a primary dealer agreement with the Treasury may take part in government security auctions. After evaluating the 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, the following credit institutions have become the primary dealers: AS Citadele banka, AS DNB banka⁸, AS SEB banka⁸, AS Swedbank, and AS ABLV Bank.

In 2016, regular communication was maintained with Primary Dealers and opinions were exchanged regarding the situation in the financial market, auction plans and results, as well as matters related to the secondary market of government securities. Although the volume of outstanding government domestic debt securities has reduced in 2016 as a result of the borrowing measures carried out over the respective year, the total turnover of trade with government securities of primary dealers in the secondary market indicated a slight increase, which may be assessed positively.

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



*Since 2016, 6m T Bills benchmarks are tap issues of original 12m T Bills in maturity brackets from 2 to 4.5 months
**Since 2015, 3m T Bills benchmarks are tap issues of original 12m T Bills in maturity brackets from 4.5 to 9 months

⁸ The Lithuanian AB DNB Bankas and AB „SEB Bankas“ in the secondary market.

Activities of the Treasury in 2016

2. Central Government Debt Management

2.3.1.2. Savings Bonds

The offer of the domestic financial market instrument introduced in 2013 – savings bonds – was maintained on the website www.krajobligacijas.lv, as well as at post service points of the state joint-stock company *Latvijas Pasts*. The primary objective of savings bonds was to provide private persons as a new potential investor group with a convenient and secure investment opportunity in classic and secure financial instruments, broaden their practical experience in investing, facilitate the decrease of cash savings, develop government securities market in general, as well as facilitate public confidence in the financial market. By realising the above-mentioned objectives, residents are offered 6-month and 12-month, as well as 5-year and 10-year savings bonds. At the end of 2016, the volume of savings bonds at the disposal of residents amounted to EUR 5.1 million.

By following the rates in the domestic government debt securities market and general trends in financial markets, the fixed income rates applicable to savings bonds of all terms continued to decrease in 2016, facilitating demand for long-term savings bonds and providing a significant reduction in demand for short-term savings bonds. In 2016, as in previous years, 10-year savings bonds retained the largest outstanding amount. However, it is necessary to maintain the offer of savings bonds of all terms, in order to retain various options for investors in relation to the term and profitability in changing market conditions.

2.3.1.3. Interest-Free Bonds

In 2016, the Treasury continued the issue of interest-free bonds started in 2015. The issue of such securities is foreseen by Section 23, Paragraph one, Clause 31 of the Immigration Law, which prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period of time not exceeding five years if he or she purchases interest-free government securities dedicated to a specific purpose with a nominal value of EUR 250,000. In 2016, interest-free bonds were issued 18 times, and the total nominal value of interest-free bonds at the end of 2016 amounted to EUR 6 million.

2.3.2. 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 or a rapidly changing situation 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 have been 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 possible terms favourable to the country.

For borrowing in international financial markets the Treasury uses the legal framework of external government securities documentation GMTN (Global Medium Term Note programme) implemented in 2013, which consists of standardised agreements and has been designed to facilitate Latvia's future borrowing process. The GMTN programme allows the Treasury to efficiently exploit favourable conditions in international financial markets, as well as issue government securities in different currencies. The programme also provides for the issuing of government securities if the investor addresses the Treasury and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

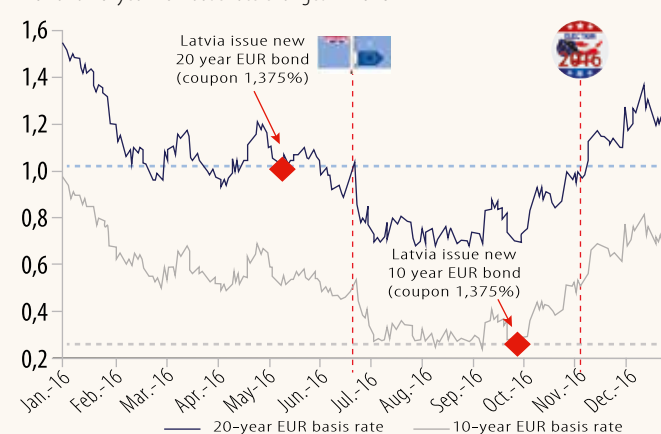
After accession to the eurozone, the euro capital market has become even more available and financially favourable. Overall, bonds issued by the government in euro currency make up the largest share in the central government loan portfolio.

In 2016, the state credit rating's stable positioning within the "A" rating group, high assessment provided by investors and their conviction regarding Latvia's long-term development, as well as the historically lowest levels of euro base rates and the decrease of the credit risk premium of securities of eurozone states due to the stimulating monetary policy of the European Central Bank, facilitated the possibility

to raise resources on international financial markets with favourable terms. This is confirmed by the borrowing transactions carried out by the Treasury on international

financial markets in 2016, reaching the lowest profitability and coupon payments among countries of Central and Eastern Europe, as well as most countries of Western Europe, for the respective term of securities in 2016. Being aware of the United Kingdom's European Union membership referendum (in June), as well as the United States' presidential election (in November) in 2016 the borrowing volume required for covering the total financing needs in the amount of EUR 1.3 billion was diversified by being split into two equal shares, with the issue of the longer term securities being organised first. Based on the borrowing risk diversification approach, 20-year Eurobonds in the amount of EUR 650 million with a fixed interest (coupon) rate of 1.375% per year were issued in May 2016, whereas 10-year Eurobonds in the amount of EUR 650 million with the lowest fixed interest (coupon) rate of central government external debt bonds in the history of Latvia of 0.375% per year were issued in October. Active communication with government security investors, as well as the stable position of the state's credit rating within the "A" rating group, attracted more and more investors who invest in bonds of developed countries with lower rate levels.

Figure 10.
10- and 20-year EUR base rate changes in 2016



Activities of the Treasury in 2016

2. Central Government Debt Management

In 2016, by raising funds to cover the financing needs of the current year, as well as for the repayment of central government debt in the amount of USD 1 billion to be carried out in February 2017, flexibility was ensured for the realisation of the borrowing measures planned in 2017 with more suitable timing.

2.3.3. Investor Relation Management

In order to carry out focused investor relation management and define appropriate measures to be taken, the Treasury regularly provides information to investors, representatives of investment banks and rating agencies 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.

In 2016, the new means of communication started in 2015 was continued – regular conference calls with investors were carried out, during which representatives of the Ministry of Finance, Bank of Latvia, and the Treasury presented Latvia's economic, financial and fiscal policy trends.

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

Every year the Treasury produces an analytical Report on Central Government Debt Management (in Latvian and English) for the preceding year, in order to provide clients and operators of the financial market, including the existing and potential counterparties and investors in government securities, with information on developments in the management of the central government debt and assets, borrowing processes and results. The Report on Central Government Debt Management 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.

Once every quarter, the Treasury posts a Quarterly Bulletin on Central Government Debt Management (in Latvian and English) on its website, which includes the latest data on government budget implementation and central government debt management, information regarding the credit rating of Latvia, borrowing carried out in the domestic and international financial markets, result of government security auctions, government debt portfolio management and achieved results, as well as information regarding local government borrowing and state-issued guarantees.

Every week, the Treasury compiles, forwards to investors and posts on its website a Weekly Update (in English) regarding central government budget implementation, central government debt management, and the most important developments in Latvia's financial sector, economy and politics.

The Treasury also provides the investors with a separate presentation that includes the newest information on the current development matters of the Latvian economy, as well as financial and fiscal indicators, and regularly updates it.

The communication activities are structured to reach the objective of diversifying the investor base set in the Operational Strategy of the Treasury. In 2016, face-to-face meetings were organised with current, as well as potential, investors in Europe (London, Frankfurt and Munich) and the USA (New York), thus strengthening investors' trust in the Latvian economy and having a positive impact on their future vision regarding the development of the situation in Latvia. It is planned to use the same approach for reaching out to investors in 2017.

2.3.4. Credit Rating of the Republic of Latvia

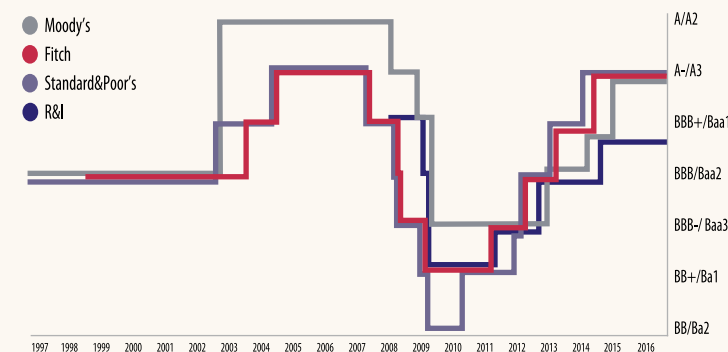
The national credit rating is a critical aspect in organising borrowing transactions, and a significant factor for the availability of financial resources, as it has an influence on the price of the borrowed resources. As part of central government debt management, for the purpose of establishing the credit rating of the Republic of Latvia, the Treasury arranges visits by analysts from the three major international rating agencies – Fitch Ratings, S&P Global and Moody's Investors Service – as well as the Japanese rating agency R&I to Latvia, and provides them with regular, comprehensive and relevant information on Latvia with a view to facilitating the

credit rating agencies to make decisions for the favourable development of the credit rating of the Republic of Latvia. Based on the available information, including the credit rating, investors evaluate the prospects of investing in Latvia, e.g. in government securities. The credit rating agencies not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign credit rating to government securities. Once a year, the inter-agency working group led by the Treasury informs the Cabinet on the national credit rating of the Republic of Latvia and the factors affecting it, and provides proposals for improving the credit rating.

