



Treasury
Republic of Latvia

The Treasury
Public Report
for 2020

2020

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Units of Measurement

EUR – EUR, the official currency unit of the European Union

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Abbreviations Used in the Report

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ERDF	European Regional Development Fund
EU	European Union
EUROSTAT	Statistical Office of the European Union
ESF	European Social Fund
GDP	Gross Domestic Product
CF	Cohesion Fund
LOC	Latvian Olympic Committee
AMLCTPF	Prevention of money laundering and terrorism and proliferation financing
SURE	European temporary support instrument for the mitigation of unemployment risks in an emergency is available for EU Member States that need to mobilise significant financial means to fight the negative economic and social consequences of a Covid-19 outbreak in their territory.

The Treasurer's Statement

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The year 2020 will leave a mark in the history of the Treasury with several significant changes in its work.

With the rapid spread of the Covid-19 virus and the continuation of its pandemic, which caused the global economic decline, the Treasury's task was to provide funding and mobilise long-term resources to support the Latvian economy and measures to mitigate the Covid-19 outbreak during the emergency situation, as well for financing other budgetary needs and fulfilling government debt obligations. The outbreak of Covid-19 and prevention measures had a negative impact on the development of the Latvian economy and fiscal indicator, with a significant increase in the state budget deficit.

In 2020, the Treasury mobilised resources in international financial markets in the amount of EUR 1.550 billion, by issuing two Eurobond issues with interest rates close to zero to cover the total financing need. In order to reduce the impact of borrowing costs on the state budget under current financial market conditions, the Treasury borrowed resources with a relatively short maturity, at the same time without increasing the risk of public debt refinancing in the coming years.

Whereas in the domestic financial market, the Treasury borrowed the largest amount in recent years – 680 million euros, including, by starting auctions of outstanding Latvian Eurobonds traded in the domestic financial market and fixing the historically lowest negative return for the respective term.

To mitigate the effects of the Covid-19 outbreak, loans from international institutions with financially favourable terms were also used, including EUR 250 million from the Nordic Investment Bank and EUR 120 million from the Nordic Investment Bank and EUR 120 million from the European Commission's temporary support instrument for mitigation of unemployment risks in an emergency (SURE).

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In the year 2021 and the coming years, government action will be crucial upon the return to the core principles of fiscal discipline in both the design and implementation of fiscal policy in order to ensure the long-term sustainability of public debt as one of the key factors in retaining a high sovereign credit rating. The sovereign credit rating, which is now at a historic high, is a key precondition for the continued confidence of financial markets and investors in Latvia's creditworthiness, thereby facilitating the quicker recovery of economic growth.

In order to minimise the risks of spread of the Covid-19 infection in the Treasury, while ensuring the performance of Treasury functions and continuity of services, based on regulatory enactments within the scope of Covid-19 infection and consequence management, employees of the Treasury have been performing functions and tasks remotely since March 2020.

In July 2020, based on the development of the sector in the scope of digital transformation, gathered internal and external audit evaluations and proposals, evaluations of best practices for the structural operation of information technologies and evaluations of other organisation structures, with the approval of the Minister of Finance, the Treasury initiated its structural reform, completing it in March 2021. The structural reform will contribute to good management and the efficient use of resources in the development of the Treasury, as well as continue the strategic direction of the Treasury towards innovative and efficient services, using modern technologies and digital transformation opportunities, including strengthening data-driven decision making and process analysis.

In accordance with the progress towards small and efficient public administration and the centralisation of support functions, the Treasury continued to provide and develop accounting services to a number of public budget institutions. In 2020, the centralisation of accounting in the institutional sector of the Ministry of Finance was fully completed, when in

2020 the Treasury also started providing accounting services to the Central and Finance Contracting Agency and the largest sectoral institution – the State Revenue Service. Centralisation of accounting ensures uniform accounting of transactions, facilitating the uniformity of information and quality of data required for management decisions and the preparation of financial statements in accordance with uniform basic principles.

An internal work environment, which is maintained with mutual respect and collegiality, is motivating and involving, and the democratic atmosphere, are the aspects serving as a guarantee that has stood the test of time for the achievement of strategic objectives and quality performance of everyday tasks of the Treasury, also when the team works remotely. The Treasury expresses gratitude to every employee for their professionalism, awareness and interest in the provision, development and enhancement of the institution's processes, providing confidence to the public in the safe and effective governance of public finance.

Treasurer
Kaspars Āboliņš

Riga, 28 April 2021

Legal Status, Structure of the Treasury and Structural Reform

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Legal status

The Treasury is a direct administrative authority under the Ministry of Finance designed to effectively implement the functions of public administration in the area of public financial management. The operations of the Treasury are managed by the Treasurer, who is appointed and removed from office by the Minister of Finance.

The legal status, functions, tasks, competence and rights of the Treasury are stipulated by Cabinet Regulation No. 677 of 3 August 2004 "Regulation of the Treasury".

To ensure unified decision-making, the following committees remained active in 2020:

- 1) Audit Committee;
- 2) Information Systems Change Management Committee;
- 3) Credit Committee;
- 4) Crisis Management Committee;
- 5) Quality and Risk Management Committee;
- 6) Debt Management Committee;
- 7) Resource Liquidity Committee;
- 8) Management Committee;
- 9) Central Government Budget Accounting Committee.

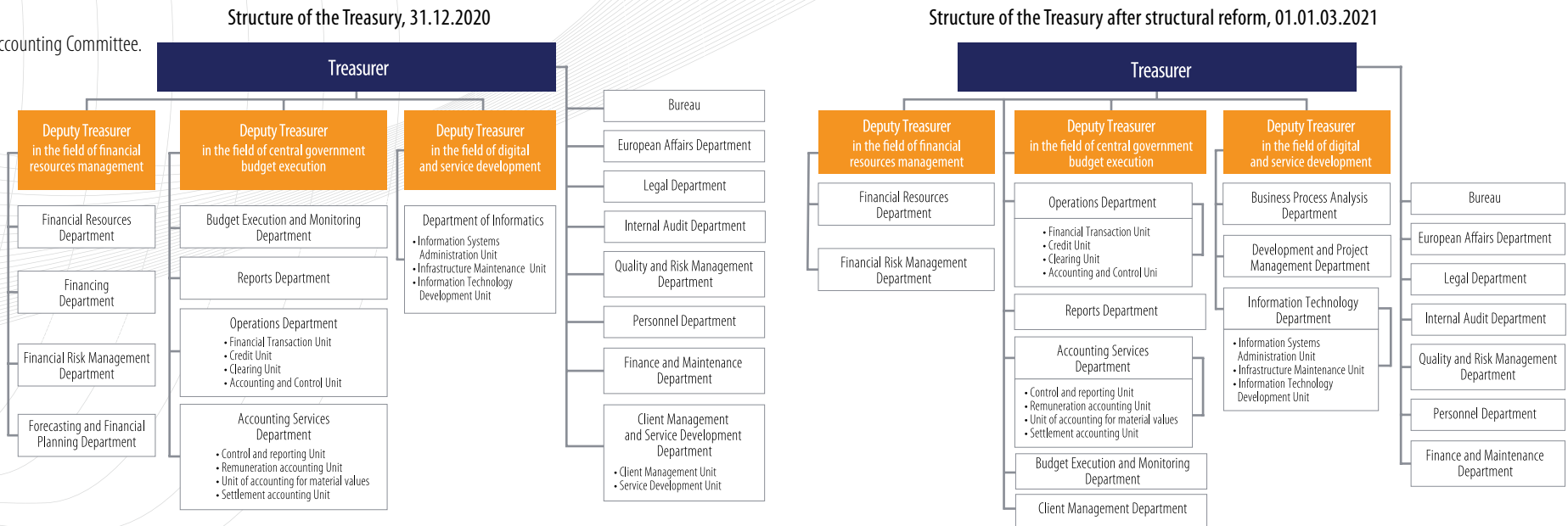
Structure and structural reform

Considering the fact that information systems have a dominating role in the provision of the Treasury's functions, development of services, digitisation of processes and improvement of customer experience play a significant role in the results to be achieved in the Treasury's operational strategy. One of the Treasury's values is development – interest in the latest technologies and innovations, use of good practices and international experience, ability to provide a versatile opinion with a view to the future and strategic priorities, including continuous improvement of the quality and availability of services provided by the Treasury. In order to achieve the goals set in the strategic planning documents at the European and Latvian level, the Treasury needs to strengthen the following areas in its structure:

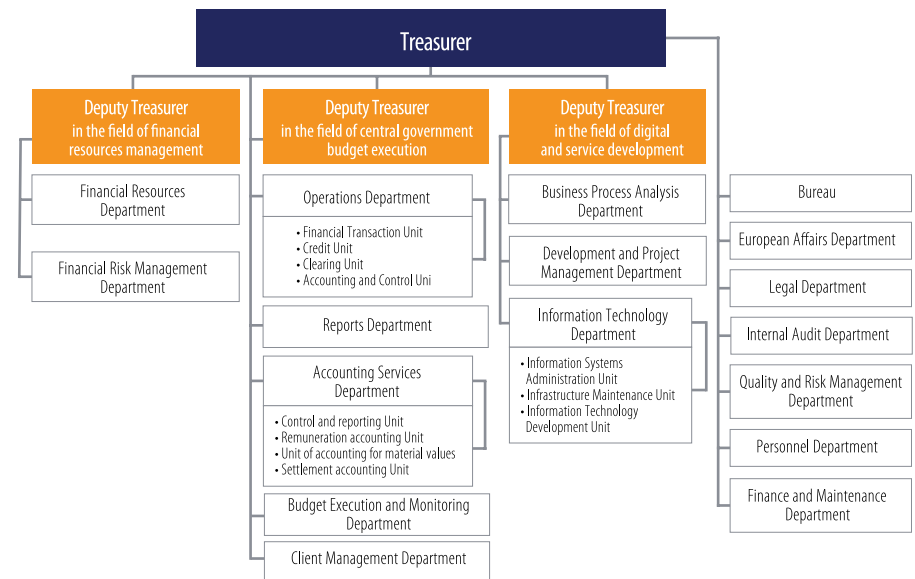
- 1) information technology developments and digital transformation;
- 2) data analysis and process efficiency;
- 3) project portfolio management and benefit management;
- 4) client-orientated unified approach to any of the Treasury services.

In July 2020, based on gathered internal and external audit evaluations and proposals, evaluations of best practices for the structural operation of information technologies and evaluations of other organisation structures, with the approval of the Minister of Finance, the Treasury initiated its structural reform. At the end of 2020, the position of Deputy Treasurer was created in the field of digital and service development and for a successful strategic move towards digitisation and increasing the efficiency of services and processes. Successive changes in the structure of the Treasury within the existing funding and the number of positions were continued. The structural reform was completed on 1 March 2021. The structural reform will contribute to good management and efficient use of resources in the development of the Treasury, as well as continue the strategic direction of the Treasury towards innovative and efficient services, using modern technologies and digital transformation opportunities, including strengthening data-driven process analysis.

Figure 1. Progress of the Treasury's structural reform



Structure of the Treasury after structural reform, 01.01.03.2021



Treasury Operational Strategy

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The operation and strategic course of action of the Treasury has been implemented in accordance with strategic goals and objectives in the field of operation of the Treasury set by the *Operational Strategy of the Treasury for 2020-2022* approved by the Minister for Finance, as well as in line with the functions and tasks defined by the Regulation of the Treasury and the financing planned for the fulfilment thereof.

The overriding strategic goal of the Treasury – sound and effective financial management in the public interest.

Operational directions of the Treasury:

- 1) implementation of the central government general budget, ensuring efficient and economical budget implementation and the compliance of the services provided by the Treasury with the best financial management practices;
- 2) the central government debt and cash management, by ensuring, in a timely manner, the availability of financial resources for covering the funding needs of the central government debt at low service costs in the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market;
- 3) management of the state loans and guarantees, by ensuring the availability of financial resources (incl. long term) for candidates to state loans in the form of a state loan on financially favourable terms through quality service, as well as ensuring state guarantee management process, while limiting the credit risks of state loans and guarantees;
- 4) Implementation of the functions of the Certifying Authority of the EU Funds and Foreign Financial Assistance, by organising and standardising the performance of the functions of Certifying Authority in a manner that ensures compliance with the requirements of the Granting Authorities and laws and regulations of the Republic of Latvia and timely receipt of funds from Granting Authorities, and minimise the acceptable risk of ineligible expenditure being declared;
- 5) accounting and bookkeeping services, in line with the best practice of the EU Member States and decision of Cabinet of Ministers, establishing a single service centre, over the medium term, for the provision of standardised accounting and bookkeeping, and personnel records services to the central government budget institutions, by means of integrated personnel records, accounting and bookkeeping and the budget implementation information system, thus ensuring the effective and rational use of the resources and credible, high-quality and reusable data; issued in international financial markets;
- 6) management of the institution by creating a modern national regulatory authority with professional, innovative, self-development and cooperation-orientated employees in a supportive work environment for achieving the strategic objectives of the Treasury.

Strategic priorities of the Treasury are:

- 1) effective human resources management, encouraging management leadership and employee development at all levels, and their engagement in the achievement of the Treasury's goals, continuously improving the qualifications and digital skills of employees;
- 2) continuous improvement of the quality and accessibility of the services provided by the Treasury through the possibilities provided by information technologies;
- 3) effective administration and monitoring of public financial management processes in the public interest.

