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12 September 2013 [shall come into force from 1 January 2014].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*¹ has adopted and
the President has proclaimed the following Law:

Fiscal Discipline Law

Chapter I General Provisions

Section 1. Purpose of this Law

The purpose of this Law is to prescribe such fiscal policy principles and conditions which ensure a balanced budget in an economic cycle and thus facilitate sustainable State development, macroeconomic stability and reduce negative impact of external factors on the national economy.

Section 2. Scope of Application of this Law

(1) This Law prescribes fiscal policy principles, planning and implementation instruments thereof, surveillance of compliance with fiscal discipline, as well as sets out fiscal conditions to be complied with in drawing up and implementing medium-term budgetary framework law and annual State budget law and amendments thereof.

(2) This Law shall apply to the budget institutions, institutions non-financed from the budget and derived persons partially financed from the State budget laid down in the Law On Budget and Financial Management. The fiscal policy principles laid down in this Law shall be applicable also to other institutions to be included in the general government sector [within the meaning of Paragraph 2.70 of Annex A of Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community].

Section 3. Fiscal Policy

Fiscal policy is an aggregate of principles and decisions which determines the State functions in redistribution of revenues and expenditure.

Section 4. Fiscal Policy Principles

The following principles shall be observed in the implementation of fiscal policy:

- 1) economy principle – available resources shall be used usefully and efficiently;
- 2) accrual formation principle – if it is allowed by the economic situation, the budget shall be planned and implemented with surplus which in its turn allows to cover future commitments in the case of downturn of economic situation or non-performance of the budget;

¹ The Parliament of the Republic of Latvia

3) counter-cyclical fiscal policy principle – the fiscal policy which functions against tendencies of economic cycle, namely, restrictive fiscal policy is implemented in a phase of economic cycle upturn, but in the downturn phase – stimulating fiscal policy;

4) stability principle – financial policy is foreseeable and successive, and thus it promotes economic development and financial stability;

5) sustainable fiscal policy principle – the objective of the fiscal policy is to ensure that general government debt (within the meaning of Article 2 of Protocol 12 of the Treaty on the Functioning of the European Union) amount does not impose disproportionate burden on the economy, but facilitates the development thereof in the long-term;

6) mutual liability principle of generations – in the fiscal policy the financial impact on the society both, now and in the next generations, is taken into account;

7) transparency principle – information available for the public is ensured regarding fiscal policy objectives, achievement methods and results thereof;

8) solidarity principle – institutions included in the general government sector shall solidary comply with the fiscal rules laid down in this Law and applicable to general government sector.

Chapter II

Fiscal Rules for Drawing up of Draft Medium-term Budgetary Framework Law and Draft Annual State Budget Law, Implementation of these Laws and Drawing up of Amendments Thereto

Section 5. Fiscal Rules for Drawing up of Draft Medium-term Budgetary Framework Law

(1) A draft medium-term budgetary framework law (hereinafter – draft framework law) shall be drawn up for a period of three years, and the total amount of maximum permissible State budgetary expenditure from which equalised expenditure laid down in accordance with Section 18 of this Law is excluded (hereinafter – corrected maximum permissible State budget expenditure), – if a medium-term budgetary framework law (hereinafter – framework law) has been developed in the previous year – it is determined for the first and second year of the period accordingly in the amount of corrected maximum permissible State budget expenditure which in the framework law of the previous period was determined for the second and third year accordingly, but – if the framework law has not been developed for the previous year – it is determined for the first year of the period accordingly in the amount of corrected maximum permissible State budget expenditure which in the framework law of the previous period was determined for the third year, adjusting this amount, if changes are in the following items:

1) changes in the basic budget expenditure in relation to more current forecasts for the contingent of beneficiaries of the State social benefits and pensions;

2) changes in the special budget expenditure in relation to more current forecasts for the contingent of beneficiaries of social insurance services, as well as forecasts of average amount of pensions and benefits;

3) expenditure arising from forecasted changes in the paid services and other own revenues, as well as the sum of surplus from paid services fixed in the beginning of the current year and other own revenues;

4) increase of the expenditure which is necessary for the rectification of threat referred to in Section 62 of the Constitution, as well as rectification of material damages caused by natural disasters, accidents and other nature or social processes – complying with the condition of Section 12, Paragraph two of this Law;

5) increase of the expenditure necessary to perform judgements of the international courts and Constitutional Court;

6) expenditure in relation to European Union policy instruments and projects and measures financed by other foreign financial assistance funds;

7) expenditure for service of that part of the State debt, which is within the competence of the Treasury;

8) current payments into the European Union budget and international co-operation;

9) the increase of expenditure caused by fiscal risks nor referred to in Section 16, Paragraph five of this Law in the cases referred to in Section 17, Paragraphs four and five of this Law – taking into account the conditions of these Paragraphs;

10) the increase of those expenditure which arise from the adoption of the law or regulation in accordance with Section 9 of this Law, if in conformity with the conditions thereof the law or regulation providing to increase the State budget revenues in order to cover the increase of the relevant expenditure, or the decrease of expenditure in the amount which compensates decline of the State budget revenues, if the law or regulation is adopted providing to reduce the State budget revenues.