In 2016, the credit rating of Latvia held a stable position in the "A" credit rating group (according to the assessment of the three major international rating agencies – Fitch Ratings, S&P Global, and Moody's Investors Service), as can be seen in the credit rating affirmations: Fitch Ratings and S&P Global affirmed the current rating level in May and November 2016, as did Moody's Investors Service in October. At the end of 2016, Latvia's long-term credit rating was A3 (Moody's Investors Service), A- (Fitch Ratings), A- (S&P Global), and BBB+ (R&I) with a stable outlook. (On 30 January 2017, the Japanese credit rating agency R&I announced that it is raising its outlook from stable to positive).

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

Figure 11.
Credit rating development of the Republic of Latvia



Activities of the Treasury in 2016

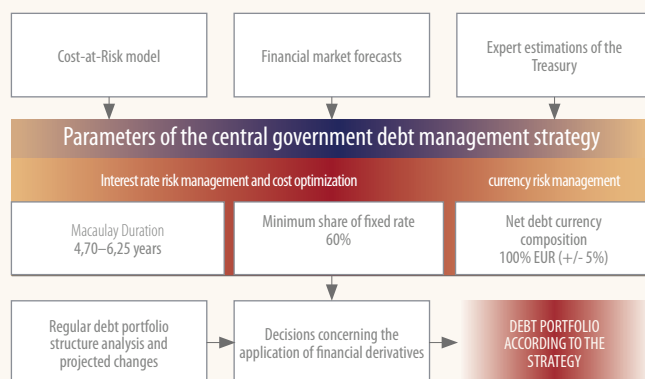
2. Central Government Debt Management

2.4. Central Government Debt Portfolio Management

According to the Central Government Debt Management Strategy, the objective of government debt portfolio management is to optimise the costs 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 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)) is calculated, which, 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 the interest rate risk (see Figure 12) are determined. Whereas for the currency risk management an optimal currency structure of net debt is determined and monitored by taking into account the financial market forecasts and the assessment of the Treasury's experts, and it allows compliance with the balance of assets and liabilities in foreign currencies, thus avoiding the impact caused by exchange rate fluctuations.

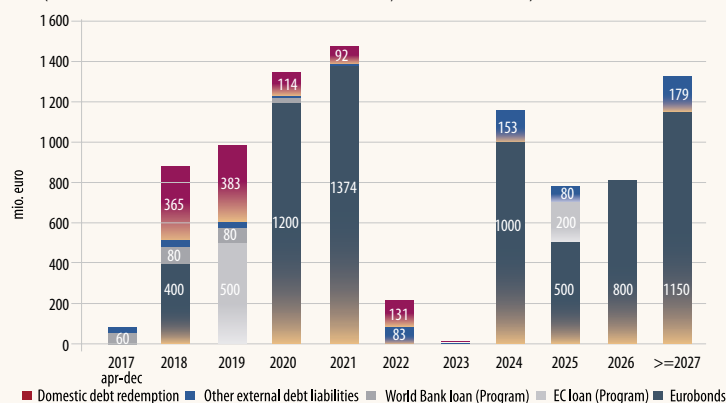
Figure 12.
General principles of central government debt portfolio management



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 subsequently, if necessary, to adjust the structure of the central government debt portfolio with derivatives and other available resources for it to be optimal and comply with the requirements provided for in the Central Government Debt Management Strategy.

By carrying out borrowing management in accordance with the measures planned in the medium term, the refinancing of the current government debt will be ensured with terms as favourable as possible (see Figure 13).

Figure 13.
Central government borrowing repayment schedule
(commitments assumed until 31 March 2017, at nominal value)



* excluding sectors S130130, S130140, S130330, S130340, as well as short notice and short-term deposits; exchange rates determined by ECB on 30.03.2017 have been used in the calculations

In 2016, all the parameters for the central government debt structure specified in the 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 Central Government Debt Management Strategy

Parameters	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2015		ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2016		DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY	
	≤ 1 year	≤ 3 years	≤ 1 years	≤ 3 years	≤ 1 years	≤ 3 years
Amount of domestic debt securities ⁹ at the end of the year	EUR 1,046,55 million		EUR 1,060,76 million		not less than outstanding at the end of the preceding year ¹⁰	
Maturity profile (%) of the central government debt portfolio	7.9%	31.2%	14.6%	33.6%	≤ 25%	≤ 50%
	95.6%		88.7%		≥ 60%	
Minimum proportion of the fixed interest rate ¹¹ in the central government debt portfolio	4.47		4.96		4.70 – 6.25 ¹²	
Average weighted fixed period of interest rates, in years	4.47		4.96		4.70 – 6.25 ¹²	
Currency structure of net debt	EUR 100.01%		EUR 100.44%		EUR 100% (+/- 5%)	

⁹ The amount of securities in circulation which were issued under Latvian law.

¹⁰ A derogation is acceptable when carrying out negative net issues within the current year if it is compensated in the required amount when planning the amounts to be borrowed on the domestic market in the next year.

¹¹ Central government debt with a fixed interest rate with a remaining maturity term, which is longer than one year.

¹² Starting with 31 October 2016, the average weighted fixed period of interest rates in years in the Central Government Debt Management Strategy is set at 4.70 – 6.25 instead of the previous 3.65 – 5.15 corridor.

Activities of the Treasury in 2016

2. Central Government Debt Management

2.5. State-Issued Guarantees

State guarantees are issued:

- 1) for obligations that are assumed for making investments by capital companies where the State or local government share of the fixed capital exceeds 50%;
- 2) for obligations that are assumed to ensure financing for business support programmes that are approved by regulatory enactments;
- 3) for ensuring the study and student loan programme.

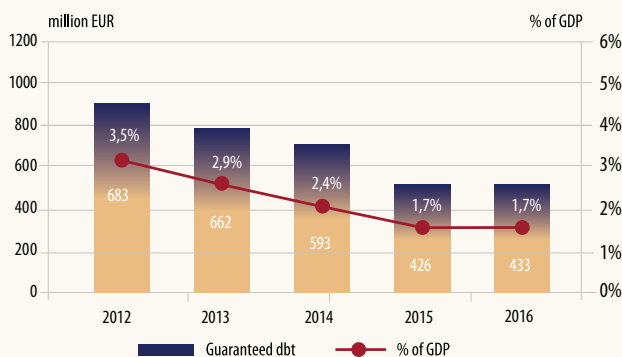
The annual State Budget Law foresees the state guarantees to be issued according to the maximum permissible limit of guarantees, which is determined according to the fiscal risk assessment, as well as the assessment of ministries regarding the necessity of the respective project to be implemented and the impact thereof on the central government budget and development of the national economy.

The assessment and management of the fiscal risks of fulfilling the liabilities of guarantees, as well as the planning, issuing and monitoring process of guarantees is prescribed by Cabinet Regulation No. 391 of 8 July 2014 "Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State are Included in the Draft Annual State Budget Law and Guarantees are Issued and Supervised". In accordance with the annual State Budget Law, the decision on issuing or not issuing state guarantees is made by the Cabinet.

In 2016, state-issued guarantees totalling EUR 8.2 million were issued solely in respect of study and student loans, which is less than the amount of state-issued guarantees for study and student loans (EUR 35.9 million) prescribed in the Law on the State Budget for 2016.

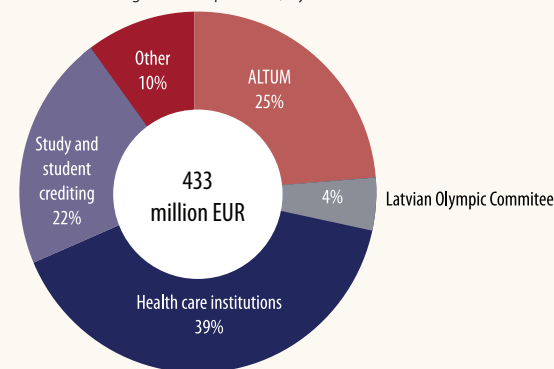
The state guaranteed debt outstanding at the end of 2016 amounted to EUR 432.9 million, which was EUR 6.6 million more than at the end of 2015.