Activities of the Treasury in 2020

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1. Implementation of Central Government Budget

1.1. Organisation of the Implementation of the Central Government Budget in 2020

The Treasury, within the scope of the public financial management cycle, organises the implementation of the central government budget, accounting and bookkeeping of the general government and arranges for the accounts of the central government budgetary means.

The Treasury provides the budget implementation services in the form of electronic services (*ePlāni, eTāmes, eKase and ePārskati*): assigns allocations and grants from general revenue, provides payment services, as well as provides institutions administering central government budget payments with information about taxes and duties paid and other central government budget revenues.

The central government budget implementation is organised within the Single Treasury Account, which is recognised in world practice as the most efficient method for ensuring financial management. As of 2021, the accrual principle is introduced in the State Revenue Service's administrative state revenue accounting, according to which accounting transactions and other events are recognised when they occur (and not when cash is received by or paid to the Treasury). With the introduction of the accrual principle, the tax payer has the opportunity to receive correct and understandable information on the tax payment status for each specific selected historical date, as the State Revenue Service administration accounts are accounted for in accordance with generally accepted accounting principles, thus making the tax payment process transparent, perceptible and traceable. Ensuring the fulfilment of the Treasury's competence tasks, the Treasury opened a single tax account at the end of 2020, in cooperation with the State Revenue Service clarified the regulations of the Ministry of Finance regarding the exchange of information between the State Revenue Service and the Treasury, as well as provided changes in the Treasury information systems and adjustment of the central government budget implementation reports.

Granting and Implementing Allocations

In 2020, the process and content of central government budget implementation reports was revised and improved, the transfer of the balance of budget programmes and sub-programmes to the end of the year was improved and automated: Cabinet Regulation No. 714 of 1 December 2020 "Amendments to Cabinet Regulation No. 1220 Adopted 28 December 2010 Procedures for Granting and Implementing Assignations" was issued. Regulation was developed to improve the budget implementation framework: the manual process has been eliminated, the administrative work involved in preparing and processing applications for the transfer of the balance at the end of the year and the automated annual closing process has been reduced. A possibility to present budgetary adjustments for the previous financial year is incorporated in the *ePārskati* system, thus ensuring the quality of budget accounting data and reducing possible deviations from the data of the audited annual report.

In 2020, for ensuring central government budget implementation, the Treasury allocated expenditures worth EUR 10,393.9 million: EUR 7,206.1 million for the basic budget and EUR 3,187.8 million for the special budget. Allocations were granted to 170 state budget institutions.

In 2020, the Treasury opened 2,215 basic budget expenditure accounts. As compared to 2019, the number of accounts increased by 84 accounts due to additional appropriation for Covid-19 restrictive measures from Funds for Unforeseen Events.

Client and Cooperation Partner Analysis

In providing financial services, it is important to receive and analyse information about the clients and cooperation partners, their operation and implemented transactions, at the same time identifying and managing risks related to financial crime. The Treasury controls the provided financial services and enhances the internal control system of the institution in the field of international and national sanctions and AMLCTPF, as well as fraud and corruption, and carries out the supervision of the liabilities and transactions of the clients and partners.

In 2020, the Treasury cooperated with competent authorities, improved internal regulatory enactments, including approved the Treasury guidelines for the provision of services in managing the risks of international and national sanctions of the Republic of Latvia and AMLCTPF, as well as developed internal procedures for processing client questionnaires and monitoring transactions and started the digitisation of processed information – after the conclusion of the procurement "Purchase and maintenance of an automated online payment control tool", installation of the tool in the Treasury infrastructure was started.

Accounting and Reporting

Using the central government budget implementation data and aggregating the accounting data of the central and local government budget institutions, the Treasury prepares monthly and quarterly reports on the central government budget implementation, as well as the Economic Annual Report on the implementation of government budget and local government budgets, audited by the State Audit Office, and the opinion thereof provides assurance for the users as to the completeness and credibility of the information disclosed in the reports. The reports prepared by the Treasury and the reports received from the institution are available on the website of the Treasury.

The Treasury supports the European Commission initiative to improve the quality of accounting data and compliance of the financial reporting with the main principles of international public sector accounting standards to enable the decision-makers, public, investors and international credit rating agencies to receive quality, timely and internationally comparable information (reports) on public finances in line with the best practice. When organising uniform public financial accounting, the Treasury develops the legal framework in the field of accounting and bookkeeping and reporting of the central government and local government budget institutions, by assessing the requirements of the international public sector accounting standards in accordance with the possibilities of Latvia. In 2020, the Treasury revised and the Cabinet of Ministers issued the 30 June 2020 Regulation No. 430 "Procedure for Preparation of Annual Report".

Activities of the Treasury in 2020

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Treasury
Republic of Latvia

1. Implementation of Central Government Budget

Latvia's conformance to the international public sector accounting standards initially (in 2014) was assessed in the amount of 63 % (EUROSTAT). In 2019, the European Commission (EUROSTAT) conducted a repeated study on the level of development of EU Member States' government accounting in accordance with Public Sector Accounting Standards (IPSAS). The study assesses the compliance of the basic principles of Latvian central and local government accounting as 89 %, while the support of related information technologies for the full provision of accrual information – as 91 %. In comparison, the average level in EU Member States is 63 % and 65 %, respectively. These indicators demonstrate that in Latvia the basic principles of public sector accounting are mainly in line with internationally accepted best practice, and with the introduction of the European Public Sector Accounting Standards (EPSAS), Latvia will need smaller changes than the EU average.

Introduction of E-Invoices

Expanding the provision of the accounting and bookkeeping service to the central government budget authorities facilitates the centralisation of the support function of the central government budget authorities, moving towards an integrated budget planning, implementation and accounting and bookkeeping process, the use of standardised and unified bookkeeping principles and unified technical solutions in the country. Use of structured e-invoices will significantly increase the efficiency of the service payment process and create preconditions for its robotisation.

In 2020, the possibility to receive e-invoices in the Treasury was provided: the technical solution configuration was completed (centralised resource management system Horizon integrated with Unifiedpost AS e-invoice platform and e-address), thus ensuring measures for successful e-invoicing. The Treasury is the first institution that has integrated its accounting system, e-address and Unifiedpost AS e-invoicing platform for the flow of e-invoices, with the Treasury successfully receiving the first e-invoice in December 2020.

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

For the purposes of supporting the functions there is a stable, integrated set of national importance information systems created in the Treasury, meeting the safety requirements. Competence for the implementation and maintenance of information systems provides an opportunity to economically manage state resources and rationally use the opportunities provided by information systems. The Treasury develops electronic services on the basis of approved technologies, facilitating the standardised and structured data exchange between

the Treasury and the customer as much as possible, thus ensuring a high level of electronic services and efficient use of data.

To ensure quality e-services, in 2020, the Treasury continued investment for information systems to support them: optimising the processes, taking measures to stabilise, secure and ensure the continuity of operations of the systems, standardise budget execution procedures, reduce the administrative burden for clients and residents.

In 2020, 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 (developed on the basis of SAP software product) ensures a full central government budget management cycle: from budget planning to the implementation thereof, and to implementation monitoring. The Comprehensive Central Government Budget Planning and Implementation Information System has been developed both for the support of planning functions of the Ministry of Finance and for the budget implementation of the central government budget institutions.

In 2020, the necessary SAP HANA licences were identified and purchased, test migration, functionality testing and customisation development were performed.

Unified E-service Portal of the Treasury

In 2020, the modernised e-services portal has been put into service, which provides more convenient user authentication, unified navigation between e-services and a modern design that meets usability requirements. Provision of authentication with electronic identification means supported by Latvija.lv created an opportunity to refuse the use of code cards provided by the Treasury for user authentication, thus facilitating the security of the solution and the wider use of shared ICT services.

ePārskati (eReports)

e-service *ePārskati* is intended 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 mutual administrative and time savings. In 2020, there were 4,200 users registered in the *ePārskati* system on average.

The *ePārskati* solution for the submission, summarising and verification of reports, to ensure supervision and control over the allocation of the central government budget means, was used by eight ministries and central government institutions: Ministry of Finance, Ministry of Education and Science, Ministry of Culture, Ministry of Welfare, Ministry of Transport, Ministry of Environmental Protection and Regional Development, the State Chancellery and the Central Election Commission.

For the purpose of improving the central government budget implementation process a possibility was incorporated in the *ePārskati* system to present budget implementation adjustments for the previous financial year, thus ensuring the quality of budget accounting data and reducing possible deviations from the data of the audited annual report.

ePlāni (ePlans)

Ministries or their subordinate bodies use the e-service *ePlāni* to prepare, approve and submit financing plan projects to the Treasury, based on which the Treasury issues allocations and grants from the general revenue. In 2020, 722 users were registered, and 2,230 basic budget and special budget financing plans were processed in *ePlāni*.

eTāmes (eEstimates)

E-service *eTāmes* ensures a single, centralised environment for all central government budget institutions for entering and signing the estimates of the budgetary programmes, sub-programmes and events. In 2020, 951 users were registered, and 2,230 basic budget and special budget estimates were processed in *eTāmes*.

eAizņēmumi (eLoans)

E-service *eAizņēmumi* ensures the possibility to remotely apply for a state loan, electronically process the loan application and remotely manage the loan, as well as automatic withholding of repayment of the loan principal and interest payments from the client's account with the Treasury. In 2020, 792 users were registered in *eAizņēmumi*.

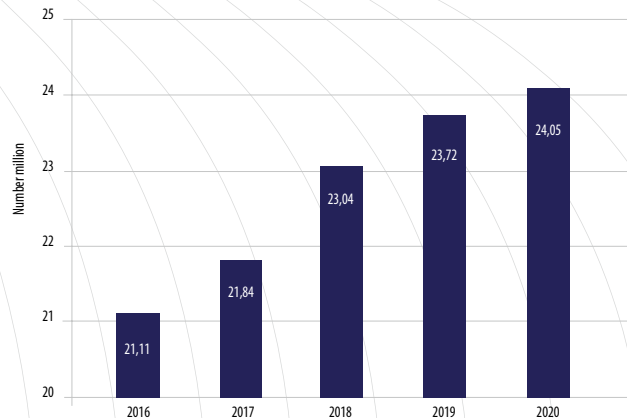
eKase (eTreasury)

The Treasury renders payment services electronically, using the e-Service *eKase* and its Online Data Exchange Module. Within the scope of the service, 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.

Activities of the Treasury in 2020

1. Implementation of Central Government Budget

Figure 2. Number of payments processed in the Treasury (2016-2020)

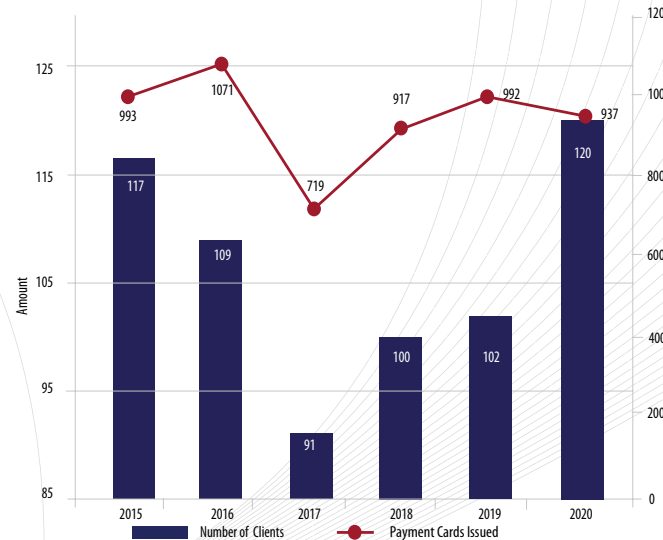


Payment cards tied to the Treasury accounts

In cooperation with *AS Citadele banka*, the Treasury provides the possibility for the central government and local government institutions to perform payments with the payment cards tied to the Treasury accounts. The payment card service is intended for performing business trips, official travel and operating expenses of the employees: the employees of the state budget institutions are provided with the possibility to carry out wire payments during business trips, in line with the requirements of the Law on Budget and Financial Management, prescribing that the expenditures of the central government budget shall be made from the accounts opened in the Treasury.

In 2020, the service of payment cards linked to Treasury accounts was used by 120 institutions, and a total of 937 credit cards were issued to such institutions.

Figure 3. Dynamics of the service of payment cards pegged to Treasury accounts (2015-2020)

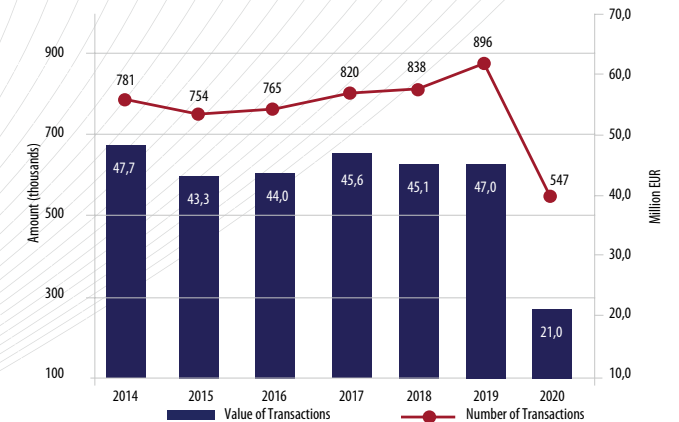


Acceptance of Payment Cards in the Collection of Central Government Budget Payments

The Treasury provides the payment card acceptance service via *AS Citadele banka* to the central government and local government institutions, providing for the possibility to pay for the services provided by the institution, using VISA Electron, MasterCard and Maestro payment cards in a payment card acceptance terminal or another alternative system.