(2) If in accordance with Section 15 of this Law the amount of corrected maximum permissible State budget expenditure laid down in accordance with Section 15 of this Law, from which the fiscal security reserve for the relevant year has been deducted, in comparison to the amount of the expenditure which is laid down in accordance with Paragraph one of this Section and from which the fiscal security reserve laid down in the previous framework law for the relevant year has been deducted, differs for more than 0.1 per cent of the gross domestic product (in current prices), the amount of the corrected maximum permissible State budget expenditure laid down in accordance with Section 15 of this Law shall be included in the draft framework law for the relevant year.

(3) In the framework law for each year of the period the following indicators shall be set out:

1) forecasted gross domestic product in constant and current prices;

2) forecasted potential gross domestic product, forecasted growth rate of the gross domestic product and forecasted growth rate of the potential gross domestic product for two years following the third year of the period;

3) planned structural balance of the general government budget expressed in per cent from the gross domestic product and laid down in accordance with Section 10 of this Law. A term “structural balance of the general government budget” within this Law is used in the same meaning as the term “structural balance” in the Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies;

4) planned total deficit or surplus of the budgets of the institutions included in the general government sector (hereinafter – general government budget balance) in per cent of the gross domestic product;

5) forecasted State budget revenues;

6) equalised expenditure including:

a) total equalised expenditure of the relevant year;

b) equalised expenditure for the European Union structural funds and Cohesion Fund for the entire planning period and each year of the framework law period,

c) equalised expenditure for the Common Agricultural Policy and Common Fisheries Policy for the entire planning period and each year of the framework law period,

d) equalised State debt service expenditure related to expenditure for service of that part of the State debt, which is within the competence of the Treasury;

7) corrected maximum permissible State budget expenditure;

8) fiscal security reserve (Section 17);

9) other indicators set out in the Law On Budget and Financial Management.

(4) Explanations containing the following information shall be appended to the draft framework law:

1) regarding forecasted macroeconomic development, medium-term risk assessment thereof, as well as comparison with the medium-term macroeconomic forecasts laid down in the framework law of the previous year;

2) regarding medium-term objectives for fiscal policy, measures implemented for the achievement thereof, as well as comparison thereof with the medium-term objectives for fiscal policy laid down in the previous framework law;

3) regarding for the medium-term revenue forecast, as well as comparison thereof with the medium-term revenue forecast laid down in the previous framework law;

4) regarding medium-term development tendencies for the government debt;

5) on calculation of the indicators laid down in Paragraph three of this Section;

6) regarding correction of the balance, if it has been performed (Section 11);

7) regarding differences of accrued balances (Section 11, Paragraph four);

8) other indicators, if it is intended in the Law On Budget and Financial Management.

(5) In addition to the explanations laid down in this Section, Paragraph four a fiscal risk declaration (Section 16) and fiscal discipline surveillance report (Section 29) drawn up by the Fiscal Discipline Council shall be appended to the draft framework law.

Section 6. Fiscal Rules for the Drawing up of Amendments to the Framework Law

When drawing up amendments to the framework law, the same fiscal rules which apply to the drawing up of the draft framework law shall be complied with.

Section 7. Fiscal Rules for the Drawing up of the Draft Annual State Budget Law and Implementation of the Law

(1) If the framework law has been developed in the previous year, the draft annual state budget law shall be drawn up in accordance with the framework law, the first year of the period of which conforms to the financial year for which the particular draft State budget law is being drawn up. If the framework law has not been developed in the previous year, the draft annual state budget law shall be drawn up in accordance with the framework law, the second year of the period of which conforms to the financial year for which the particular draft State budget law is being drawn up. The adjusted forecasts for macroeconomic development and revenues shall be taken into account in the drawing up thereof.