Figure 14.
State Guaranteed Debt Outstanding, million EUR



The largest share of the state-issued guarantee portfolio by borrower was formed by state-issued guarantees for the obligations assumed by health care institutions (39%), state-issued guarantees for ensuring the study and student loan programme (22%), and for the obligations of the state joint-stock company *Attīstības finanšu institūcija Altum* for the implementation of state support programmes (25%).

Figure 15.
State-issued guarantee portfolio, by borrower on 31.12.2016



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

Result formulation	Performance indicators	Numeric values of performance indicators in 2016	
		Projected	Implemented
1. The investor base has been widened and diversified.	1. The amount of resources raised from new investors through issuing securities in international financial markets during the year (the share of securities purchased by new investors in primary issues in terms of the total amount of annual issue).	5	8
2. Loans of the international borrowing programme have been refinanced on more favourable terms.	2. Conformity of Latvia's government borrowing rate level to the benchmark rate ¹³ (%).	Not higher than the benchmark: 10.05.2016. issue benchmark 1.891% 30.09.2016. issue benchmark 0.890%	10.05.2016. issue rate 1.514% 30.09.2016. issue rate 0.456%
3. The government securities remained on offer to operators in the domestic financial market.	3. The amount of domestic debt securities included in the turnover at the end of the year at nominal value (in EUR million).	Not lower than at the end of the previous year (EUR 1,046.55 million)	EUR 1 060.76 million ¹⁴

¹³ According to the Central Government Debt Management Strategy, a derogation is acceptable when carrying out negative net issues within the current year if it is compensated in the required amount when planning the amounts to be borrowed on the domestic market in the next year.

¹⁴ According to the Central Government Debt Management Strategy, a derogation is acceptable when carrying out negative net issues within the current year if it is compensated in the required amount when planning the amounts to be borrowed on the domestic market in the next year.

Activities of the Treasury in 2016

2. Central Government Debt Management

2.7. Assessment of the Application of the Operational Strategy of the Treasury for 2014–2016 in the Management of Central Government Debt

Strategic objective of central government debt management: “To secure the necessary funding for meeting financing needs with more favourable terms, through limiting financial risks and taking into account Latvia’s macroeconomic development and integration of the financial market in the common financial market of the eurozone, as well as to ensure the implementation of a state guarantee process” has been attained to the degree prescribed for 2014–2016 (in terms of the tasks/performance targets defined).

The achievement of strategic tasks was facilitated by:

- 1) development of the national economy, fiscal policy, Latvia’s accession to the eurozone and the Organisation for Economic Co-operation and Development (OECD);
- 2) raising of the state’s credit rating and its stable position in the “A” credit rating group;
- 3) favourable situation for borrowing transactions on the financial markets, various possibilities with borrowing instruments, diversified base of government security investors enlarged with every issue;
- 4) available personnel, competence and experience in central government debt management, loyalty, interest, motivation;
- 5) modern solutions of information technologies, functionality, stability, integrity and security of information systems;
- 6) implementation and efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The complete achievement of certain results was prevented because:

- 1) a burden on the efficient management of human resources (remuneration policy of public administration institutions cannot compete with remuneration in similar fields in the financial and private sector), including the continuity of specific knowledge, increased workload;
- 2) the impact of political and external factors on the achievement of the objectives set and the performance of functions: uncertainty or potential shocks in financial

markets due to foreign policy risks, increase in the possibility of current geopolitical risks escalating and new ones arising, as well as growing unpredictability on the financial market.

Fulfilment of strategic targets set for the management of central government debt in 2014–2016:

- 1) By regularly monitoring and assessing the fluctuations on the global financial markets, financial resources for financing the implementation of the central government budget and refinancing the central government debt have been secured in time, observing the terms set in the Central Government Debt Management Strategy. Central government borrowing has been organised on the domestic and international financial markets by raising the largest share of resources through issues of bonds at a benchmark amount on international financial markets, fixing the borrowing rates at historically lowest levels, and borrowing for the longest terms possible. Through avoiding any significant risks, the options offered by the financial market, and the borrowing strategy selected made enabled reducing the costs of government debt servicing in the medium and long term by refinancing the loans of the international borrowing programme with favourable terms.
- 2) A regular supply of government securities has been ensured for the institutional investors of the domestic financial market, and households have been ensured with a supply of savings bonds, thus facilitating the functioning and development of the domestic financial market. By implementing and strengthening the Primary Dealer System, the initial placement process of government securities has been improved, thus promoting stable and high demand for government securities.
- 3) By making efficient use of the unique situation on the financial market and capitalising on the benefits of differences in Latvia’s security credit risk premium in euros and US dollars, partial refinancing of the bonds issued in US dollars with new Eurobonds with similar terms was carried out in December 2015. By carrying out these operative measures at such a convenient time, it was possible to significantly decrease the costs of central government debt servicing in the medium term, and the carried out set of transactions has been noted internationally as the

first central government debt refinancing transaction of its kind in Central and Eastern Europe, serving as an example for other states when carrying out similar transactions.

- 4) Additional borrowing and other financial transaction options have been ensured by concluding a loan agreement with the European Investment Bank in March 2015 and by maintaining discussions with the Council of Europe Development Bank and other partners on cooperation options in other types of transactions within the framework of central government debt management.
- 5) The diversification and expansion of the range of government security investors has been ensured through regular and continuous dialogue and long-term work with the investor community and cooperation partners, thus facilitating the active participation and competition of investors from various global regions in the primary placement of external government debt securities in international markets.
- 6) In order to facilitate the advancement of Latvia’s credit rating into the “A” group and to ensure its stable position within it, active work with international rating agencies has been carried out by ensuring the provision of a single and coordinated opinion regarding the situation in Latvia within the process of credit rating calculation.
- 7) The issuing and monitoring process of state-issued guarantees has been improved by reviewing the regulatory framework according to the principles of providing quality and efficient services, and improvements have been made to the principles for carrying out guarantee accounting and reflecting thereof in financial statements.

With the period of the Operational Strategy of the Treasury for 2014–2016 coming to a close and having evaluated the results of its implementation and the degree of attainment of the strategic objectives and tasks, in view of the regulatory framework and factors the Treasury has defined new performance indicator values for the attainment of the strategic objective of the next strategic planning period (2017–2019), and has set forth the following tasks:

- 1) continuously improving the management of investor relations;
- 2) improving the liquidity of government securities.



Activities of the Treasury in 2016

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 liquidity requirements and limiting financial risks.

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

In order to ensure compliance with the cash management principles set forth in the Treasury's Cash Management Strategy and the achievement of objectives, the following priorities have been set for cash management in the medium term:

- 1) to maintain and develop long-term partnerships with the operators of domestic and international financial markets (counter-parties) with a view to broadening the options for investing cash resources and short-term borrowing, as well as securing the information required for financial decision-making at both ends;
- 2) to ensure the compliance of the cash management process with the best financial market practices, by observing the basic principles of financially effective and secure cash placement, considering the ensuring of liquidity and limiting financial risks as the most significant ones.

According to the regulations of the Cabinet, the Treasury organises the government lending process by ensuring that state loans are granted in accordance with the concluded loan agreements, as well as by monitoring the financial position of the recipients of state loans and monitoring the repayment of state loans.

Priorities for state loan management in the medium term:

- 1) to ensure a transparent and effective state loan management process;
- 2) to ensure the quality of client service and client satisfaction with the government lending process.

3.2. Cash Management

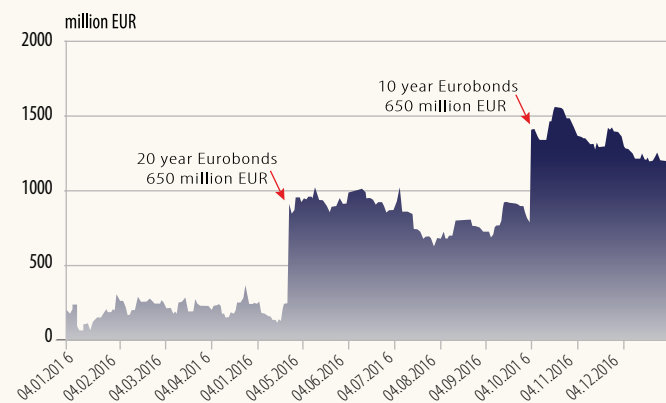
In 2016, the cash and liquidity management process was led in non-standard financial market conditions, when the possibilities for short-term cash placement (including in balances of accounts) with positive profitability became very limited, and with short-term borrowing possibilities with a negative interest rate being present at the same time. The situation in the financial market was strongly influenced by the decisions made by the Council of the European Central Bank regarding the application of a negative rate to the Eurosystem investment possibilities, in the amount of minus 0.20% from 5 June 2014 and minus 0.30% from 9 December 2015, and minus 0.40% from 16 March 2016, as well as with the asset securities (including central government debt securities) purchase programme realised by the European Central Bank from March 2015.