In 2020, the service provided by the Treasury was used by 126 clients of the Treasury. Over the year 2020, 546,675 transactions with a total value of EUR 21,031,016 were made with payment cards at the 1,110 payment card terminals installed at the central government and local government institutions. The decrease in the number of transactions and thus also the amount of transactions in 2020 is related to the national measures taken to control the spread of the Covid-19 infection, as a result of which most public administration institutions switched customer service to remote and the number of on-site payment card transactions decreased significantly.

Figure 4. Dynamics of the payment card (VISA and MasterCard) acceptance service (2014-2020)



1.3. Information on the Use of State Budget Funds for Covid-19 Crisis Prevention Measures

In order to provide transparent and up-to-date information to the public on the use of state budget funds allocated for Covid-19 crisis prevention measures, the Treasury, in cooperation with the State Chancellery, developed a technical solution for reporting. Starting from March 2020, state budget institutions provided timely information on budget implementation in *ePārskati*.

The Treasury prepared guidelines for budget institutions on the presentation of the impact of the Covid-19 crisis in the annual reports of ministries, central government institutions and local governments for 2019 and 2020.

Activities of the Treasury in 2020

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1. Implementation of Central Government Budget

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	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. Uniform budget institution principles of accounting and drawing up financial statements have been developed and approved, and EUROSTAT evaluation has been received.	1.1 Compliance with the guidelines of international and international public sector accounting standards in the field of accounting and annual reporting (%).	88	89
2. The usability and availability of the Treasury's electronic services – <i>eKase, ePlāni, ePārskati, eTāmes</i> – has been modernised.	2.1. Satisfaction with the quality of the electronic services received is not lower than 85% (% of clients surveyed ¹).	Will not be measured	The client survey will be carried out in 2022
3. Submission of service applications has been improved by implementing a structured, electronic application data submission solution.	3.1. Number of incorrectly submitted service applications (% of total applications).	12	18 ²
	3.2. The time required to fill in service applications has been reduced (%).	Will not be measured	Was not measured
	3.3. Average time required to process one service application (minutes) ³ .	25	25
4. SAP ERP database Oracle was changed to HANA.	4.1. SAP ERP production environment data base was migrated to HANA.	Will not be measured	Was not measured

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

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 *Procedures for Accounting, Quality Control and the Provision of Public Administration Services*, in the central government budget implementation the Treasury provides two public administration services to private individuals⁴ – maintenance of accounts and payment service.

Applications from 1, 508 private individuals were received, within the scope of the account maintenance service. Electronic payments of 320,728 private individuals have been received and performed, within the scope of the payment service. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received.

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

² Planned implementation of the performance indicator in 2020 was not achieved, because, when evaluating and determining the priority development measures for 2020, the improvement of the submission of service applications was postponed to 2022.

³ Measurement was performed for the processing of the electronic service applications.

⁴ Legal entity of private law (associations, foundations, religious organisations, commercial companies and other legal entities of private law, having an account opened in the Treasury).

Activities of the Treasury in 2020

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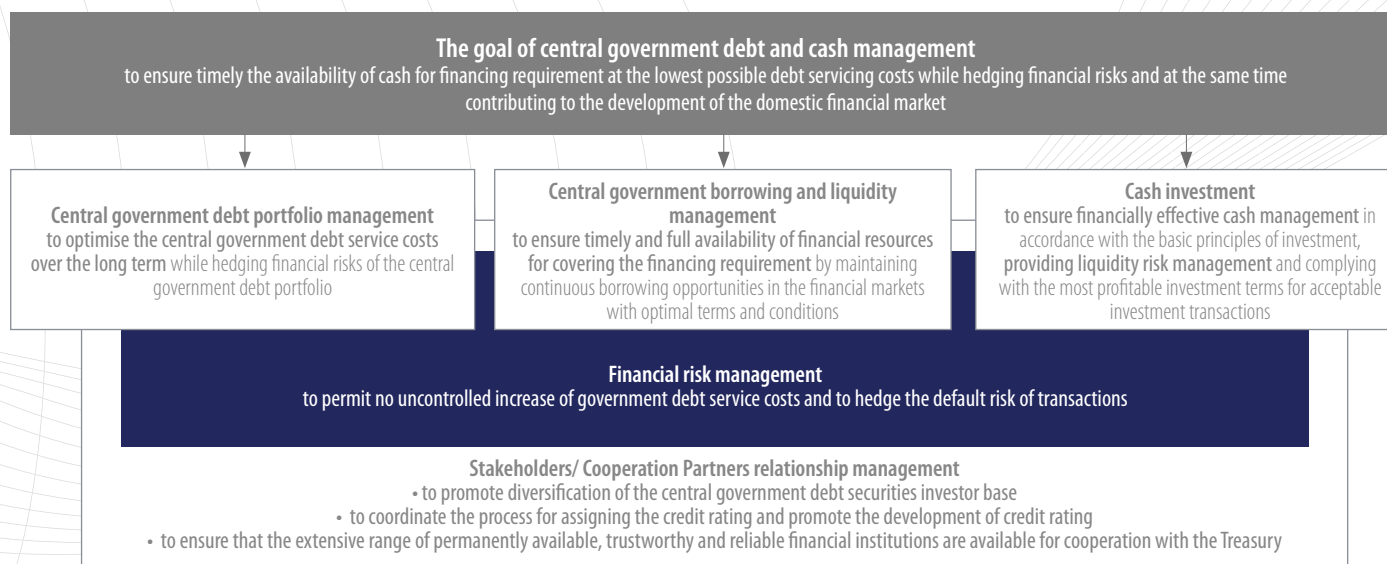


2. Central Government Debt and Cash Management

2.1. Operational Principles and Development Trends

In 2020, the activities of the Treasury in the field of central government debt and cash management were determined by the Central Government Debt and Cash Management Strategy approved by the Minister for Finance (see Figure 5).

Figure 5. Central Government Debt and Cash Management Strategy



The Treasury takes measures in the field of central government debt and cash management in accordance with the following priorities:

- 1) ensuring borrowing in the international financial markets with public issues of medium-term and long-term government debt securities by retaining flexibility in relation to choosing the time and instruments of loans in order to ensure borrowing with favourable conditions;
- 2) promote the development of the domestic market and liquidity of sovereign debt securities, by providing for appropriate investment opportunities (continuous and regular offer of government securities, including savings bonds) for participants of the domestic financial market, in order to make better use of the borrowing potential of the domestic market and facilitate its functioning;
- 3) ensure diversification and expansion of the range of government security investors through regular and continuous dialogue and long-term work with the investor community and cooperation partners, facilitating active participation and competition of investors from various global regions in the primary placement of external government debt securities in international markets;
- 4) actively communicate with credit rating agencies and ensure the provision of a single and coordinated opinion regarding the situation in Latvia within the process of credit rating calculation, in order to have a positive impact on the advancement of Latvia's credit rating;
- 5) maintain and develop long-term cooperation with the existing and new cooperation partners, ensuring a constantly available circle of partners for closing financial transactions, as well as to expand the range of financial mechanisms to be applied in central government debt and cash management.

2. Central Government Debt and Cash Management

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

At the end of 2020, Latvian general government debt⁴, accounted for 43.5% of GDP. Latvian general government debt is still one of the lowest of the EU member states, and also well below the average indicator in the EU (see Figure 6).

The level of general government debt is mainly affected by central government debt⁶, which, at the end of 2020, according to the operational data of the Treasury, comprised EUR 12.5 billion at nominal value, growing by EUR 1.6 billion since the end of 2019.

The significant increase in central government debt was caused by the need to expeditiously provide financial coverage for measures to mitigate the effects of the Covid-19 outbreak and to support measures for the development of the economy in financial markets.

In the structure of central government, external debt made up the greatest share reaching 79 % of the total central government debt. The greatest share of external debt (70 % of the total central government debt) is made from bonds issued in international financial markets (see Figure 7).

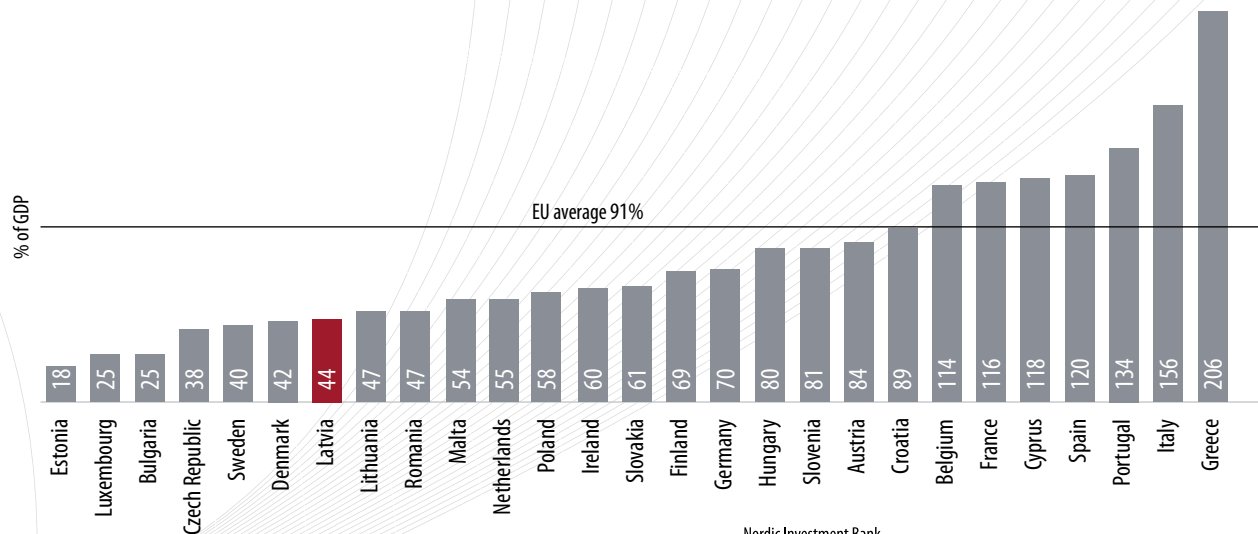


Figure 6. General government debt as of the end of 2020 (% of GDP) according to the ESA 2010 methodology⁵ (Source: EUROSTAT)

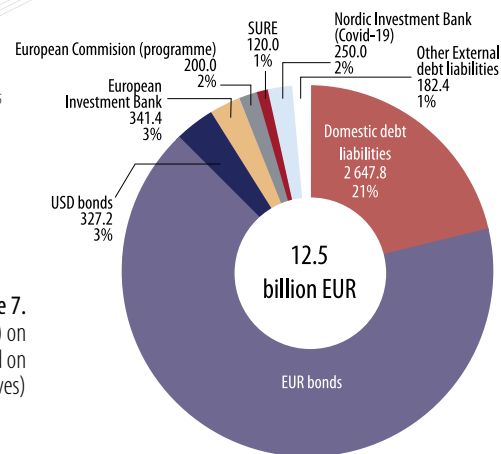


Figure 7. Central government debt structure (at nominal value) on 31.12.2020 (million EUR and % of the total amount based on national methodology, excluding derivatives)

⁵ The general government debt is valued according to the common methodology of the European system of accounts (ESA 2010) and it includes central and local government consolidated debt, debt liabilities of companies classified in the general government sector and other liabilities according to ESA 2010 methodology requirements.

⁶ The central government debt, based on national methodology, is comprised of the debts of public bodies, incorporating the State issued debt securities, borrowings, savings bonds, client deposits and balances of current accounts placed in the Treasury.

Activities of the Treasury in 2020

2. Central Government Debt and Cash Management

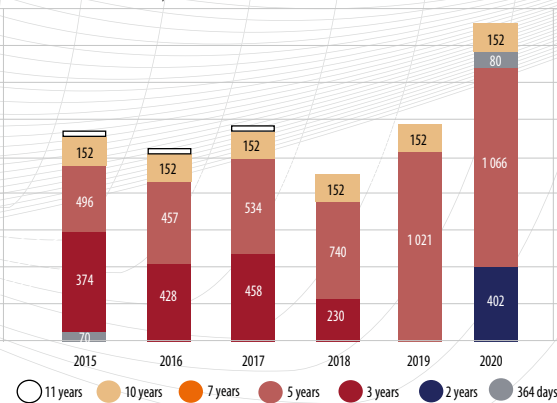
2.3. Central Government Borrowing Management

2.3.1. Borrowing in the Domestic Financial Market

In 2020, the Treasury organised regular securities auctions in the internal financial market, offering both greater investment opportunities in terms of volume and ensuring a variety of instruments. The most part of borrowing activities in the internal market were organised using domestic borrowing securities.

Gross issue volume in the domestic market in 2020 was EUR 639.5 million and the Treasury discharged government securities in the amount of EUR 112.45 million. In 2020, the five-year bond programme launched in July 2019 was continued, the volume whereof in circulation reached EUR 390 million at nominal value, but in March 2020 a new two-year programme was launched, for which a coupon at the level of 0.000 % was fixed, and at the end of 2020 its volume in circulation reached EUR 401.5 million at nominal value. Whereas in July 2020, a new seven-year bond programme was launched, which also has a fixed coupon at the level of 0.000 %. At the end of the year, the new seven-year bond programme comprised EUR 80.0 million in circulation at nominal value. Liquid volume securities programmes promote the circulation of securities in the secondary market, which, in turn, positively influences the pricing of securities in the primary market.