(2) When drawing up the draft annual State budget law, the State budget expenditure, from which expenditure is excluded in those expenditure items, for which expenditure equalisation is laid down in accordance with Section 18 of this Law, shall be determined less than corrected maximum permissible State budget expenditure laid down in the framework law for the relevant year which is adjusted in the cases referred to in Section 5, Paragraph one of this Law. This difference shall be fiscal security reserve (Section 17).

(3) When implementing annual State budget law, the total amount of corrected maximum permissible State budget expenditure laid down in the framework law for the relevant year, from which fiscal security reserve has been deducted, may not be exceeded, except for the cases referred to in Section 5, Paragraph one of this Law.

Section 8. Fiscal Rules for the Drawing up of Amendments to Annual State Budget Law

When drawing up amendments to annual State budget law, the State budget expenditure, from which expenditure is excluded in those expenditure items, for which expenditure equalisation is laid down in accordance with Section 18 of this Law, shall be determined less than corrected maximum permissible State budget expenditure laid down in

the framework law for the relevant year which is adjusted in the cases referred to in Section 5, Paragraph one of this Law. This difference shall be fiscal security reserve (Section 17).

Section 9. Adoption of Laws and Regulations Having Impact on the Budget

(1) If the Cabinet submits draft project to the *Saeima* for examination which causes exceedance of the corrected maximum permissible State budget expenditure laid down in the framework law that is not related to the cases referred to in Section 5, Paragraph one of this Law or that causes decrease in the State budget revenues planned in the framework law, the Cabinet shall also submit a draft law or draft laws to the *Saeima* concurrently, which provide compensating of increase in expenditure or decrease in revenues. Compensating is carried out by increasing revenues or decreasing expenditure.

(2) If the Cabinet adopts a regulatory enactment which causes exceedance of benchmark of corrected maximum permissible State budget expenditure laid down in the framework law that is not related to the cases referred to in Section 5, Paragraph one of this Law or that causes decrease in the State budget revenues planned in the framework law, the Cabinet shall ensure that the regulatory enactment or regulatory enactments come into force concurrently, which compensate increase in expenditure or decrease in revenues. Compensating is carried out by increasing revenues or decreasing expenditure.

(3) If the laws and regulations increasing expenditures or decreasing revenues referred to in Paragraph one and two of this Section worsen also structural balance of the general government budget, the Cabinet shall ensure that the compensating law or regulation or compensating laws or regulations submitted to the *Saeima* (in the case referred to in Paragraph one of this Section), or the law or regulation or laws and regulations adopted by the Cabinet (in the case referred to in Paragraph two of this Section) guarantee equalisation of the structural balance of the general government budget.

Section 10. Balance Rule

Structural balance of the general government budget may not be determined lesser than -0.5 per cent in the draft framework law for each year of the period from the gross domestic product for the relevant year (hereinafter – minimum planned structural balance of the general government budget).

Section 11. Adjustment of Minimum Planned Structural Balance of the General Government Budget

(1) When drawing up the draft framework law, the minimum planned structural balance of the general government budget shall be adjusted in accordance with the procedures laid down in this Section, in order to ensure that actual deviations of previous years from the balance rule do not impact balanced position of the budget.

(2) Until 1 December of the next year the Ministry of Finance shall calculate a difference between actual structural balance of the general government budget and minimum planned structural balance of the general government budget for each financial year.

(3) If the Ministry of Finance has recalculated actual structural balance of the general government budget in previous financial years, it shall also recalculate difference between balances when performing calculation.

(4) The Ministry of Finance shall keep record of the sums of differences of balances for all years in the national currency. The minimum planned structural balance of the general government budget shall be adjusted, if in the year of drawing up of the framework law the sum of accrued differences of balances, deducting increase of structural balance of the general government budget already applied in the previous three years (Paragraph five of this

Section), is negative and absolute value thereof is at least 0.5 per cent of the gross domestic product of the relevant year. Adjustment shall be carried out in accordance with Paragraph five of this Section and taking into account the conditions of Paragraph six and seven of this Section.

(5) In the draft framework law for the third year the minimum planned structural balance of the general government budget shall be determined greater for 0.5 per cent of the gross domestic product than that laid down in Section 10 of this Law.

(6) Adjustment shall not be carried out, if the forecasted difference between gross domestic product and potential gross domestic product in constant prices is negative. Adjustment shall be carried out in the year when the abovementioned difference is positive.

(7) If, in drawing up the draft framework law, the adjustment of the minimum planned structural balance of the general government budget was intended in respect to the first or second year of the period, however the negative value of differences of balances accrued during the drawing up of such draft framework law has diminished for 0.5 per cent from the gross domestic product, the adjustment shall not be performed.