With the possibility to raise short-term funds with negative interest rates in order to ensure cash and liquidity management as efficiently as possible being present, in 2016 the Treasury implemented a new short-term borrowing instrument – T-bills with a maturity term of 21 days, which, owing to the negative rates, are issued as required with a premium and mature within a month – and used the option to carry out short-term borrowing from domestic and foreign credit institutions within the framework of liquidity management. The use of short-term borrowing instruments is precisely coordinated with the cycle of implementation of the central government budget within the respective month, allowing the raised resources to be used exactly when necessary. It is permissible to simultaneously carry out cash placement and borrowing within the framework of cash management in order to ensure liquidity if such is financially advantageous from the overall perspective of cash management.

With the aim to ensure efficient cash and liquidity management, the balance of liquid funds in the Treasury's accounts was kept as low as possible until May 2016 and short-term borrowing instruments (21-day T-bills and short-term borrowing from domestic and foreign credit institutions) with negative rates were used for liquidity management. As a result of the Eurobond issues carried out in May and October 2016 according to the borrowing strategy, there was a significant increase in the amount of resources in the Treasury's accounts, and the raised funds were placed in deposits, balances of accounts and invested in fixed income securities.

Figure 15.

Liquid resources at the disposal of the Treasury in 2016, million EUR



In 2016, interest income for deposits and account balances in the general government budget amounted to EUR 16.4 million or 108% of the amount prescribed (EUR 15.2 million) by the Law on the State Budget for 2016.

In 2016, within the framework of the support process for ensuring liquidity, AS *Reverta* repaid all interest on bonds in the amount of EUR 16.64 million and redeemed the government support bonds of EUR 40.02 million. At the end of 2016, the value of AS *Reverta* closed issues was EUR 384.63 million. There were no investments into the share capital of AS *Reverta* in 2016.

Activities of the Treasury in 2016

3. Cash and State Loan Management

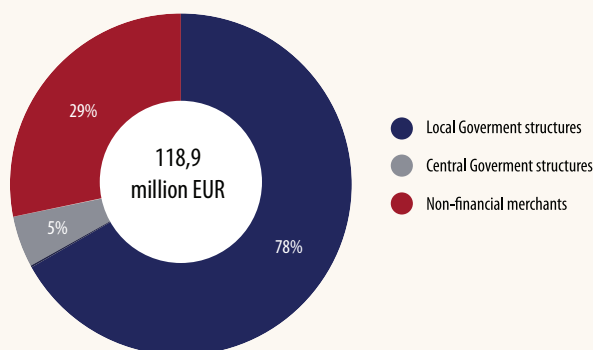
3.3. State Loan Management

The range of recipients of state loans¹⁵ is defined in Section 36 of the Law on Budget and Financial Management. In turn, the annual State Budget Law for the current year prescribes the state loan limit, defining the amount in which state loans may be issued during the respective year, by separately dividing the limit for local government loans. The total state loan limit is formed by the amount prescribed in the annual State Budget Law, to which the state loan repayments made in the respective year have been added (loan repayments in the central government general budget are planned in accordance with the terms and amount set in the loan agreement).

According to the Cabinet Regulation No. 363 "Procedure by which Sectoral Ministries or Other Central Government Institutions Include State Loan Requests in the Annual State Budget Draft Law, and Procedure According to which State Loans are Granted and Serviced" of 30 June 2015, the Treasury grants and services state loans, and, if necessary, carries out measures for ensuring the proper performance of state loan commitments.

By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the loan portfolio, the Treasury provided suggestions to the Minister of Finance regarding future actions for the supervision of the loan portfolio. In 2016, the overall increase of state loans in the annual state budget was set at EUR 361.4 million, including the overall increase of local government loans in the amount of EUR 118.1 million. The total amount of state loans to be issued in 2016 was foreseen to be EUR 468.1 million, which included the overall increase in state loans stipulated in the annual State Budget Law and the 2016 repayments of state loans issued in the previous years.

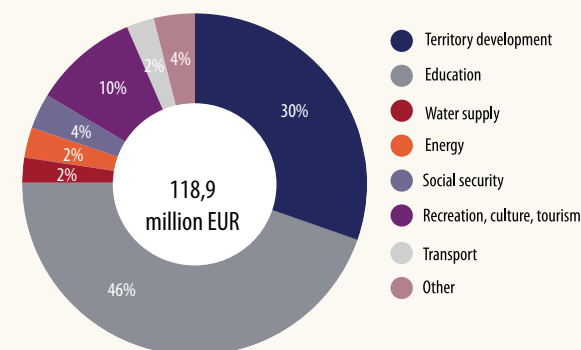
Figure 17.
Recipients of state loans issued in 2016¹⁶



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

In 2016, the largest share of state loans – EUR 118.9 million of the total amount of state-issued loans – was issued to local governments and entities managed and funded by local government bodies, including for the implementation of projects co-financed by the EU – EUR 8.7 million, and for local government investments – EUR 109.2 million, and for budgetary and financial management – EUR 1.0 million.

Figure 18.
State loans issued in 2016, by purpose



3.3.2. State Loans to Central Government Bodies

State loans in the amount of EUR 9.4 million or 5% of the total amount were granted to an economic operator controlled and financed by public bodies – state joint-stock company *Latvijas Attīstības finanšu institūcija Altum* – for the implementation of state aid programmes.

¹⁵ Pursuant to the Law on Budget and Financial Management, state loans may be granted to local governments, special state budget discharge bodies, capital companies where the state or local government share of the fixed capital, separately or combined, exceeds 50%, and to capital companies established by several local governments where the combined share of the fixed capital owned by local governments exceeds 65%, as well as to scientific institutes and higher education establishments, which have been granted the status of a derived public person, and port authorities.

¹⁶ Classification of recipients of state loans according to the Cabinet Regulation No. 1456 of 10 December 2013 "Regulations on the Classification of Institutional Sectors".

Activities of the Treasury in 2016

3. Cash and State Loan Management

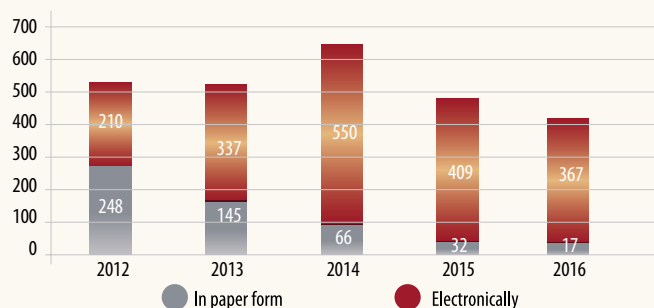
3.3.3. State Loans to Non-Financial Entities

State loans of EUR 51.6 million or 29% of the total amount were issued to non-financial entities, including:

- 1) a loan of EUR 1.6 million to capital companies entirely owned by a local government for the implementation of EU co-financed projects for the reconstruction of water supply and heating systems;
- 2) a loan of EUR 50.0 million to AS Air Baltic Corporation for the financing of its fleet.

According to decisions of the Cabinet and the Operational Strategy of the Treasury, state loan agreements are concluded electronically, thus saving time and financial resources. In 2016, 86.4% of the total amount of concluded state loan agreements and agreement protocols were concluded electronically, therefore the performance indicator of the Operational Strategy of the Treasury ($\geq 80\%$) was achieved.

Figure 19.
Number of agreements concluded with local governments, by years



In 2016, 100% of financial resources raised by local governments in the form of loans came from the Treasury, which indicates that the Treasury ensures financially favourable conditions.

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

Table 4

Performance indicators of the operational targets for cash and loan management

Result formulation	Performance indicators	Numeric values of performance indicators in 2016	
		Projected	Implemented
1. Secure and maximally effective cash management consistent with the best financial 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	108
2. A methodologically transparent, effective and operative process of planning, issuing and monitoring of state loans that is consistent with the best market practices and serves the national interests has been ensured.	2.1. Satisfaction with the quality of the services received (percentage of surveyed clients).	≥ 75	~ 17
	2.2. 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)).	≥ 85	86.4

¹⁷ 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 satisfactions and needs of a particular client segment are carried out.

Activities of the Treasury in 2016

3. Cash and State Loan Management

3.5. Assessment of the Application of the Operational Strategy of the Treasury for 2014–2016 in the Cash and State Loan Management

Strategic objective of cash and state loan management: “To ensure the financially effective and reliable management of cash resources by limiting and monitoring financial risks, providing timely and full availability of cash resources to meet the government’s financial commitments, as well as to implement a government lending policy in line with the national interests” has been attained to the degree prescribed for 2014–2016 (in terms of the tasks/performance targets defined).