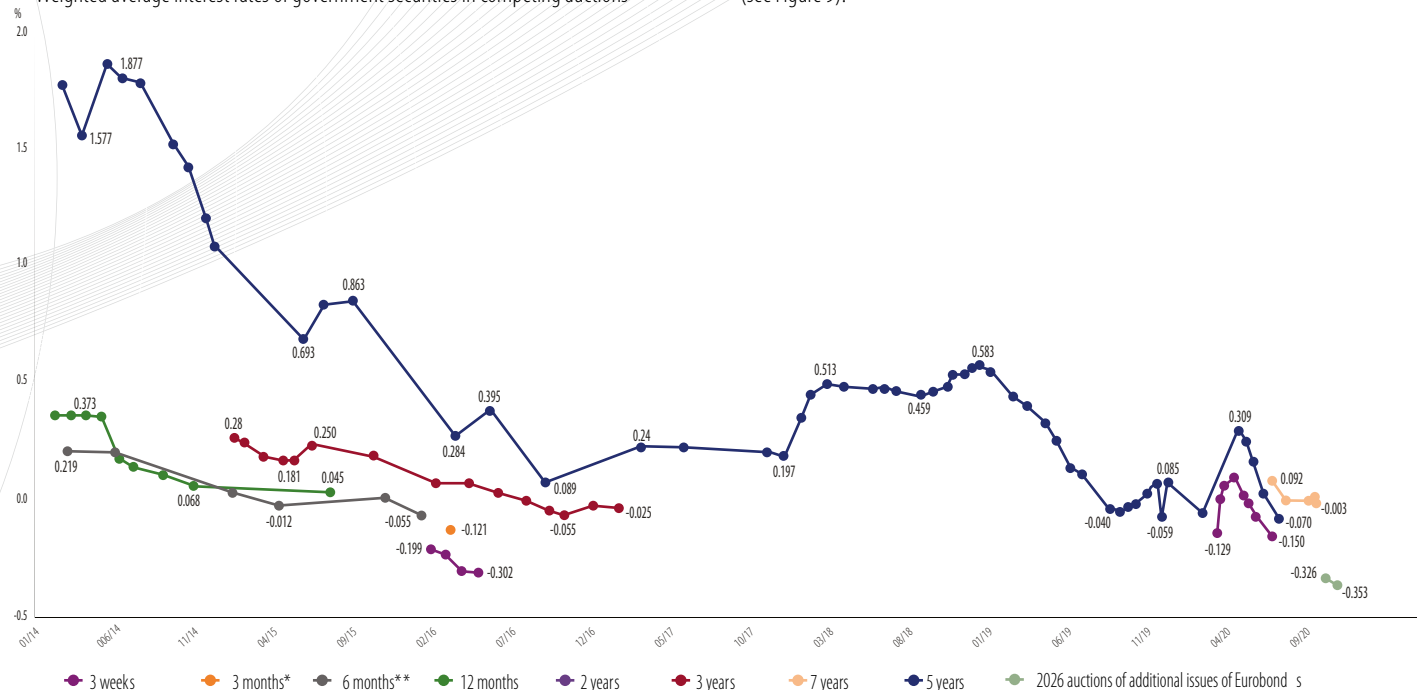
Figure 8.
Government domestic debt securities in circulation by initial maturity at the end of 2015–2020, in EUR million



This also explains the situation that, at the end of 2020, the largest share of the central government domestic debt was formed by issued domestic debt securities (LV ISIN), which were basically purchased by domestic financial market investors (credit institutions, pension funds, insurance companies, etc.). The total amount of government domestic debt securities traded at the end of 2020 was EUR 1,699 billion – EUR 527.1 million more than a year before (see Figure 8). Considering the overall financial market development trends, historically lowest interest rates of the respective maturity were fixed in Latvian domestic debt securities auctions.

Additionally, in October 2020, for the first time the Treasury offered additional issues of outstanding Latvian Eurobonds traded in the domestic financial market in the form of auctions known and used so far, using the Primary Dealer System. The offer of the auction consisted of additional issues of Latvian Eurobonds with the maturity term on

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



*Since 2015 – an additional issue of 12-month T-bills with a remaining maturity of 2 to 4.5 months

**Since 2016 – 6m T-bills benchmarks are tap issues of original 12m T-bills in maturity brackets from 4.5 to 9 months

7 October 2020, reaching the historically lowest weighted average yields. In 2020, two auctions for additional Eurobond issues took place in a total amount of EUR 40 million. Also in 2021, the Treasury will continue to offer additional issues of Latvian Eurobonds in the domestic financial market in the form of auctions.

In 2020, the overall demand for the central government domestic borrowing securities of Latvia remained high, thus the investor competition, characterised by the supply/sold volume proportion, ensured the attraction of resources under financially beneficial terms in all auctions. On average, the aggregate demand in competitive multi-price auctions exceeded the supply 5.4 times.

Financial market rate developments in 2020 were affected by the outbreak of the Covid-19 infection: in general, the rates of securities in the auctions remained at the historically lowest levels; although there was a sharp increase in rates in the first part of the year due to Covid-19, the rates returned to low levels in the second part of the year (see Figure 9).

Activities of the Treasury in 2020

2. Central Government Debt and Cash Management

2.3.1.1. Primary Dealer System

The Primary Dealer System is aimed at facilitating the development and activity of the government securities market by promoting the emergence of new borrowing instruments, broadening the investor base, a more liquid and investor-friendly government securities market, as well as the reduction of risks associated with central government debt refinancing. 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. At the end of 2020, the group of Primary Dealers includes the following credit institutions: *AS Citadele banka, Luminor Bank AB, AS SEB bankas and AS Swedbank.*

The Treasury communicates with Primary Dealers on a regular basis regarding the situation in the financial market, demand, as well as matters related to the secondary market of government securities. In 2020, considering larger borrowing volumes in the domestic market, the increasing trends were also demonstrated by the total turnover of trade with government securities of primary dealers in the secondary market.

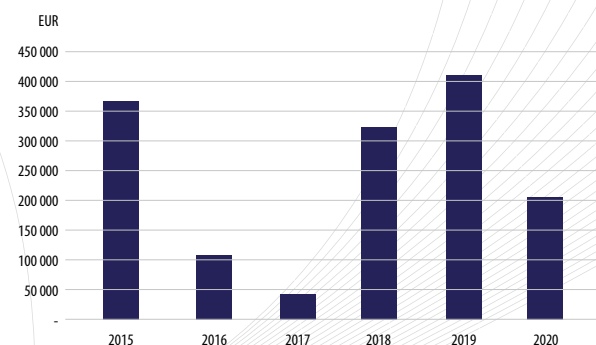
2.3.1.2. Savings Bonds

The Treasury continued maintaining the savings bonds offer (on the website www.krajobligacijas.lv and at post service points of the state joint-stock company Latvijas Pasts). The objective of savings bonds is to provide private individuals with a convenient and secure investment opportunity in classic and secure financial instruments, facilitating public confidence in the financial market and the effective depositing of cash savings, broadening their practical experience of residents in investing.

In 2020, residents were offered six-month and 12-month, as well as five-year and 10-year savings bonds. It is necessary to maintain the offer of savings bonds of all terms, in order to retain various options for investors in relation to the term and profitability in changing market conditions.

Since the introduction of the savings bonds, the residents have mainly selected the long-term investments, and, in 2020, the 10-year savings bonds made up 94 % of the volume thereof. At the end of 2020, the volume of savings bonds at the disposal of residents amounted to EUR 5.166 million. As compared to the year before, the volume of the traded savings bonds has not changed considerably.

Figure 10.
Issued volume of savings bonds in 2015–2020 (nominal value)



2.3.1.3. Interest-Free Bonds

The Treasury continued the issue of interest-free bonds, which started in 2015. The issue of such securities is foreseen by Section 23, Paragraph one, Clause 31 of the Immigration Law, which prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period of time not exceeding five years if he or she purchases interest-free government securities dedicated to a specific purpose with a nominal value of EUR 250,000 and pays EUR 38,000 into the central government budget. In 2020, five interest-free bond issues took place, and the total nominal value of interest-free bonds at the end of the year amounted to EUR 9.5 million.

2.3.2. Borrowing in International Financial Markets

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, beneficial moments when financial markets are stable and investors become better disposed towards making new investments, especially for the acquisition of long-term government securities. The activities of the Treasury in the field of external debt management in recent years have been focused on the exploitation of such beneficial borrowing moments. However 2020 was different, because the situation in financial markets was significantly affected by the Covid-19 pandemic. Due to the rapid spread of the Covid-19 infection, the Treasury had to expeditiously provide funding to limit the negative effects of the Covid-19 outbreak and to economic support measures. In order to reduce the impact of borrowing costs (interest expenditure) on the central government budget in the coming years in the uncertain financial market conditions, the Treasury borrowed resources with a relatively short maturity and with the lowest possible (close to zero) interest rates.

In 2020, the Treasury borrowed resources in international financial markets in the amount of EUR 1,550 billion, by issuing the additional emission of Eurobonds with the maturity term in 2026 (EUR 550 million) with previously fixed interest (coupon) rate 0.375 % per annum (yield 0.406 %) and the emission of three new Eurobonds in the amount of EUR 1 billion with the interest (coupon) rate 0.125 % per annum (yield 0.209 %). (See Table 2).

Table 2.
Characteristic values of the Eurobonds issued in 2020 in international financial markets

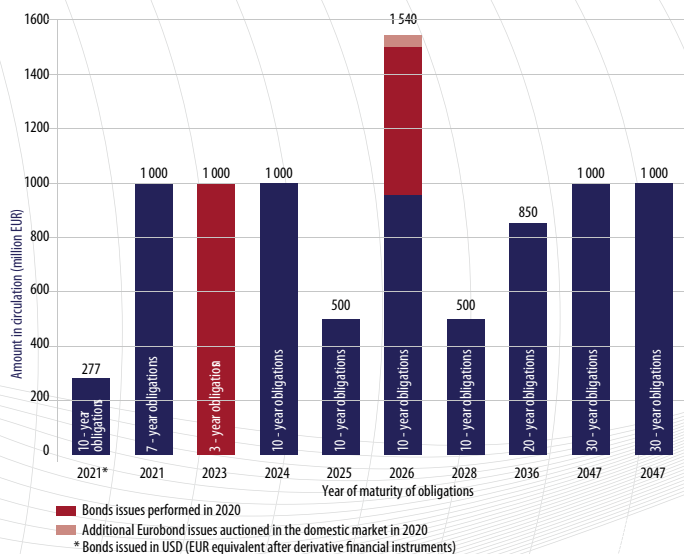
	Additional issues of Eurobonds of 2026	Issue of new Eurobonds of 2023
Maturity term	7 October 2026	14 April 2023
Amount	EUR 550 million (2 April 2020)	EUR 1 000 million (14 April 2020)
	TOTAL: EUR 1.55 billion	
Fixed income rate (coupon)	0.375% (fixed at 07 October 2016)	0.125 %
Profitability	0.406 %	0.209 %

Activities of the Treasury in 2020

2. Central Government Debt and Cash Management

For borrowing in international financial markets, the Treasury uses the legal framework of external government securities (Eurobonds) documentation GMTN (Global Medium Term Note programme), which allows the Treasury to efficiently exploit favourable conditions in international financial markets, as well as issue government securities in different currencies. The GMTN framework also provides for the possibility of issuing government securities if the investor addresses the Treasury and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

Figure 11.
Eurobonds traded



The stable credit rating of the state in the rating group “A”, high investor evaluation and confidence in the long-term development of Latvia, as well as the constantly low levels of the euro base rates and the credit risk premium of the securities of the Eurozone countries, thanks to a stimulating monetary policy implemented by the European Central Bank in 2020, ensured the possibility to attract resources in the international financial markets on favourable terms.

2.3.3. Borrowings from International Financial Institutions

On 8 April 2020, a loan agreement was concluded with Nordic Investment Bank

in the amount of EUR 500 million for the financing of Covid-19 mitigation and management measures, of which EUR 250 million was received in 2020 (the remaining amount was received in January 2021). In addition, the borrowing opportunities from the European Investment Bank for co-financing of EU funds projects in the amount of EUR 400 million under existing contracts remained.

Given the coordinated European response to the growing spread of Covid-19 infection, according to Council implementing decision (EU) No. 2020/1351 of 25 September 2020 granting temporary support to the Republic of Latvia to mitigate unemployment risks in the emergency following the Covid-19 outbreak, a loan of the European Commission SURE in the amount of EUR 192.7 million was ensured, of which EUR 120 million was received in 2020 (the remaining part of the loan was received in February 2021).

2.3.4. Counterparty Relationship Management

The aim of relationship management with collaborating financial institutions is to regularly ensure the widest, safest and most reliable range of financial institutions possible for collaboration with the Treasury which would ensure competitive terms for the performance of financial transactions. Therefore the Treasury organises the regular preparation of analytical materials and the operational provision of information to counterparties, by implementing the set of purposeful and structured communication measures, allowing one to achieve the task of diversifying the debt securities investor base set in the Operational Strategy of the Treasury.

Considering the spread of Covid-19 infection, the participants of the financial market, as well as the Treasury, were forced to change the usual face-to-face communication channels and, starting from February 2020, communication has taken place remotely via telephone and video calls. Remote communication has not affected the quality of day-to-day and strategic cooperation with government debt investors, the international investment bank, international financial institution and credit rating agencies. In 2020, the Treasury continued to provide the most up-to-date information about the situation in the Latvian economy, financial market, public finances, as well as the national borrowing strategy, thereby also ensuring the dissemination and explanation of information to the investor community, which decides on investments into government securities.