Section 12. Deviation from Balance Rule

(1) In drawing up the draft framework law, deviation from the condition of Section 10 of this Law can be made in the following cases:

1) measures for rectification of material damages caused by natural disasters, accidents and other nature or social processes are to be implemented the forecasted costs of which in one financial year exceed 0.1 per cent of the gross domestic product of the relevant year;

2) threat referred to in Section 62 of the Constitution is to be rectified;

3) during a severe economic downturn. In this Law the term “a severe economic downturn” is used in the same meaning as in the Council Regulation (EC) No 1056/2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

(2) The amount of deviation may not exceed the amount of necessary costs in the cases referred to in Paragraph one, Clauses 1 and 2 of this Section.

(3) In the case referred to in Paragraph one, Clause 3 of this Section the deviation shall be permissible in the amount which is necessary for overcoming of a severe economic downturn and it may not exceed the forecasted decrease in revenues. When determining the amount of deviation, an opinion of the Fiscal Council shall be assessed.

Section 13. Expenditure Growth Rule

Draft framework law shall be drawn up by taking into account expenditure growth rule which in accordance with Article 9 of Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies is applied when drawing up the assessment by the European Commission referred to in this Article of the Regulation.

Section 14. Debt Criterion

(1) Draft framework law shall be drawn up taking into account the criterion that the general government debt may not exceed 60 per cent of the gross domestic product in the end of the financial year.

(2) The general government debt shall be calculated in accordance with the methodology for the calculation of the general government debt laid down in the Council Regulation (EC) No

2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community.

Section 15. Determination of Corrected Maximum Permissible State Budget Expenditure

When drawing up the draft framework law, the corrected maximum permissible State budget expenditure for the relevant year shall be determined so that the balance rule and expenditure growth rule are observed concurrently.

Section 16. General Management of Fiscal Risks

(1) The Cabinet shall ensure the general management of fiscal risks. The objective of the general management of fiscal risks is to ensure the stability of indicators laid down in Section 5, Paragraph three, Clauses 1, 3, 4, 5 and 7 of this Law (hereinafter – fiscal indicators) in the medium-term regardless of the changes caused by external factors, as well as to reduce impact of changes caused by external factors in fiscal indicators in each year of the framework law period.

(2) General management of fiscal risks shall include annual fiscal risk identification, probability of setting in thereof and fiscal impact assessment, as well as development of measures necessary for the fiscal risk rectification or reduction. General management of fiscal risks shall include also a mechanism in conformity with which the institutions contained in the general government sector shall co-operate in the performance of the above mentioned functions.

(3) The Cabinet shall develop the procedures for implementation of general management of fiscal risks.

(4) The measures necessary for ensuring of the stability of fiscal indicators laid down in the draft framework law shall be determined in a declaration of fiscal risks which is approved by the Cabinet. The declaration of fiscal risks shall contain:

1) a summary of description of the general management of fiscal risks, the surveillance measures taken and planned, proposals for the improvement of the risk management system and assessment of the progress achieved in the introduction thereof, as well as comparison of the referred to information with the information provided in a previous declaration of fiscal risks;

2) classification of fiscal risks;

3) methods for impact of fiscal risks and probability of setting in thereof;

4) a detailed outline (description of the risk source, amount of commitments undertaken, fiscal impact, probability of setting in, risk management mechanism, a mechanism used for the rectification of consequences of risk event, changes in the referred to information in comparison to a previous declaration of fiscal risks) of fiscal risks the probability of setting in and fiscal impact of which have been assessed (hereinafter - quantifiable fiscal risks);

5) outline of fiscal risks the probability of setting in and fiscal impact of which have been not assessed (hereinafter – non-quantifiable fiscal risks) by including therein also the information referred to in Clause 4 of this Paragraph as possible;

6) calculation of fiscal security reserve (Section 17), including the calculation of fiscal security in respect of each fiscal risk included in a declaration of fiscal risks for which a reserve is calculated.

(5) A declaration of fiscal risks shall include at least the following quantifiable fiscal risks:

1) increase in current payments into the European Union budget and international co-operation;

2) increase in expenditure necessary for the implementation of projects and measure and non-reimbursable from the relevant programme for such financial aid programmes if the

European Union policy instruments and other foreign countries for which expenditure equalisation is not applied;

3) increase in the basic budget expenditure in relation to more current forecasts for the contingent of beneficiaries of the State social benefits and pensions;

4) increase in the special budget expenditure in relation to more current forecasts for the contingent of beneficiaries of social insurance services, as well as forecasts of average amount of pensions and benefits.