The achievement of strategic tasks was facilitated by:

- 1) development of the national economy, fiscal policy, Latvia’s accession to the eurozone;
- 2) raising of the state’s credit rating and its stable position in the “A” credit rating group;
- 3) the non-standard situation that formed on the financial markets as a result of the measures carried out by the European Central Bank, with short-term borrowing options with negative rates being present;
- 4) the volume of financing available for the implementation of functions and development of the services provided;
- 5) available personnel, competence and experience in cash and state loan management, loyalty, interest, motivation;
- 6) modern solutions of information technologies, functionality, stability, integrity and security of information systems;
- 7) implementation and efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The complete achievement of certain results was prevented because:

- 1) the non-standard situation that formed on the financial markets as a result of the measures carried out by the European Central Bank, with limited options for short-term cash placement (including in balances of accounts) with positive profitability being present;

- 2) a burden on the efficient management of human resources (the remuneration policy of public administration institutions cannot compete with remuneration in similar fields in the financial and private sector), including the continuity of specific knowledge, increased workload.

Fulfilment of the strategic targets set for cash and state loan management in 2014–2016:

- 1) The cash management process has been ensured in compliance with the best financial market practices, by observing the basic principles of financially effective and secure cash management. The targets set forth in the Treasury’s Cash Management Strategy have been achieved in non-standard financial market conditions: liquidity has been ensured in time, financial risks have been limited and investment transactions have been carried out with financial terms that are as favourable as possible. A new borrowing instrument – 21-day T-bills, the issue and maturity terms of which are specifically coordinated with the cycle of implementation of the central government budget within the respective month, allowing the raised resources to be used exactly when necessary – has been introduced to optimise the liquidity management process.
- 2) The planning, issuance and servicing process of state loans has been improved and ensured in accordance with the best market practices, as well as the principles of quality and effective service provision, by incorporating suggestions of the Treasury in regulatory enactments, thus ensuring a more efficient state loan planning and issuance process. Principles for the accounting of savings and the indication thereof in financial statements have been improved. Assessment and supervision of the quality of the loan portfolio has been ensured by providing suggestions to the Minister of Finance regarding future actions for the supervision of the loan portfolio.

With the period of the Operational Strategy of the Treasury for 2014–2016 coming to a close and having evaluated the results of its implementation and the degree of attainment of the strategic objectives and tasks, in view of the regulatory framework and factors the Treasury has defined new performance indicator values for the attainment of the strategic objective of the next strategic planning period (2017–2019), and has set forth the following tasks:

- 1) improving the cash management process and extending the range of instruments used by observing the principles of secure and financially effective cash management;
- 2) ensuring an efficient state loan issuance and servicing process, as well as a service corresponding with the best market practice.



Activities of the Treasury in 2016

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

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.

Figure 20.
Implementation of the Functions of the Paying and Certifying Authority of EU funds and foreign financial assistance

2007-2013 Programming Period of EU Funds



IEGULDĪJUMS TAVĀ NĀKOTNĒ!

- Carries out payments to the receivers of the financing of EU Structural Funds and the Cohesion Fund;
- ensures accounting of the received and paid funds;
- certifies the expenses carried out and receives refunds in the central government budget;

2014-2020 Programming Period of EU Funds



INVESTING IN YOUR FUTURE

- ensures accounting of the received and paid funds;
- certifies the expenses carried out and receives refunds in the central government budget.

4.2. Functions of the Certifying and Paying Authority in the 2007-2013 Programming Period

According to the requirements prescribed by the regulatory enactments of the European Commission¹⁸ (hereinafter – Regulation No. 1083/2006), the end date of eligibility of expenditures of the 2007–2013 Programming Period was 31 December 2015. In order to ensure that resources are used to the maximum extent, amendments were introduced in the Cabinet Regulation No. 1041¹⁹, by extending the term for payment requests to be submitted in payment institutions.

European Economic Area/ Norwegian financial instrument



- Submits the approved interim financial statements and the final reports of the programme to the Financial Mechanism Office;
- summarises and submits expenditure forecasts to the Financial Mechanism Office;
- ensures accounting of the received and used funds of financial instruments;
- provides information regarding interest accrued with the framework of financial instruments to the Financial Mechanism Office;
- monitors the repayment of unused funds or ineligible expenditures to the Financial Mechanism Office.

According to the requirements of the guidelines of the European Commission, in order to facilitate a more efficient closure process of the programme and declare the carried out expenditures in interim expenditure declarations, the Certifying Authority verified nine interim expenditure declarations and submitted them to the European Commission by 30 June 2016, as well as one additional interim expenditure declaration on the 2nd operational programme in the 4th quarter of 2016.

In turn, in order to ensure the requirement of Regulation No. 1083/2006 on the submitting of the final statement of expenditure to the European Commission until

Swiss-Latvian Cooperation Programme



LATVIJAS-ŠVEICES SADARBĪBAS PROGRAMMA LATVIAN-SWISS COOPERATION PROGRAMME

- 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 regulatory enactments, approves and submits them to the competent Swiss authorities;
- makes payments after receiving co-financing from the Swiss Confederation;
- ensures the repayment of unused funds or ineligible expenditure to the Swiss Confederation

¹⁸ Council Regulation (EC) No. 1083/2006 of 11 July, 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999.

¹⁹ Cabinet Regulation No. 1041 of 09.11.2010 "Procedures by which Resources in the State Budget are Intended for the Implementation of Projects Co-financed by European Union Structural Funds and the Cohesion Fund, as well as Procedures for the Making of Payments and Preparation of Statement of Expenditure".

Activities of the Treasury in 2016

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

31 March 2017, drafts of the final statements of expenditure were submitted to the Audit Authority on 30 September 2016, receiving a positive opinion from the Audit Authority. The expenditure declared in the drafts of the final statements of expenditure exceeds the financing from EU funds (declared overcommitments), therefore Latvia has fulfilled the prerequisites to receive financing from EU funds in full amount.

The closure process of the period is also overseen by the European Commission, in order to ensure the Member State's readiness for the respective process; the

Table 5

Expenditure Certified to the European Commission and refunds received in 2016 compared to 2015, in EUR thousand

The EU policy instrument	Declared eligible expenditure		Amount requested		Amount received		The sum to be requested (5% of EU appropriation) indicated in the draft of the final statement of expenditure.
	2015	2016	2015	2016	2015	2016	
Operational programme 1 (ESF)	53 678	25 192	0	0	0	0	29 155
Operational programme 2 (ERDF)	159 342	248 380	48 693	0	146 336	0	34 814
Operational programme 3	571 285	676 674	426 179	0	477 042	0	162 553
<i>incl. ERDF</i>	293 761	300 456	231 889	0	233 388	0	85 564
<i>incl. the Cohesion Fund</i>	277 524	376 218	194 290	0	243 654	0	78 989
Total	784 305	950 246	474 872	0	623 378	0	226 522

Source: *The Treasury, MIS of the EU SFCF*²⁰

European Commission carried out audits in the Managing, Certifying and the Audit Authorities over the summer of 2016. No deficiencies were identified in the work of the Certifying Authority.

In 2016, within the framework of EU funds for the 2007–2013 Programming Period the Paying Authority executed 1,961 payment orders. The Paying Authority refunded EUR 312,536 thousand to the beneficiaries from EU fund financing.

The amount requested indicated in Table 5 is "0", as, according to the terms of Regulation No. 1083/2006, the European Commission pays 95% of financing from EU funds as advance and interim payments, whereas the remaining 5% are paid after the approval of the concluding documents of the programme.

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

Over the current programming period, unlike in the 2007–2013 Programming Period, regulatory enactments of the European Commission²¹ (hereinafter – Regulation No. 1303/2013) foresee changes in the reporting mechanism for the expenditure made, determining that applications for payments have to be submitted on the current accounting year, and, as the accounting year concludes, a closing balance of accounts must be submitted.

In 2016, the first expenditures were incurred for the receivers of financing, by verifying the first payment applications and submitting them to the European Commission (for the accounting year from 1 January 2015 to 30 June 2016), as well as receiving the first interim payments from the European Commission in the amount of EUR 41.6 million and regular advances in the amount of EUR 83.1 million.

Latvia was one of the first Member States in which auditors of the European Commission carried out the Early Preventive System Audit (2014–2020), in order to assess the operation of the management and control system developed within the Member State. The draft audit report of the European Commission is still being coordinated, however, no deficiencies were identified in the work of the Treasury as a Certifying Authority.

The Audit Authority also carried out an audit of the efficiency of the process "Preparatory Actions for Payment Applications and Closing Balances of Accounts" formed by EU funds and the Cohesion Fund within the Certifying Authority. During the audit, two insignificant deficiencies were identified, which were prevented in 2016 and overall did not have an impact on the management and control system developed in the Certifying Authority.