2.3.5. Credit Rating of the Republic of Latvia

The national credit rating is a critical aspect in organising borrowing transactions, and a significant factor for the availability of financial resources, as it has an influence on the price of the borrowed resources. Within the scope of central government debt management, the Treasury organises the credit rating assessment of the Republic of Latvia, using the three largest international credit rating agencies – *Fitch Ratings*, *S&P Global* and *Moody’s Investors Service*, as well as Japan’s credit rating agency *R&I*. Taking the spread of the Covid-19 infection into account, credit rating agencies and also the Treasury changed the usual face-to-face communication channels, switching to remote communication via telephone and video calls. In 2020, the Treasury continued to provide credit rating agencies with regular, comprehensive and relevant information, to facilitate the credit rating agencies to make decisions for the favourable development of the credit rating of the Republic of Latvia. Based on the available information, including the country’s credit rating, investors evaluate the prospects of investing in Latvia, e.g. in government securities. The credit rating agencies not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign a credit rating to government securities. Once a year, the inter-agency working group led by the Treasury informs the Cabinet on the national credit rating of the Republic of Latvia and the factors affecting it, and provides proposals for improving the credit rating.

Also in 2020, the credit rating of Latvia remained at a stable position in the “A” credit rating group: three credit rating reports have been received regarding holding the credit rating of the Republic of Latvia at the existing level, one report on the credit rating increase and two reports regarding holding the credit rating at the existing level with a changed credit rating outlook. The agencies have also published six comments (publications) regarding the assessment of Latvia’s creditworthiness.

At the end of 2020, the credit rating of the Republic of Latvia for long-term liabilities in foreign currency was “A3” (with a stable credit rating outlook), as determined by *Moody’s Investors Service*, “A-” (with a stable credit rating outlook), as determined by *Fitch Ratings* (in 2020, *Fitch* changed Latvia’s credit rating outlook two times: on 10 April – from stable to negative, whereas on 9 October – from negative to stable, “A+” (with a stable credit rating outlook), which was increased in February 2020 by *S&P Global* and “A” (with a stable credit rating outlook), set by the Japanese credit rating agency *R&I*.

Activities of the Treasury in 2020

2. Central Government Debt and Cash Management

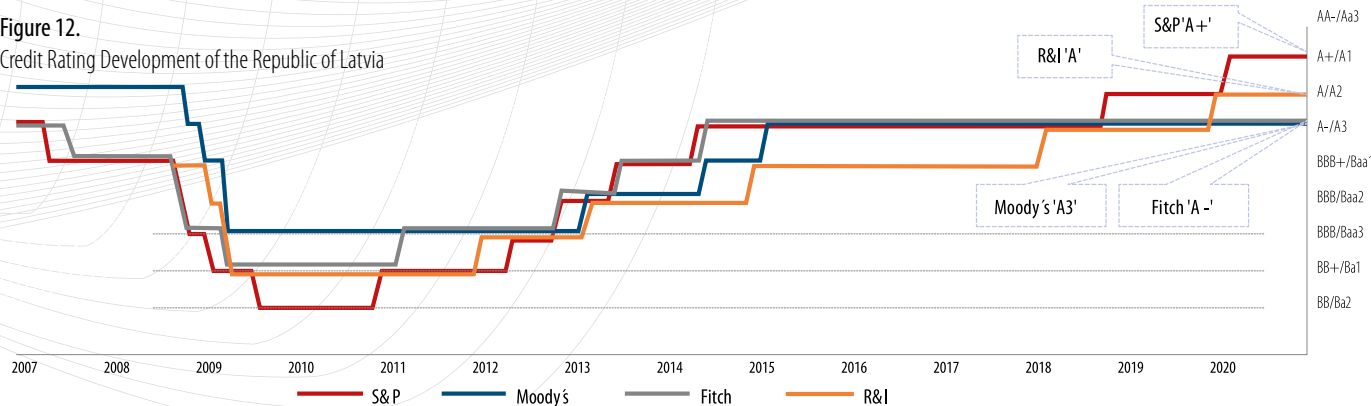
According to the credit rating assessment, Latvia's credit rating in group "A" is maintained by:

- 1) a flexible economy and effective fiscal policy;
- 2) strong state financial situation and Latvia's still relatively low government debt level compared to other similar states;
- 3) the successful results of Latvia's fiscal consolidation and structural reform implementation in previous years;
- 4) sufficient fiscal space, which ensures Latvia's ability to act in the case of external shocks;
- 5) institutional strength substantiated with the membership in the EU and the strong position of the Euro in the global economy;
- 6) considering the consequences due to Covid-19, decisions made by the government regarding limiting Covid-19 and the support to economy;
- 7) current account balance;
- 8) strong financial stability indicators, high bank liquidity and the government's efforts to improve the financial sector.

2.4. Central Government Debt Portfolio Management

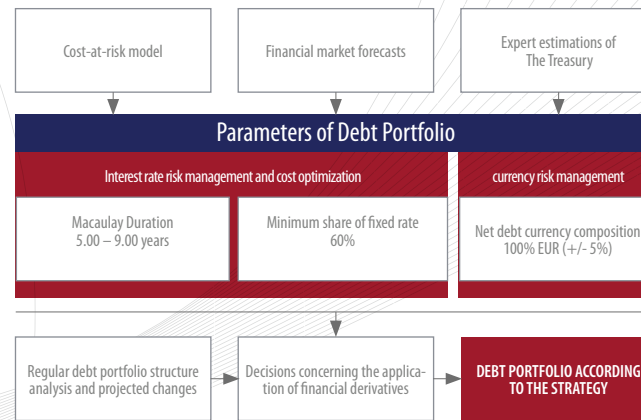
The goal of the central government debt portfolio management is to optimise the central government debt servicing costs over the long term while hedging financial risks of the central government debt portfolio. The Treasury assesses the debt portfolio structure parameters, as well as the need to change them on a regular basis. Based on the assessment of the Treasury's experts, financial market forecasts, as well as the results

Figure 12.
Credit Rating Development of the Republic of Latvia



of modelling costs and interest rate risk, 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 13) are determined. Whereas for currency risk management an optimal currency structure of net debt is determined and monitored by considering the financial market forecasts and the assessment of the Treasury's experts, and it allows compliance with the balance of assets and liabilities in foreign currencies, thus avoiding the impact caused by exchange rate fluctuations.

Figure 13.
Basic principles of central government debt portfolio management



In 2020, all the indicators of the debt structure as defined in the Central Government Debt and Cash Management Strategy have been complied with (see Table 3).

Table 3.
Compliance of the parameters of the central government debt structure with the parameters of the central government debt portfolio structure defined in the Central Government Debt and Cash Management Strategy

PARAMETERS	ACTUAL DEBT STRUCTURE PARAMETERS		ACTUAL DEBT STRUCTURE PARAMETERS		DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY	
	31.12.2019		31.12.2020			
Amount of central government securities distributed for initial placement for domestic financial market investors at the end of the year	EUR 1.172.24 million		EUR 1.739.30 million		Not less than outstanding at the beginning of the year ⁷	
Maturity profile (%) of central government debt	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
	17.1 %	33.5 %	18.8 %	37.2 %	≤ 25 %	≤ 50 %
Minimum share ⁸ of fixed interest rate	86.2 %		82.1 %		≥ 60 %	
Weighted average fixed period of the interest rates in years	7.61		6.62		5.00–9.00	
Net debt currency composition	EUR 100.08 %		EUR 100.10 %		EUR 100 % (+/- 5 %)	

⁷ A derogation may be made for negative net issuances within a current year provided that the relevant amount is compensated when planning domestic market borrowings for the following year.

⁸ Central government debt with a fixed interest rate and with a remaining maturity that is longer than one year.

2. Central Government Debt and Cash Management

2.5. Cash Management

In 2020, the Treasury ensured cash management in accordance with the *Central Government Debt and Cash Management Strategy*, promoting secure and financially effective cash investment with the most beneficial conditions possible, ensuring liquidity risk management and considering the most favourable investment conditions for permissible investment transactions. Cash funds are managed by the Treasury only and the transfer of this function to another fund manager is not permitted.

Cash management in 2020 was implemented in highly uncertain circumstances related to the impact of the Covid-19 pandemic, measures to mitigate its effects and even more negative euro interest rates than before. To ensure financial coverage for support measures to mitigate the effects of the Covid-19 outbreak, the Treasury expeditiously accumulated resources in its accounts by terminating placed financial transactions in March 2020 and deciding not to initiate new investment transactions. Correspondingly, since March 2020, the Treasury has been concentrating temporarily available cash in accounts in the Bank of Latvia and the European Central Bank, limiting financial risks as much as possible and ensuring the operative availability of liquid resources in the Treasury accounts to cover financing needs.

In the eurozone the European Central Bank continued to implement economic stimulus measures, maintaining the Eurosystem's overnight deposit facility at minus 0.50 % and increasing the amount of securities purchase programmes to combat the impact of the Covid-19 pandemic on the financial market and the EU economy, leading to even more negative euro money market interest rates in 2020 as a whole.

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

Table 4.

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

Result	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. Availability of financial resources to cover funding needs at low debt servicing costs in the long term while ensuring the hedging of financial risks.	1.1 The indirect interest rate of Latvian general government debt ⁹ does not exceed the average of euro area countries with a similar and one grade higher credit rating for the year concerned (the minimum positive deviation of the Latvian indicator from the euro area average, in basis points).	0	-28 ¹⁰
	1.2 Interest expense of the current year to the preceding year's central government debt ratio ¹¹ does not exceed the relevant indicator of the preceding year by more than 20 basis points (deviation from the preceding year in basis points) ¹² .	20	-1 ¹³
2. Regular offer of government securities in the domestic financial market has been maintained.	2.1. Outstanding amount of government securities, which at the initial placement were issued in the domestic financial market at the end of the five-year period, is not less than the amount at the beginning of the five-year period (minimum difference between the outstanding amount of securities at the end of the relevant year and beginning of 2020, EUR million). ¹⁴	0	567.054 ¹⁵
3. Digital transformation of the government debt and cash management process has been ensured.	3.1. At the end of 2022, the level of technological maturity of the central government debt and cash management process is at least one degree higher compared to the assessment at the end of 2019 (level at the end of the year ¹⁶).	Will not be measured	Was not measured

⁹ In accordance with the Stability Programme methodology, the indicator is determined by dividing the debt servicing interest expense of the general government debt for the current year in the relevant country by the preceding year's amount of general government debt (using EUROSTAT data on ESA 2010 basis). ¹⁰ In 2020, the indirect interest rate of Latvian general government debt comprised 1.7 %, which is by 28 base points lower than the average indicator of euro area countries with a similar and one grade higher credit rating for the year concerned.

¹¹ In 2020, the indirect interest rate of Latvian general government debt comprised 1.7 %, which is by 28 base points lower than the average indicator of euro area countries with a similar and one grade higher credit rating for the year concerned.

¹² The value of the ratio is established as a percentage by dividing the interest expense of the subprogramme 31.02. "Central Government Debt Management" in year n (reduced by the general budget revenue result from financial derivative instruments, the premium fixed at the issuance of securities, and revenue from borrowings with negative interest) by the amount of consolidated debt as at the end of year N-1 (by adding the currency result of financial derivative instruments linked to external borrowings and debt securities administered by the Treasury).

¹³ The value of the performance indicator is the difference between the ratio value of the current and preceding year in basis points, determined in accordance with the calculation methodology referenced in footnote 3. Overrun of the performance indicator in the current year is only permissible if transactions resulting in reduced interest expense in the medium and long term are effected within the central government debt management during the year concerned.

¹⁴ In light of the Covid-19 pandemic, significant changes in the interest rate dynamics are observed and, considering the developments on financial markets in 2020, extraordinary and immediate implementation of large measures by monetary authorities to stabilise the situation, declining interest rates and announcements by institutions on additional measures to overcome the negative effects of the outbreak of the Covid-19 infection on the global economy, it is expected that the economy stabilisation and support measures will maintain the interest rates at low levels in the foreseeable future, allowing the attraction of resources with particularly favourable conditions.

¹⁵ During the five-year period (2020-2024), negative numerical values of the performance indicator are allowed in certain years, provided that the performance indicator is fulfilled at the end of the five-year period, i.e. at the end of 2024.

¹⁶ The indicator is met. Related to higher borrowing amounts to ensure funding for the mitigation of Covid-19 consequences. In light of the Covid-19 pandemic, significant changes in the interest rate dynamics are observed and, considering the developments on financial markets in 2020, the extraordinary and immediate implementation of large measures by monetary authorities to stabilise the situation, declining interest rates and announcements by institutions on additional measures to overcome the negative effects of the outbreak of the Covid-19 infection on the global economy, it is expected that the economy stabilisation and support measures will maintain the interest rates at low levels in the foreseeable future, allowing the attraction of resources with particularly favourable conditions.

¹⁷ In accordance with the technological maturity evaluation model according to which the level of technological maturity of the Treasury's central government debt and debt and cash management process was assessed within the framework of the project "Digital Transformation of the Central Government Debt and Cash Management Process in the Treasury of the Republic of Latvia" implemented with the support of the European Commission Structural Reform Support Programme.

Activities of the Treasury in 2020

2. Central Government Debt and Cash Management

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

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 Procedures for Accounting, Quality Control and the Provision of Public Administration Services, in central government debt and cash management the Treasury provides two public administration services to private individuals¹⁷ – issues of savings bonds and investing of balances of funds¹⁸.

In 2020, 23 savings bonds issues were fulfilled and four applications for investments of funds from private individuals were received. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received.

20
20



Treasury
Republic of Latvia

¹⁷ Natural persons (investor, being a natural person of at least 18 years of age).

¹⁸ Legal entity of private law.

Activities of the Treasury in 2020

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20



3. State loan and guarantee management

3.1. Description of the Situation and Development Trends

Candidates for state loans meeting the eligibility criteria defined by the Law on Budget and Financial Management and whose projects comply with the objectives of the Law, may operationally receive state loans within the limits set by the Central Government Annual Budget Law.¹⁹ The Treasury grants and services state loans, incl., supervises the proper performance of commitments, in line with the Cabinet Regulation on the procedure for granting and servicing state loans. By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the state loan portfolio, the Treasury provides suggestions to the Minister of Finance on a regular basis regarding future actions for supervision of the state loan portfolio.

It is important for the Treasury to ensure the availability of financial resources for the implementation of economically significant investment projects co-financed by the EU on financially favourable terms, thus reducing the non-implementation of projects or freezing risks (e.g., due to insufficient financial flows), and availability and quality risks of the services provided to citizens. Local governments, in turn, in order to promote the implementation of economically significant investment projects co-financed by the EU and to ensure the availability of the services, issue guarantees on liabilities of their capital companies.

For the purpose of the further automation and digitisation of state loan granting and service process, continuing to implement *eAizņēmumi* project in 2020, automatic repayment of state loan functionality has been introduced, which ensures the automatic withholding of repayment of the loan principal and interest payments from the client's account with the Treasury, as well as the automated calculation and accounting of contractual penalties and late payment interest for granted state loans has been ensured.

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

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

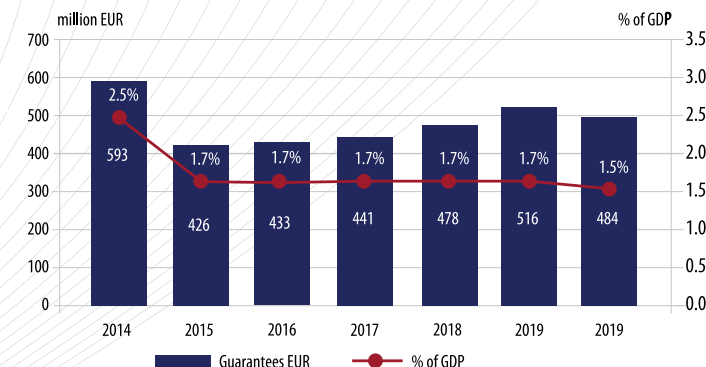
In 2020, the state guarantee programme for study and student loans was terminated, due to the entry into force of Cabinet Regulation No. 231 of 21 April 2020 "On Study and Student Loans for Studies in Latvia from the Resources of Credit Institutions, which are Guaranteed from the Central Government Budget", a new system of the state guaranteed study and student loans is introduced, when the guarantee is issued by the joint-stock company *Attīstības finanšu institūcija Altum* in the form of the portfolio guarantee instrument, not the Minister of Finance in the name of the state.

3.2. State-Issued Guarantees

The annual State Budget Law did not provide for granting new state-issued guarantees; however, at the same time, it prescribed that, in line with the law On Agriculture and Rural Development and Development Financial Institution Law, the state, in the amount of EUR 270.0 million, shall be liable for the guarantees issued by the joint-stock company *Attīstības finanšu institūcija Altum*. Furthermore, to ensure that, in the event of a crisis caused by the Covid-19 infection, the population has the opportunity to retain jobs and employers to retain professionals on the basis of the Law On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of Covid-19, a guarantee was issued by the Republic of Latvia to the European Commission on participation in the EU support instrument to mitigate unemployment risks in the emergency (SURE) in the amount of EUR 57.07 million.

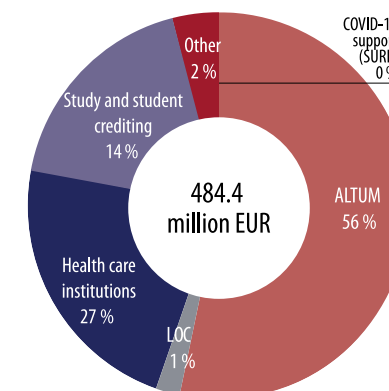
The total state guaranteed debt outstanding at the end of 2020 amounted to EUR 484.4 million, which was EUR 31.3 million less than at the end of 2019. The proportion of state guarantees of government GDP is 1.5%.

Figure 14. State Guaranteed Debt Outstanding, EUR million



The largest share of the state-issued guarantee portfolio by the borrower –56% – was formed by state-issued guarantees for the obligations assumed by the state for the obligations of the joint-stock company *Attīstības finanšu institūcija Altum* (Latvian Development Financial Institution *Altum*) for the implementation of state aid programmes (small and medium-sized enterprises, agriculture, start-ups, etc.), 27% – for the obligations assumed by health care institutions and state-issued guarantees for ensuring the study and student loan programme – 14%.

Figure 15. State-issued guarantee portfolio, by borrower on 31.12.2020



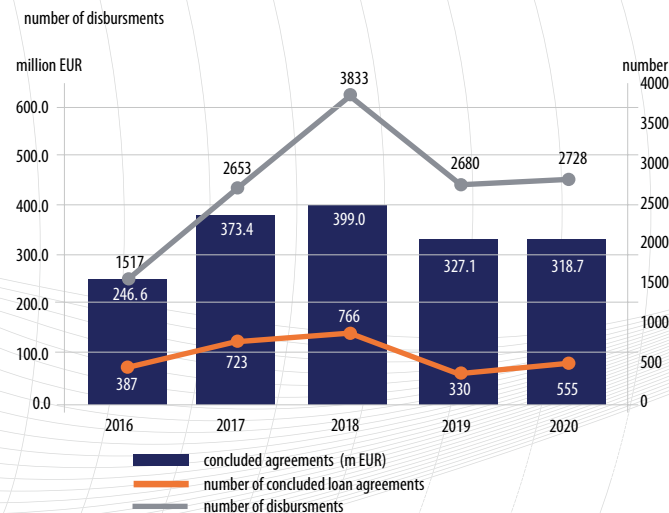
¹⁹In accordance with the Law on Budget and Financial Management the state loans may be issued to local governments, state special budget implementers, capital companies where the state or local government share of the fixed capital, separately or combined, exceeds 50% and to capital companies formed by several local governments, where the combined local government share of the fixed capital exceeds 65%, as well as those scientific institutes and higher education establishments to which the status of a derived public person has been determined, and port authorities.

3. State loan and guarantee management

3.3. State Loans

The Law on State Budget for 2020 prescribed the total increase of the state loans debt in the amount of EUR 334.4 million, however, in the first half year of 2020 the state loans debt limit was additionally increased by EUR 307 million to provide funding for the mitigation of the consequences of Covid-19 infection and the support of economy. In turn, the total permissible amount of state loans to be granted in 2020 was EUR 761.4 million, including the total increase of EUR 641.4 million in state loans determined by the annual State Budget Law, and the planned repayment of state loans issued during previous years in the amount of EUR 120 million.

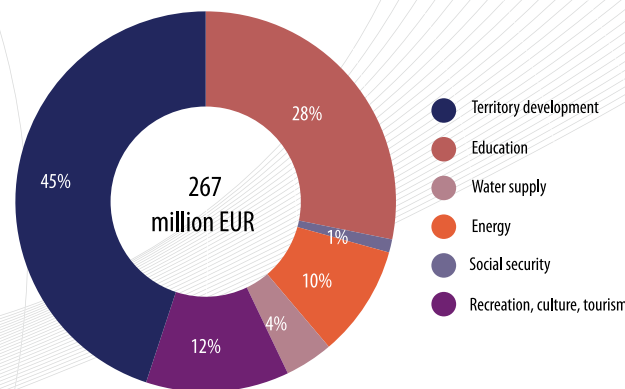
Figure 16.
Dynamics of State Loans (2016-2020)



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

In 2020, the largest amount of state loans at EUR 267 million was granted to local government bodies – 78.6 % of total state loans issued in 2020, including EUR 43 million was granted to reduce and prevent the impact of the emergency situation related to the spread of Covid-19 by providing the possibility to receive state loans for the implementation of high readiness projects of economic importance co-financed by EU funds and other foreign financial assistance.

Figure 17.
State loans issued to local governments in 2020, by purpose



In 2020, 100 % of financial resources raised by local governments in the form of loans came from the Treasury, which is an indication that the Treasury provides financially favourable conditions and quality service.

3.3.2. State Loans to Central Government Bodies

State loans in the amount of EUR 23.8 million or 7 % of the total volume of the state loans are granted to economic operators controlled and financed by public bodies²³, of which EUR 18.8 million is issued to the joint-stock company *Attīstības finanšu institūcija Altum* for the implementation of state aid (small and medium-sized enterprises, agriculture, start-ups, etc.) and EUR 5 million – to scientific institutes and universities for the implementation of projects co-financed by the EU (development of research infrastructure, improvement of energy efficiency in buildings, etc.).

3.3.3. State Loans to Non-Financial Economic Operators²⁰

State loans in the amount of EUR 49 million or 14.4 % of the total volume of the state loans are granted to non-financial entities constituting an increase by EUR 32 million, as compared to 2019. The increase is mainly related to the territory development investment projects of the Freeport of Ventspils authority and Liepāja Special Economic Zone, which are implemented with co-financing of ERAF, as well as to local government capital companies for the implementation of the projects co-financed by the EU to ensure the provision of services of economic interest (for the implementation of heating, water supply and sewerage projects, etc.).

²⁰ Economic unit performing the manufacture of goods or provision of non-financial services for the purposes of gaining profit or other benefits, for example, capital company, joint-stock company and sole proprietorship.

3. State loan and guarantee management

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

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

Result	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. A client-orientated central government lending and monitoring process on financially favourable terms ensured.	1.1 The amount of loans of local governments and their capital companies guaranteed by local governments from the Treasury is not less than 85 % (of the total amount of borrowings by local governments and their capital companies guaranteed by local governments).	85	100
	1.2 Satisfaction with the quality of services received through the implementation of the central government lending process is not lower than 85 % (% of respondents surveyed ²¹).	85	The client survey will be carried out in 2022
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	2.1. For the borrower who has not made a regular payment of principal or interest provided for in a state loan or government guaranteed loan agreement, provisions have been made in advance for at least the amount of the outstanding payment (% of all cases).	100	100

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

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 *Procedures for Accounting, Quality Control and the Provision of Public Administration Services*, in state loan and guarantee management the Treasury

provides two public administration services to private individuals – state loan management and guarantee issuance and supervision.

In 2020, 55²² loan applications were received from natural persons. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received.

²¹ In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

²² Legal entity of public law, legal entity of private law (capital companies, the shareholding of the central or local government in the share capital whereof separately or in total exceeds 50 %, and the capital companies established by several local governments, with the shareholding of local governments in the share capital in total exceeding 65 %, higher education institutions and scientific institutes (derived public persons), port authorities.

Activities of the Treasury in 2020

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

4.1. Description of the Situation and Development Trends

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

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

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

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

In this programming period, regulatory enactments of the European Commission²³ (hereinafter – Regulation No. 1303/2013) foresee the annual closing procedure, therewith the applications for payments have to be submitted in the current accounting year (period 01.07.N-30.06.N+1), and, as the accounting year concludes, a closing balance of accounts must be submitted.

²³ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down the common provisions on the ERDF, the ESF, the CF, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the ERDF, the ESF, the CF and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

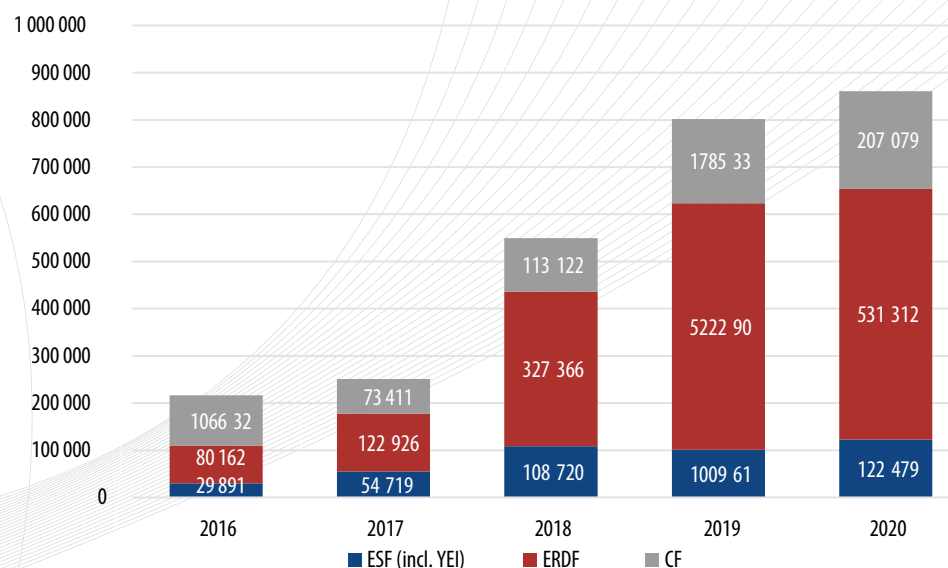
²⁴ Annex 12 to Regulation (EU) No. 1011/2014 – Report on Transactions Included in the Payment Application to the European Commission.

²⁵ On the effectiveness of the created system, eligibility of the expenditures declared to the European Commission and the conformity thereof to the legal framework, truthfulness and objectivity of information provided in the reports (including the governance declaration).