²⁰ (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

²¹ (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

Activities of the Treasury in 2016

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

Table 6

Declared expenditures and refunds/ advances received from the European Commission in 2016, thousand EUR

Fund	Total ²² eligible expenditure declared in payment applications	incl. in the 2nd accounting year	incl. in the 3rd accounting year	Payments received from the European Commission	incl. annual advances received from the European Commission for the 2nd accounting year	incl. refunds for the 2nd accounting year	incl. refunds for the 3rd accounting year	Planned balance payment ²³ for the 2nd accounting year
(1)	(2)=(3)+(4)	(3)	(4)	(5)=(6)+(7)	(6)	(7)	(8)	(9)
ESF ²⁴ (incl. YEI ²⁵)	29 891	16 153	13 738	36 352	12 620	12 715	11 017	-11 208
ERAF ²⁶	80 162	925	79 237	106 467	45 144	707	60 616	-45 065
KF ²⁷	106 632	88 502	18 130	106 943	25 369	67 704	13 870	-18 112
Total	216 685	105 580	111 105	249 762	83 133	81 126	85 503	-74 385

Source: *The Treasury, CP MIS* ²⁸

The sums requested differ from the ones received in Table 6, as, according to the terms of Regulation No. 1303/2013, the European Commission carries out payments to the Member States in the amount of 90% from the sum requested, keeping the remaining 10% and paying them only after the approval of the closure of accounts in accordance with the actual amount of eligible expenditure. In cases when a Member State has not used the received amount of the annual advance, the remaining amount of funds must be repaid to the European Commission, however, the repayment does not affect the amount of EU funds granted.

Taking into account the new reporting procedure, the Certifying Authority prepared the first draft closure of accounts and submitted it to the Audit Authority for issuing an opinion.

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

In 2016, as part of the Swiss-Latvian Cooperation Programme, the Paying Authority verified and submitted eight interim and two final refund applications to the competent Swiss authorities for the total amount of CHF 3.77 million, and received CHF 3.84 million with respect to the submitted refund applications (the amount received is larger than that applied for because one of the applications for funding submitted in 2015 was paid for by the competent Swiss authorities in 2016). By the end of 2016, there were seven final reports submitted to the competent Swiss authorities within the scope of the programme, and four projects are still being implemented. Of the appropriation available to Latvia (CHF 56.88 million), 87.7% (CHF 49.86 million) has already been received from the donor state.

In 2016, the Internal Audit Department of the Ministry of Finance and the Internal Audit Department of the Treasury carried out a check-up "On the Administration of the Swiss-Latvian Cooperation Programme: Control of Project Reports and Applications for Funding and Supervision of Projects After the Implementation Thereof"; no deficiencies that could be related to the functions of the Paying Authority were identified in the report.

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

The implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Instrument of the 2009–2014 Programming Period occurred mainly in the form of programmes²⁹, thus ensuring a more efficient implementation of financial instruments. There are seven programmes and a technical assistance project being implemented in Latvia. In 2016, according to the procedure determined in the documents governing its quality management system, the Certifying Authority verified 24 interim reports and submitted them to the Financial Mechanism Office, requesting EUR 21.1 million from the donor states, and received funding in the full amount for the submitted reports.

²² European Union financing, national public financing and private financing

²³ Planned amount of resources to be received from the European Commission/ to be repaid to the European Commission for the 2nd accounting year (the sum is calculated by taking into account the planned amount of expenditure to be included in the closing balance of accounts, the amount of annual advances received, which should have been used over the 2nd accounting year, as well as the refunds received from the European Commission for the 2nd accounting year)

²⁴ European Social Fund

²⁵ Youth Employment Initiative

²⁶ European Regional Development Fund

²⁷ Cohesion Fund

²⁸ Cohesion Policy Funds Management Information System

²⁹ Technical assistance to the recipient country and funding for mutual relations at the national level are implemented as a project.

Activities of the Treasury in 2016

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

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 7

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

Result formulation	Performance indicators	Numeric values of performance indicators in 2016	
		Projected	Implemented
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

4.7. Assessment of the Application of the Operational Strategy of the Treasury for 2014–2016 with respect to the Execution of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance

Strategic objective for the implementation of the functions of the Paying and Certifying Authority of EU funds and foreign financial assistance: “Implementation of the functions of the Paying and Certifying Authority of EU funds and foreign financial assistance, by 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” has been fully attained to the degree prescribed for 2014–2016 (in terms of the tasks/performance targets defined), all requests for funds have been paid out, payments have not been ceased.

Certification of expenses of the new 2014–2020 Programming Period of EU funds has been ensured – the first payment applications have been submitted to the European Commission, and the conclusion of the 2007–2013 Programming Period of EU funds has been secured – draft final expenditure declarations have been submitted to the Audit Authority.

The monitoring and re-certification audits of the quality management system of the Treasury have confirmed that the operations of the Treasury take place in compliance with standard requirements, the quality management system is maintained efficiently and is aimed towards development, and the Treasury actively implements its strategic objectives.

The achievement of strategic tasks was facilitated by:

- 1) experience gained in the implementation of the functions of the Paying and Certifying Authority of EU funds and foreign financial assistance;
- 2) the available amount of funding for ensuring the function;
- 3) availability of personnel resources, competence, loyalty, interest and motivation of personnel;
- 4) modern solutions of information technologies, functionality, stability, integrity and security of information systems;
- 5) efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The complete achievement of certain results was prevented because:

- 1) lack of detailed European Commission guidelines on the 2007–2013 closure process;
- 2) delayed approval of the European Commission guidelines on amounts withdrawn, recovered, to be recovered and irrecoverable amounts, as well as the preparation of reports, which foresaw changes in actions in the case of discrepancies, as compared to the 2007–2013 Programming Period, therefore forming the need to improve the functionality of the Cohesion Policy Funds Management Information System. However, the respective factors have not prevented the overall achievement of results, and the Treasury has submitted the payment applications and closures of accounts to the European Commission, as the identification of problems was carried out in time in order to start work on the improvement of the information system’s functionality.

Activities of the Treasury in 2016

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

Achievement of the strategic results set in the implementation of the functions of the Paying and Certifying Authority of the EU policy instruments in 2014–2016:

- 1) The certified expenditure has been paid in full: the management and control system of the Certifying Authority has been improved by foreseeing that the check-up of expenditure of the 2014–2020 Programming Period is based on risk assessment by ensuring an upper-control for first level checks, thus providing the opportunity to assess the management and control system altogether, not by separate conditions of expenditure eligibility.
- 2) The payment system has been organised with a view to avoiding improperly made expenditure and preventing attempts of fraud: according to the requirements set in regulatory enactments, the documents regulating the quality management system have been prepared, in order to accomplish the performance of the functions of the Paying Authority by ensuring proper operation of the payment system. Measures to be implemented for reducing risks of fraud and corruption have been determined in the Certifying Authority, the implementation of measures has been supervised.
- 3) Document processing has been ensured for a term that is shorter than that foreseen by the regulatory enactments: documents regulating the quality management system have been prepared, in order to ensure the timely processing of payment documents according to the requirements of regulatory enactments, as well as to ensure the possibility of processing payment documents in a shorter term than that prescribed by the regulatory enactments if the payment documents received correspond with the quality criteria set. When processing the payment documents, the causes of risks are studied and the risks are reduced to the maximum extent possible, in order to prevent cases when the payment documents are not processed within the term specified.
- 4) A positive assessment regarding the functionality and security of the system, the fast payments made, accounting, timely and sufficient control, as well as quality reports has been received from external auditors and counter-parties: during the reporting period, the European Commission and Audit Authority carried out several inspections in the Certifying Authority (on the readiness of the institution for the 2007–2013 closure process, a check-up on negative sum accounting, review of the management and control system for the 2014–2020 Programming Period created by the institution). As a result of the inspection, no significant flaws were identified in the operation of the Certifying Authority, reaching the conclusion that the system is working well.

With the period of the Operational Strategy of the Treasury for 2014–2016 coming to a close and having evaluated the results of its implementation and the degree of attainment of the strategic objectives and tasks, as well as in view of the regulatory framework and factors that have had an impact on the activities of the Treasury, the Treasury has defined the following task for the achievement of the strategic objective of the functions of the Paying and Certifying Authority of the EU policy instruments in the next strategic planning period (2017–2019): organising and ensuring the supervision of expenditure reports according to the regulations of the granting institutions and the regulatory enactments of the Republic of Latvia.



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

5.1. Funding of the Treasury and the 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 2016, 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 "Technical Assistance for the Absorption of the European Regional Development Fund (ERDF) (2014–2020)";
- 6) Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism";
- 7) 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 the general central government budget, aimed towards ensuring an effective and economical process of the central government budget implementation and improving the quality of the services provided by the Treasury to bring them in line with the best financial management practices, organising and standardising the performance of the functions of the Paying and Certifying Authority with a view to ensure the 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 the financing needs with more favourable terms, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the Eurozone, to ensure the implementation of a state guarantee process, to ensure a financially effective and secure cash management, by 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, as well as ensure the implementation of a government lending process 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 memberships contributions to international financial organisations and by making 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 are met and the capital shares belonging to the State are accounted for.

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 Budget Loans and Repayments Thereof" is to ensure effective state loan issuing and servicing.

Within the framework of the Sub-Programme "Technical Assistance for the Absorption of the European Regional Development Fund (ERDF) (2014–2020)", the ERDF technical assistance project "Technical Assistance for the Performance of the Functions of the Treasury as a Certifying Authority" has been implemented.