In 2020, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. In 2020, the amount of expenditures to be declared continued to increase, although the growth rate is no longer so significant (see Figure 18).

The European Commission accepted it on 27 May 2020, specifying that the documentation is complete, correct and true. Considering the impact of the Covid-19 pandemic, in regard to 2020 the European Commission postponed the obligation to repay the annual advances received and not taken up for 2019 to the end of the programme, thus providing additional resources to prevent the consequences of Covid-19, which in the case of Latvia amounted to EUR 114,343 thousand.

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



On 13 February 2020, the set of account closure documentation was submitted to the European Commission for the accounting year from 1 January 2018 till 30 June 2019:

- 1) The closure of accounts prepared by the Treasury as the certifying authority²⁴;
- 2) Governance declaration and the annual summary for the previous year prepared by the Ministry of Finance as the national focal point;
- 3) The annual control report and opinion prepared by the Ministry of Finance as the audit authority²⁵.

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

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

In the 2009–2014 Programming Period, within the scope of the European Economic Area and the Norwegian Financial Mechanism, Latvia implemented seven programmes and a technical assistance project. Already in 2018, the Certifying Authority submitted the Financial Mechanism Office the closure reports of all programmes and received closing payments for all programmes. However no payment was received for one of the programmes, in light of continuing the discussions with competent authorities regarding the state aid issue. In 2020, explanations were received from the competent authorities, according to which the closure report was also adjusted and submitted to the Financial Mechanism Office, for which the final payment of EUR 625 thousand was also received, thus completely closing the implementation of the programme period.

4.4. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for 2014–2021

The allocation for Latvia, within the scope of this period, comprises EUR 94.4 million (incl. EUR 9.0 million to be administered by the Financial Mechanism Office and Innovation Norway). Latvia will implement six programmes, as well as the Technical Assistance Project and the Fund for Bilateral Relations. In 2020, the last two programme agreements were signed between the donor states and the national focal point. The first interim financial reports have been submitted to the Financial Mechanism Office, requesting EUR 1.242 thousand from the donor states. EUR 1,055 thousand was received for the submitted reports – the difference in the amounts is explained by the fact that for two of the programmes the Cabinet Regulations governing the implementation of the programme were not approved, which is a precondition for receiving funds, and one of the payments was received for the funds requested in 2019.

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

Table 6.

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

Result formulation	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
A positive rating ²⁶ of the Certifying Authority's management and control system by external auditors.	Assessment of the Certifying Authority's management and control system by external auditors is not below '2'.	2	2

²⁶ Rating categories in compliance with the laws and regulations governing the management of EU Funds ('1' – works well, no or minor weaknesses identified; '2' – works, but certain improvements are needed; '3' – works partially and substantial improvements are needed; '4' – not working, major weaknesses identified).

Activities of the Treasury in 2020

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5. Accounting and Bookkeeping Service

5.1. Description of the Situation and Development Trends

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

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

According to the Cabinet Decision²⁷, the State Chancellery in cooperation with the Treasury by 15 December 2021 will:

- 1) develop uniform and standardised processes in the ministries and their subordinate authorities;
- 2) develop proposals for the creation of a single service centre;
- 3) develop proposals for the introduction of the information systems solution.

5.2. Provision of the Accounting and Bookkeeping Service

In 2020, the centralisation of accounting and bookkeeping in the institutional sector of the Ministry of Finance was fully completed, when from 1 January 2020 the Treasury started providing accounting and bookkeeping services also to the Central and Finance Contracting Agency and from 11 August 2020 the largest sectoral institution – the State Revenue Service. Overall in 2020, Treasury provided an accounting service to 11 central government budget institutions: without those previously mentioned, also to the State Chancellery, the School of Public Administration, the Cross-Sectoral Coordination Centre, the National Electronic Mass

Media Council, the Ministry of Finance, the Procurement Monitoring Bureau, the Lotteries and Gambling Supervisory Inspection and the Treasury, as well as to the Fiscal Discipline Council.

In addition, in 2020, the uniform accounting processes were improved for the State Chancellery, the School of Public Administration, the National Electronic Mass Media Council, the Cross-Sectoral Coordination Centre: revised, improved and partially aligned with the sectoral processes of the Ministry of Finance, by renegotiating cross-sectoral agreements, as well as digitalisation possibilities of the business trip process are provided: the business trip module is available for use by all institutions, but the decision on its use is made by each institution..

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

Table 9

Performance indicators of the operational targets for the Provision of the Accounting Service

Result formulation	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. Accounting service to central government budget institutions provided.	1.1 Central government budget institutions receiving the accounting service provided by the Treasury (number) ²⁸ .	11	11
2. The Treasury's client expectations have been identified, and the provided services have been improved accordingly.	2.1. Satisfaction with the quality of the accounting and bookkeeping service received is not lower than the determined numeric value (%) ²⁹ .	65	The client survey will be carried out in 2022
3. Unified use of information systems self-service portal modules.	3.1. Usability of information systems self-service portal modules (% of total number of modules attributable to the institution).	78	83

²⁷ Protocol No. 42, § 27 of the 17 September 2019 Meeting of the Cabinet.

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

²⁹ In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

Activities of the Treasury in 2020

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6. Governance of the Institution

6.1. Funding of the Treasury and the Spending Thereof

In 2020, resources for covering expenditure in the budget of the Treasury were comprised of a grant from the general revenue.

In 2020, the Treasury (within the institutional sector of the Ministry of Finance) implemented the following basic budget programmes and sub-programmes:

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

The objective of the Sub-Programme "Central Government Budget Implementation" is to ensure efficient and economical central government general budget implementation and supervision, and the compliance of the services provided by the Treasury with the best financial management practice.

The objective of the Sub-Programme "Central Government Debt Management" is to ensure, in a timely manner, the availability of financial resources for covering the funding needs of the central government debt at low service costs in the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market.

The objective of the Sub-Programme "Contributions to International Organisations" is to ensure the fulfilment of the financial obligations of the Republic of Latvia, by performing, in a timely manner and to a full extent, the annual membership fees to the international financial organisations, as well as performing the payments into the capital and/or reserves of such international financial institutions, where the Republic of Latvia is the holder of the capital shares, ensuring the fulfilment of the assumed obligations.

The objective of the Programme "State Budget Loans and Repayments Thereof" is to ensure the availability of financial resources (incl. long term) for candidates to state loans in the form of a state loan on financially favourable terms through quality service, while hedging the credit risk of the state loan.

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

The objective of the Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism" is to ensure funding for the implementation of the project financed by the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism.

Within the scope of the Programme "Use of Funds for Unforeseen Events", the compensation was paid in accordance with Sub-clause 45.2 of the 17 July 2018 Cabinet of Ministers Regulation No. 421 *Procedures for the Introduction of Amendments to the Appropriation Prescribed by the Annual State Budget Law – disbursement of compensation to politically repressed persons, whose administrative exile from the Latvian SSR has been recognised as unjustified, and to persons subject to increased taxes and duties, followed by the deprivation of property, eviction from houses or apartments, or who were avoiding political repression of the communist regime, if the political repression prepared against them is documentarily proven.*

The Treasury, within the scope of budget unit 64, fulfils the Ministry of Finance Programme 01.00.00 "Grant to the Local Government Financial Equalisation Fund", in order to ensure financial resources for the Local Government Financial Equalisation Fund, thus fulfilling the norms of the *Law on Local Government Financial Equalisation*. The Local Government Financial Equalisation Fund implements the equalisation of both revenue capacity and the expenditure need. Grant for the Local Government Financial Equalisation Fund is intended to ensure the amount of grants to be disbursed to local government from the Fund, comprised of the contributions of local government into the Funds and the state budget grant. The funding is also intended for the transfer of the grant to local governments for the persons institutionalised in social care institutions – orphanages, retirement homes and centres – by 1 January 1998.

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

No.	Finansiālie rādītāji	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	355 460 862	424 964 150	423 123 187
1.1.	Grant from the general revenue	351 247 466	424 964 150	423 123 187
1.2.	Chargeable services and other own revenue	4 170 756	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	42 640	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	355 660 988	422 339 900	422 296 959
2.1.	Maintenance costs (total)	355 116 351	421 245 841	421 225 061
2.1.1.	Running costs	9 426 927	10 718 309	10 055 422
2.1.2.	Interest expense	222 639 300	225 761 684	224 861 022
2.1.3.	Subsidies, grants and social benefits	45 889	118 646	118 645
2.1.4.	Regular payments into the European Community budget and international cooperation	97 248	107 450	98 275
2.1.5.	Maintenance cost transfers	122 906 987	184 539 752	186 091 697
2.2.	Expenditure for capital investments	544 637	1 094 059	1 071 898
3.	Financial balance	-200 126	2 624 250	826 228
4.	Financing	200 126	-2 624 250	-826 228
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	1 163 126	0	0
4.2.	Shares and other holdings in the equity of economic operators	-963 000	-2 624 250	-2 441 741

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	231 245 696	237 365 523	235 788 196
1.1.	Grant from the general revenue	227 032 300	237 365 523	235 788 196
1.2.	Chargeable services and other own revenue	4 170 756	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	42 640	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	232 408 822	237 365 523	235 788 196
2.1.	Maintenance costs (total)	231 864 185	236 271 464	234 716 298
2.1.1.	Running costs	9 224 885	10 509 780	9 855 276
2.1.2.	Interest expense	222 639 300	225 761 684	224 861 022
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	544 637	1 094 059	1 071 898
3.	Financial balance	-1 163 126	0	0
4.	Financing	1 163 126	0	0
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	1 163 126	0	0

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

No.	Financial resources for covering expenditures (total)	In the previous year	In the reporting year	
			Grant from the general revenue	actual implementation
1.	Financial resources for covering expenditures (total)	6 330 886	6 330 886	8 226 844
1.1.	Grant from the general revenue	2 160 130	2 160 130	8 226 844
1.2.	Chargeable services and other own revenue	4 170 756	4 170 756	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	7 494 012	7 494 012	8 226 844
2.1.	Maintenance costs (total)	6 949 375	6 949 375	7 154 946
2.1.1.	Running costs	6 949 375	6 949 375	7 154 946
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	544 637	544 637	1 071 898
3.	Financial balance	-1 163 126	-1 163 126	0
4.	Financing	1 163 126	1 163 126	0
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	1 163 126	1 163 126	0

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	224 914 810	228 494 331	227 561 352
1.1.	Grant from the general revenue	224 914 810	228 494 331	227 561 352
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	42 640	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	224 914 810	228 494 331	227 561 352
2.1.	Maintenance costs (total)	224 914 810	228 494 331	227 561 352
2.1.1.	Running costs	2 275 510	2 732 647	2 700 330
2.1.2.	Interest expense	222 639 300	225 761 684	224 861 022
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	1 060 248	2 731 700	2 540 016
1.1.	grant from the general revenue	1 060 248	2 731 700	2 540 016
1.2.	chargeable services and other own revenues	0	0	0
1.3.	foreign financial assistance	0	0	0
1.4.	transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	97 248	107 450	98 275
2.1.	Maintenance costs (total)	0	0	0
2.1.1.	running costs	0	0	0
2.1.2.	interest expense	0	0	0
2.1.3.	subsidies, grants and social benefits	0	0	0
2.1.4.	regular payments into the European Community budget and international cooperation	97 248	107 450	98 275
2.1.5.	maintenance cost transfers	0	0	0
2.2.	expenditure for capital investments	0	0	0
3.	Financial balance	963 000	2 624 250	2 441 741
4.	Financing	-963 000	-2 624 250	-2 441 741
4.1.	Shares and other holdings in the equity of economic operators	-963 000	-2 624 250	-2 441 741

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	122 906 987	184 539 752	184 476 184
1.1.	grant from the general revenue	122 906 987	184 539 752	184 476 184
1.2.	chargeable services and other own revenues	0	0	0
1.3.	foreign financial assistance	0	0	0
1.4.	transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	122 906 987	184 539 752	184 476 184
2.1.	Maintenance costs (total)	122 906 987	184 539 752	184 476 184
2.1.1.	running costs	0	0	0
2.1.2.	interest expense	0	0	0
2.1.3.	subsidies, grants and social benefits	0	0	0
2.1.4.	regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	maintenance cost transfers	122 906 987	184 539 752	184 476 184
2.2.	expenditure for capital investments	0	0	0

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	172 913	179 400	171 156
1.1.	grant from the general revenue	172 913	179 400	171 156
1.2.	chargeable services and other own revenues	0	0	0
1.3.	foreign financial assistance	0	0	0
1.4.	transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	172 913	179 400	171 156
2.1.	Maintenance costs (total)	172 913	179 400	171 156
2.1.1.	running costs	172 913	179 400	171 156
2.1.2.	interest expense	0	0	0
2.1.3.	subsidies, grants and social benefits	0	0	0
2.1.4.	regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	maintenance cost transfers	0	0	0
2.2.	expenditure for capital investments	0	0	0

Table 17.
Central Government Basic Budget Financing and the Spending Thereof
for the Basic Budget Sub-Programme
“Technical Assistance for the Absorption of the European Economic
Area and the Norwegian Financial Mechanism” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	29 129	29 129	28 990
1.1.	grant from the general revenue	29 129	29 129	28 990
1.2.	chargeable services and other own revenues	0	0	0
1.3.	foreign financial assistance	0	0	0
1.4.	transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	29 129	29 129	28 990
2.1.	Maintenance costs (total)	29 129	29 129	28 990
2.1.1.	running costs	29 129	29 129	28 990
2.1.2.	interest expense	0	0	0
2.1.3.	subsidies, grants and social benefits	0	0	0
2.1.4.	regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	maintenance cost transfers	0	0	0
2.2.	expenditure for capital investments	0	0	0

6. Governance of the Institution

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

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	45 889	118 646	118 645
1.1.	grant from the general revenue	45 889	118 646	118 645
1.2.	chargeable services and other own revenues	0	0	0
1.3.	foreign financial assistance	0	0	0
1.4.	transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	45 889	118 646	118 645
2.1.	Maintenance costs (total)	45 889	118 646	118 645
2.1.1.	running costs	0	0	0
2.1.2.	interest expense	0	0	0
2.1.3.	subsidies, grants and social benefits	45 889	118 646	118 645
2.1.4.	regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	maintenance cost transfers	0	0	0
2.2.	expenditure for capital investments	0	0	0

State Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, negotiated procedure and a procurement procedure pursuant to Section 9 and Section 10 of the Public Procurement Law. For undertaking the procurement, the Treasurer establishes, based on its order, a procurement committee that is competent within the field of procurement in respect of which the contract is being awarded. Procurements are registered and the performance of contracts is monitored in the Centralised Resource Management System *Horizon*. In 2020, the Treasury undertook 10 procurements (excluding procurements valued under EUR 10,000 and procurements undertaken via the electronic Procurement System sub-system “e-orders”) and, as a result thereof, awarded contracts worth EUR 1,416,487, excluding VAT.