The objective of the project is to ensure the efficient and quality performance of the functions of the Certifying Authority prescribed in the Law On Management of European Union Structural Funds and the Cohesion Fund for the 2014–2020 Programming Period by implementing the action "Supervision of European Union Funds", as well as to ensure the actions under the competence of the institution for the closure of the 2007–2013 Programming Period of EU funds by implementing the action "Ensuring Follow-Ups on the 2007–2013 Programming Period of EU Funds".

The 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 prescribed by 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 99% of the lower limit of the non-equable financing needs.



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 8
Central government budget financing and spending
(Summary by programme, EUR)

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)	476 217 631	372 179 807	353 679 975
1.1.	grants	472 161 277	368 751 588	349 727 960
1.2.	chargeable services and other own revenues	4 009 554	3 381 419	3 905 215
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	430 718 630	326 908 535	307 907 320
2.1.	maintenance costs (total)	430 263 502	326 394 721	307 395 778
2.1.1.	running costs	8 745 694	11 319 829	9 770 522
2.1.2.	interest expense	384 856 354	278 340 487	260 992 921
2.1.3.	subsidies, grants and social benefits	52 058	125 426	49 635
2.1.4.	regular payments into the European Community budget and international cooperation	170 578	129 596	117 906
2.1.5.	maintenance cost transfers	36 438 818	36 479 383	36 464 794
2.2.	expenditure for capital investments	455 128	513 814	511 542
3.	Financial balance	-45 499 001	45 271 272	45 772 655
4.	Financing	-45 499 001	-45 271 272	-45 772 655
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	387 298	1 381 253	819 018
4.2.	Shares and other holdings in the equity of economic operators	-45 886 299	-46 652 525	-46 591 673



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 9
Central government budget financing and
spending for the general budget Programme
“Central Government Budget Implementation and Central
Government Debt Management” (EUR)

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)	393 559 467	288 630 343	270 299 002
1.1.	grants	389 503 113	285 202 124	266 346 987
1.2.	chargeable services and other own revenues	4 009 554	3 381 419	3 905 215
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	393 946 765	290 011 596	271 118 020
2.1.	maintenance costs (total)	393 491 637	289 497 782	270 606 478
2.1.1.	running costs	8 635 283	11 157 295	9 613 557
2.1.2.	interest expense	384 856 354	278 340 487	260 992 921
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	455 128	513 814	511 542
3.	Financial balance	-387 298	-1 381 253	-819 018
4.	Financing	387 298	1 381 253	819 018
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	387 298	1 381 253	819 018



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 10
Central government budget financing and
spending for the general budget Sub-Programme
"Central Government Budget Implementation" (EUR)

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)	6 254 969	5 926 319	6 449 087
1.1.	grants	2 245 415	2 544 900	2 543 872
1.2.	chargeable services and other own revenues	4 009 554	3 381 419	3 905 215
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	6 642 267	7 307 572	7 268 105
2.1.	maintenance costs (total)	6 187 139	6 793 758	6 756 563
2.1.1.	running costs	6 187 139	6 793 758	6 756 563
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	455 128	513 814	511 542
3.	Financial balance	-387 298	-1 381 253	-819 018
4.	Financing	387 298	1 381 253	819 018
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	387 298	1 381 253	819 018



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 11
Central government budget financing and
spending for the general budget Sub-Programme
“Central Government Debt Management” (EUR)

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)	387 304 498	282 704 024	263 849 915
1.1.	grants	387 257 698	282 657 224	263 803 115
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46 800	46 800	46 800
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	387 304 498	282 704 024	263 849 915
2.1.	maintenance costs (total)	387 304 498	282 704 024	263 849 915
2.1.1.	running costs	2 448 144	4 363 537	2 856 994
2.1.2.	interest expense	384 856 354	278 340 487	260 992 921
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 12
Central government budget financing and
spending for the general budget Sub-Programme
“Contributions to International Organisations” (EUR)

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)	46 006 877	46 782 121	46 709 579
1.1.	grants	46 006 877	46 782 121	46 709 579
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	120 578	129 596	117 906
2.1.	maintenance costs (total)	120 578	129 596	117 906
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	120 578	129 596	117 906
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
3.	Financial balance	45 886 299	46 652 525	46 591 673
4.	Financing	-45 886 299	-46 652 525	-46 591 673
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-45 886 299	-46 652 525	-46 591 673



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 13
Central government budget financing and
spending for the general budget Sub-Programme
“Compensation to Rehabilitated Citizens” (EUR)

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)	52 058	125 426	49 635
1.1.	grants	52 058	125 426	49 635
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	52 058	125 426	49 635
2.1.	maintenance costs (total)	52 058	125 426	49 635
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	52 058	125 426	49 635
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 14
Central government budget financing and
spending for the general budget Programme
“Grant to the Local Government Financial Equalisation Fund” (EUR)

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)	36 438 818	36 479 383	36 464 794
1.1.	grants	36 438 818	36 479 383	36 464 794
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	36 438 818	36 479 383	36 464 794
2.1.	maintenance costs (total)	36 438 818	36 479 383	36 464 794
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	36 438 818	36 479 383	36 464 794
2.2.	expenditure for capital investments	-	-	-



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 15
Central government budget financing and
spending for the general budget Sub-Programme
“Technical Assistance for the Absorption of the European Regional
Development Fund (ERDF) (2014–2020)” (EUR)

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)	-	146 334	141 068
1.1.	grants	-	146 334	141 068
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	-	146 334	141 068
2.1.	maintenance costs (total)	-	146 334	141 068
2.1.1.	running costs	-	146 334	141 068
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-



Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 16
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) (EUR)

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)	998 789	-	-
1.1.	grants	98 789	-	-
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	98 789	-	-
2.1.	maintenance costs (total)	98 789	-	-
2.1.1.	running costs	98 789	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-



Activities of the Treasury in 2016

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Table 17
Central government financing and
spending for the general budget Sub-Programme
“Technical Assistance for the Absorption of the European Economic
Area Financial Mechanism and the Norwegian Financial Mechanism”
(EUR)

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)	11 622	16 200	15 897
1.1.	grants	11 622	16 200	15 897
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	11 622	16 200	15 897
2.1.	maintenance costs (total)	11 622	16 200	15 897
2.1.1.	running costs	11 622	16 200	15 897
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

Activities of the Treasury in 2016

5. Governance of the Treasury as a Public Administration Institution

Table 18
Central government budget financing and
spending for the general budget Programme
“Use of Funds for Unforeseen Events” (EUR)

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)	50 000	-	-
1.1.	grants	50 000	-	-
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
2.	Expenditure (total)	50 000	-	-
2.1.	maintenance costs (total)	50 000	-	-
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	50 000	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

State Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, a negotiated procedure and a procurement procedure pursuant to Section 8², Paragraph seven of the Public Procurement Law and by applying a procurement procedure pursuant to Section 8² of the Public Procurement Law. For undertaking the procurement, the Treasurer establishes, based on its order, a procurement committee that is competent within the field of procurement in respect of which the contract is being awarded. Procurements are registered and the performance of contracts is monitored in the Centralised Resource Management system Horizon. In 2016, the Treasury undertook 11 procurements (excluding procurements valued under EUR 4,000) and awarded contracts worth EUR 1,282,727, excluding VAT.

Activities of the Treasury in 2016

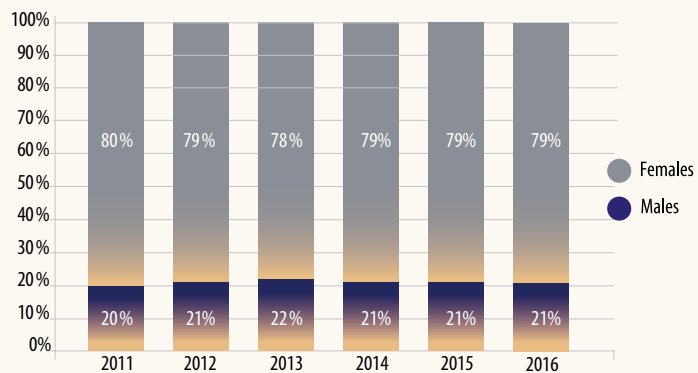
5. Governance of the Treasury as a Public Administration Institution

5.2. Personnel and Personnel Management

There were 191 official positions at the Treasury in 2016: 175 civil service positions and 16 staff positions. In 2016, the average number of employees was 195 (including employees on a long-term leave of absence): 179 civil servants and 16 staff.

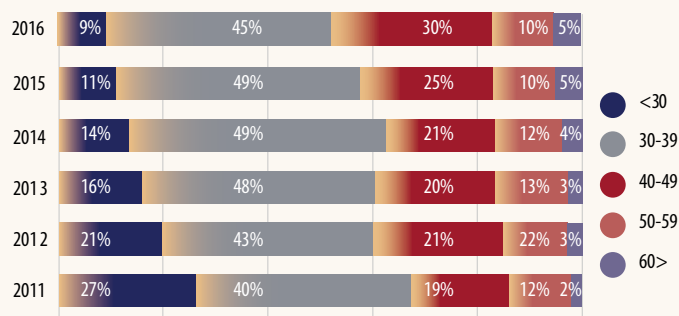
In 2016, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 21 and 22).