6. Governance of the Institution

6.2. Personnel and Personnel Management

At the beginning of 2020, there were 197 official positions in the Treasury. By implementing the expansion of accounting service functions, the total number of official positions at the end of the year was 214. In 2020, the average number of employees, including civil servants and employees on a long-term leave of absence, comprised 187, incl. 153 civil servants and 34 employees (please see the breakdown of the Treasury personnel by age and gender groups in Figure 19 and 20).

Figure 19.
Breakdown of the Treasury personnel by gender, 2016 to 2020 (%)

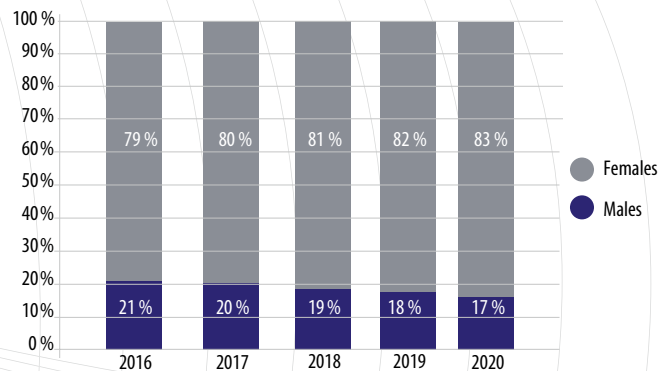
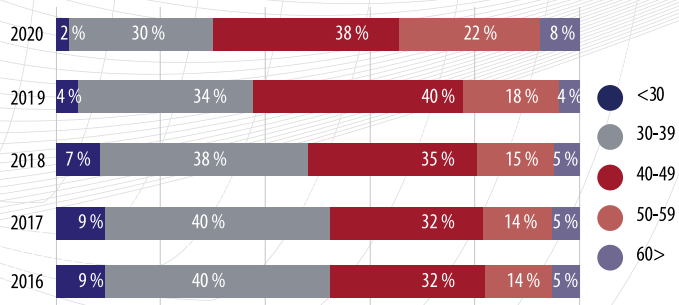
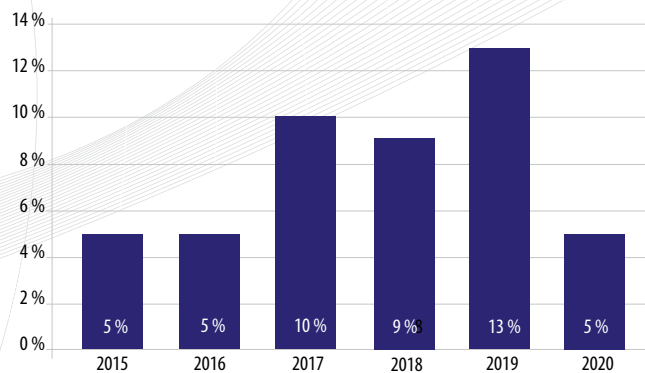


Figure 20.
Breakdown of the Treasury personnel by age, 2016 to 2020 (%)



The Treasury combines functions characteristic of a public administration institution and those of a banking sector operator with a dynamic work environment that is full of new challenges. In general, the personnel of the Treasury can be characterised by a long length of service, which speaks to the employees' loyalty to the Treasury as a workplace. In 2020, the percentage of the dismissed personnel was 5 % of those actually working, which has significantly decreased compared to 2019 (see Figure 21). There are still difficulties present in keeping and attracting highly skilled specialists for work in the Treasury, especially in the field of financial management, due to non-competitive remuneration in public administration. The Treasury places considerable focus on promoting the professional development of the employees, ensuring both horizontal and vertical career growth possibilities within the scope of the institution as far as possible, for example, by transferring employees to another position, engaging in the implementation of the development projects, etc.

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



The greatest asset of the Treasury is its highly educated and professional personnel – 99 % of those employed have higher education. In order to attract personnel, the Treasury cooperates with institutions of higher education and a recruitment agency.

With a view to ensuring a professional and impartial personnel selection process, a selection committee has been established; the committee selects the most suitable candidates by using well-structured criteria for assessing the candidates (scoring system) and arranging practical tests and interviews in several rounds.

At the time of approving the training plan for the current year, the Treasury assesses and determines the training needs 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 continues to seek the best solutions for the professional development and enhancement of the competencies of its employees, both by organising training adjusted for the needs of the Treasury for larger groups of employees, and by offering individual training options.

Similar to previous years, as well as to focus on the development of employee knowledge in the field of digitisation, the following training organised by the Treasury has been of relevance: *Power BI* data analysis and visualisation tool, basic principles of database creation and SQL basics, creation of data visualisation tool panels, basics of data literacy, critical and analytical thinking (*DLT*), also participation in the International Fintech Conference *Finovate Europe 2020* and *CPX 360 Europe* conference, in the field of AMLCTPF and sanction implementation, project management, using LEAN and AGILE methods, prevention of corruption and conflict of interests, and professional ethics of public officials, on the elements of modern information technology, updates in accounting and preparation of the Annual Report 2020, as well as other topics of relevance. During the Newcomer Days, civil servants and employees become acquainted with the functions of the Treasury, its strategic direction, quality and risk management, information security policy, as well as other information necessary for work.

Activities of the Treasury in 2020

20
20



6. Governance of the Institution

6.3. Quality, Risk and Information Security Management

Since 2006, the Treasury's quality management system has been certified in accordance with the requirements of the international standard ISO 9001 "Quality management systems. Requirements" requirements. Over 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 the services provided by the Treasury are of high quality and secure, by giving special attention to the operational stability and reliability of information processing systems, information security management is one of the Treasury's constant priorities.

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

In February 2021, the monitoring audit of the integrated management system of the Treasury has been performed successfully. The auditors of *SIA BM Certification* recognised that the Treasury successfully maintains and enhances the governance of the institution, monitors the impact of external and internal factors, manages the risks, and carries out internal audits. The auditors specifically emphasised the timely measures taken by the Treasury in 2020 for the successful provision of tasks and functions remotely, highly assessing the level of documents and records, as well as successful internal communication to ensure the continuity of business processes. As an example of good practice, the auditors highlighted the quality of internal audit reports and work of the Treasury's Committees.

All of the basic fields of activity of the Treasury have been certified: central government

budget implementation, central government debt and cash management, state loan and guarantee management, implementation of the functions of the Certifying Authority of EU funds and foreign financial aid, and the accounting and bookkeeping service.

In 2020, the Treasury, within the scope of implementation of Public Administration Reforms Plan 2020, continued the participation as a cooperation partner in the ESF project of the Ministry for Environmental Protection and Regional Development No. 3.4.2.3/18/1/001 "Development and Approbation of Public Service Transformation Methodology." The developed methodology of public administration service transformation offers approved tools for the transformation of all public administration service provision processes for faster and more efficient provision, reducing public administration costs and administrative burden, and creating preconditions for the faster development of public administration service provision process digitisation.

In 2020, the Treasury project management was improved: the organisational structure of the project was changed, the project planning and research phase was improved by defining more precise requirements for the evaluation of project initiatives, defining its objectives and resources, project monitoring and control was improved, determining more precise monitoring of project results and expected benefits, the basic principles of project phase implementation were clarified, project documentation was improved and digitised, and the manual was supplemented with the aforementioned Public Service Transformation Methodology.

When starting the approbation and use of new methods, the Treasury organised LEAN work groups of employees and implemented into practice projects for improving process efficiency. Within the scope of e-service improvement, UX/UI (user experience/user interface design) methods were used by developing layout sketches, test scenarios, testing (tree testing, card sorting), analysing usability (navigation tree tests, first click tests) and interviewing users to ensure interface prototypes appropriate for their needs.

Also the visual, content and technical modernisation of the Treasury intranet was performed, using the design thinking method, identifying and analysing user needs and creating modern intranet content in line with user habits.

6.4. Internal Control System

The internal control system of the Treasury has been established on the basis of broad key constituents of the internal control system: the control environment, job performance

appraisal, risk management, control activities, monitoring, an efficient flow of information and mutual communication.

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

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

In providing financial services, it is important to receive and analyse information about the clients and cooperation partners, their operation and implemented transactions, at the same time identifying and managing risks related to financial crime. The Treasury controls the provided financial services and improves the internal control system of the institution in the field of international and national sanctions and AMLCTPF, as well as carries out the supervision of the liabilities and transactions of the clients and partners.

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

The results of internal audits performed in 2020, as well as the process of implementation of audit recommendations, attested to the fact that the Treasury's internal control system is functioning and the assessed controls are generally adequate, sufficient and efficient, providing 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.

6. Governance of the Institution

6.5. Public Communication

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

Considering the functions delegated to the Treasury, its communication focuses primarily on rendering inter-institutional services, informing of clients and other interested parties²⁹, as well as targeted management of counterparty relations – provision of information to foreign and international financial institutions, credit rating agencies, and securities investors who use the information provided by the Treasury on public debt management, performance indicators and future trends, and current developments in the Latvian financial sector.

The Treasury regularly informs the mass media about the matters falling within its scope of competence: it prepares and distributes press releases, provides interviews, and replies to questions of interest to the mass media.

On the website of the Treasury www.kase.gov.lv information about the institution and its functions is available, information on the latest developments at the Treasury is posted and updated on the website on a regular basis, and it is also possible to ask questions and file submissions in electronic form. Visitors to the website can receive prompt answers to their enquiries, whereas the Treasury has the opportunity to familiarise itself with the issues that are of interest to the 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 sites Facebook and Twitter.

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

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

Table 19

Performance Indicators of the Governance of the Institution

Result	Performance indicator	Numerical values of the performance indicator in 2020	
		Projected	Implemented
1. Innovative, involved and result-orientated employee.	1.1. Employee engagement indicator (% of the number of employees).	75	31
2. Improved knowledge of employees in the field of digitisation.	2.1. Attended training, exchange of experience and other events (% of the number of employees).	65	93
3. Employee motivating work environment has been created.	3.1. Employee satisfaction with the work environment (% of the number of employees).	75	88 ³²
4. Compliance of the integrated management system with the requirements of ISO 9001 and ISO 27001 standards.	4.1. Number of discrepancies in certification and supervisory audits.	0	0
5. Client-orientated services, decreased administrative burden, quality e-management solutions (ensured transition to e-invoicing in public administration).	5.1. Number of e-invoices submitted and executed by suppliers to the Treasury (% of submitted invoices).	20	0 ³³
6. Clients of the Treasury are provided with easy-to-use and secure information technology solutions.	6.1. Availability of information systems used by the Treasury clients during working hours is not less than 98 % (% of working hours).	98	99.42
7. The activity of the Treasury has become more efficient.	7.1. The processes of the Treasury have been revised and optimised using efficiency methods (number of processes).	5	5
8. Improved internal control system of the institution.	8.1. Compliance of the activity of the Treasury with the requirements of Sanctions Law (%).	100	100

²⁹ 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.

³¹ Employee survey will be carried out in 2021.

³² In the employee satisfaction survey, including with regard to remote work, the following indicators are considered: remote work motivates, it does not reduce work productivity, satisfaction with provided equipment for remote work.

³³ Upon the implementation of e-invoicing, the Treasury concluded that no other institutions have implemented such solution. Therefore, during the implementation, even cooperation parties had to deal with various legal and technical matters; as a result, integration was created much later than originally planned. After carrying out the integration of the e-invoice management solution, it was established that regular suppliers of the Treasury are not yet ready to submit invoices in the form of e-invoices. It is expected that several suppliers will start the circulation of e-invoices at the beginning of 2021. Thus, although the solution has been implemented, the planned performance indicator (20 %) has not yet been reached due to reasons beyond the control of the Treasury.



The Treasury's Development Priorities for 2021

- 1) The strategic medium-term course of action towards innovative and efficient services within the existing funding and permissible number of positions, by automating processes and using modern technologies and digital transformation possibilities;
- 2) improvement of development planning to ensure the management of mutual synergy of the Treasury's development initiatives according to strategic objectives and development priorities of operation directions, and to improve project management and cost-benefit analysis of projects and development initiatives.

The Treasury Public Report for 2020

2020