Figure 21.
Breakdown of the Treasury personnel by gender, 2011 to 2016 (%)



The Treasury combines functions characteristic of a public administration institution and those of a banking sector operator with a dynamic work environment that is full of new challenges. The Treasury can be characterised by low personnel turnover and long length of service, which speaks of the employees' loyalty to the Treasury as a workplace. In 2016, the percentage of personnel turnover amounted to 5% of total personnel, and it did not change in comparison to 2015 (see Figure 23).

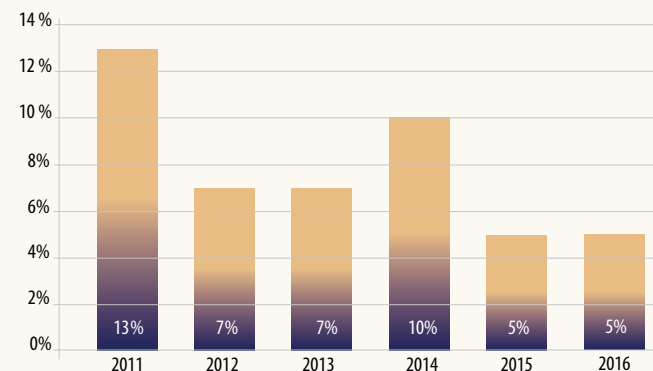
Figure 22.
Breakdown of the Treasury personnel by age, 2011 to 2016 (%)



The greatest asset of the Treasury is its highly educated and professional personnel. 98% of the personnel hold university degrees (of those, 51% hold a master's degree). In order to attract professional personnel, the Treasury cooperates with institutions of higher education and a recruitment agency. With a view to ensuring a professional and impartial personnel selection process, a selection committee has been established; the committee selects the most suitable candidates by using a scoring system and arranging practical tests and interviews in several rounds. During the reporting year, 19 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 with regard to the strategic direction of the institution, the functions of the structural units, and other criteria that justify the need for training for the effective performance of job-related tasks. In organising the training process, the Treasury seeks solutions for the professional development and enhancement of the competencies of its employees, by providing training adjusted for larger groups of the Treasury's employees, as well as offering individual training options.

Figure 23.
Released personnel, 2011 to 2016 (%)



Same as in previous years, training organised by the employees themselves has been of relevance as well: — the training covered areas such as management of information security, opportunities and benefits of Microsoft Outlook schedules, improvement of project management (Microsoft Project for beginners and experts), preparation of annual reports and financial information, and corporate training regarding business etiquette and information security was organised for all employees with the assistance of specialists. Corporate training was also organised on effective communication with clients via phone, effective e-communication in writing, business language and written communication in public administration, as well as explanations of changes in the quality management standard ISO 9001:2015. During the Newcomer Days, employees become acquainted with the functions of the Treasury, its strategic direction, risk management and information security policy, as well as other information necessary for work.



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5.3. Quality, Risk and Information Security Management

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

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

In order to ensure that services provided by the Treasury are of high quality and secure, by giving special attention to the operational stability and reliability of information processing systems one of the Treasury's priorities since 2014 has been information security management. At the beginning of 2016, as the supervisory audit

of the information security management system of the Treasury came to a successful closure, the Treasury was certified according to the requirements of the new international standard LVS ISO/IEC 27001:2013 "Information technology — Security techniques — Information security management systems — Requirements".

In February 2017, the Quality Control and Information Security Management Systems were audited within an integrated management system and commended in particular for their integrity and good management. The Treasury's accounting service and the development thereof using project management methods was assessed for the first time and successfully certified according to internationally recognised quality and information security requirements. The auditors put special emphasis on the professional project management, transparent process approach based on risk control, as well as clear and efficient organisation of information technology management. The methods used for improving client satisfaction and assessing results were also viewed positively.

All of the basic spheres of activity of the Treasury have been certified; The whole sphere of activity of the Treasury has been certified; this includes central government budget implementation, cash and state loan management, implementation of the functions of the paying and certifying authority of the EU funds, and foreign financial assistance.





Activities of the Treasury in 2016

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5.4. Internal Control System

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

The Treasury has established a control environment culture by ensuring that its operations comply with the quality management system and the code of ethics, facilitating the engagement of employees in the improvement of the internal control system. The Treasury has established an organisational structure with clearly defined responsibilities and powers, segregation of duties and reporting procedure.

Risk management and quality management systems are embedded in the daily operations and project management, shifting the control activities of the Treasury from corrective to preventive. The processes of the Treasury and the controls applied in implementing them have been set out in the internal documents governing the quality management system.

The Treasury performs the monitoring of the internal control system by applying the process management approach, measuring the process operation quality criteria,

using the strategic management process, analysing the Treasury's performance, carrying out internal audits, and by implementing the recommendations provided within the scope of internal audits and other assessments with a view to improving the performance of the internal control system.

The results of internal audits performed in 2015, as well as the process of implementation of audit recommendations, attested to the fact that the Treasury's internal control system is functioning well and the assessed controls are generally adequate, sufficient and efficient, providing plentiful assurance that the Treasury's risks are being managed and the institutional objectives are being met.

The internal control system ensures the execution of the defined institutional goals in accordance with the strategic objectives and in compliance with the requirements laid down in the external and internal regulatory enactments and documents.

The Treasury has been continuously improving its processes by adhering to the examples of best practices and the experience of organisations of the financial sector.





Activities of the Treasury in 2016

Public Communication

Measures for Public Information and Education

The main objective of the Treasury's communication is to create and maintain a positive image of the Treasury that is in line with the main objectives of the Treasury in the external and internal environment, by implementing a complex of purposeful, understandable and coordinated communication measures.

Considering the functions delegated to the Treasury, the Treasury's communication focuses primarily on rendering inter-institutional services, informing of clients and other interested parties³⁰, as well as 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 Treasury's 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 questions of interest to the mass media.

In accordance with the Communication Strategy of the Treasury for 2014–2016, the Communication Plan of the Treasury for 2016 has been developed and fulfilled 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, and it is also possible to ask questions and file submissions. Visitors to the website can receive prompt answers to their enquiries, whereas the Treasury has the opportunity to familiarise itself with the issues that are of interest to the clients and interested parties, and, if necessary, prepare more in-depth information to be posted on the website and distributed to the clients and interested parties, as well as identify potential problems and prevent them.

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

A secure investment opportunity has been opened up for Latvian residents – savings bonds, the purpose of which is to provide an opportunity for every Latvian resident to purchase government securities, thus temporarily entrusting their money to the State. The website www.krajobligacijas.lv was created for making purchases of savings bonds, and it provides all of the necessary information and explanations for purchasing savings bonds.

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

It is very important for the services provided by the Treasury to be comprehensible, efficient, convenient and simple, and planned and coordinated communication has to be ensured. This is achieved by analysing the needs of the clients and requirements of the stakeholders, using the options provided by modern information technologies, as well as client-driven servicing principles.

In order to ensure compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, including amendments to normative acts, as well as detailed explanations, thus providing true, comparable and comprehensible information in the Annual Report, the Treasury continued to organise informative seminars for the preparers of the reports in 2016. 89.9% of participants of the Treasury's informative seminars assessed the possibility to receive explanatory information in such a manner positively.

In March 2016, the Treasury organised a survey on the quality of the accounting service provided, receiving only positive feedback from the clients and gaining confidence regarding the fact that the respective service is able to significantly save the time of clients while providing the main functions of the institution, unburdening them from the provision of support functions uncharacteristic of its basic activities, thus ensuring the opportunity to use the financial and personnel resources as efficiently as possible. The clients also underlined the professionalism and high competence of the Treasury's accountants.

The Treasury thanks its clients for their opinion, which is very important to the Treasury. The results of the survey will also be used in the future in order to develop and improve quality and diverse services in accordance with good management and client servicing standards.

³⁰ A person or a group of persons that can have a direct or indirect influence or be influenced as a result of a decision or action of the Treasury.



Activities of the Treasury in 2016

The Treasury's Development Priorities for 2017

- 1) Implementing an accounting centralisation service and a technical solution for personnel management for the institutions included in the pilot project in accordance with uniform basic accounting principles by optimising the use of financial information technologies and human resources.
- 2) Continuing the implementation of the new political initiative "Development of Latvia's Public Sector Accounting Guidelines and their Implementation Manual (2015-2018)" to ensure the harmonisation of the accounting and report preparation requirements of the public sector of Latvia with International Public Sector Accounting Standards.
- 3) Carrying out tasks in the field of accounting and financial reporting, as well as in the implementation of a single tax account, which are delegated in the project of the Ministry of Finance on the implementation of the accrual principle in accounting.
- 4) Implementing development measures of the government security market in the medium term.
- 5) Improving the state loan issuance and servicing policy.