Section 17. Fiscal Security Reserve and Conditions for Covering of Expenditure Caused by Fiscal Risks

(1) Fiscal security reserve purpose is to ensure the planned general government budget balance laid down for the relevant year in the framework law in case of mild macroeconomic fluctuations and in case of covering of expenditure caused by quantifiable fiscal risks included in a declaration of fiscal risks.

(2) In the draft framework law the amount of fiscal security reserve shall be laid down in conformity with quantifiable fiscal risks included in a declaration of fiscal risks. It may not be less than 0.1 per cent of the gross domestic product.

(3) The Cabinet shall approve the methodology for determination of the amount of fiscal security reserve.

(4) If the amount of fiscal security reserve is not sufficient for covering of expenditure caused by quantifiable fiscal risks included in a declaration of fiscal risks, expenditure may exceed corrected maximum permissible state budget expenditure.

(5) Expenditure caused by non-quantifiable fiscal risks included in a declaration of fiscal risks and fiscal risks not included therein, if they do not conform to the conditions laid down in Section 12, Paragraph one, Clauses 1 and 2 of this Law and if the total amount thereof does not exceed 0.1 per cent of the gross domestic product, may be performed exceeding the corrected maximum permissible State budget expenditure.

(6) The Cabinet shall draw up proposals for reduction of expenditure in other expenditure items or for increase of revenue, in order to compensate expenditure caused by non-quantifiable fiscal risks included in a declaration of fiscal risks and fiscal risks not included therein, if they do not conform to the conditions laid down in Section 12, Paragraph one, Clauses 1 and 2 of this Law and if the total amount thereof exceeds 0.1 per cent of the gross domestic product.

Section 18. Expenditure Equalisation Mechanism

(1) In order to ensure a stable medium-term planning of expenditure, expenditure equalisation mechanism shall be applied to certain State budget expenditure items.

(2) Expenditure equalisation mechanism is applied to the following State budget expenditure items:

1) expenditure for the European Union structural funds, Cohesion Fund, Common Agricultural Policy and Common Fisheries Policy;

2) State budget expenditure related to expenditure for service of that part of State debt, which is within the competence of the Treasury;

(3) Total equalised expenditure of the relevant year shall be determined as the sum of equalised expenditure referred to in Paragraph two of this Section which is calculated in accordance with Paragraph four and six of this Section.

(4) Amount of equalised expenditure for the projects and measures of the European Union structural funds, Cohesion Fund, Common Agricultural Policy and Common Fisheries Policy shall be determined:

1) in a year which is covered by a programme period – by dividing the total amount of expenditure of the relevant fund or policy projects and measures not to be covered from the financial aid programme of foreign states by the number of years of the programme period and adding the amount of expenditure of the relevant year to be covered from the financial aid programme of the relevant year;

2) in a year which is not covered by a programme period – in the amount of expenditure of the relevant year to be covered from the financial aid programme of foreign states.

(5) A programme period within the meaning of this Law shall be a planning period of the financial aid programme of foreign states.

(6) The State debt service equalised expenditure shall be determined for each year of the framework law in accordance with a tendency of increase of the State debt, by excluding expenditure fluctuations arising from the forecasted fluctuations of interest rates.

(7) The Cabinet shall approve the methodology for the calculation of the State debt service equalised expenditure.

Section 19. Exceedance of the State Basic Budget Actual Revenues over Actual Expenditure and Use Thereof

(1) Exceedance of the State basic budget actual revenues over actual expenditure is included in the long-term stabilisation reserve or shifted for repayment of the State debt.

(2) The condition of Paragraph one of this Section shall not apply to such exceedance of actual revenues of the State budget over actual expenditure, which is to be used in further years in accordance with other laws.

(3) Each year the Cabinet shall decide on shifting of the exceedance – if any – to repayment of the government debt or inclusion thereof in the long-term stabilisation reserve.

Section 20. Macroeconomic Forecasts

(1) Medium-term macroeconomic forecasts, including forecasts of growth rate of the gross domestic product, deflator forecasts of the gross domestic product and forecasts of growth rate of the potential gross domestic product shall be developed by the Ministry of Finance.

(2) Macroeconomic forecasts shall be co-ordinated with the Bank of Latvia and the Ministry of Economics.

Chapter III Fiscal Discipline Surveillance

Section 21. Status of Fiscal Discipline Council

The Fiscal Discipline Council (hereinafter – Council) shall be independent collegial institution which is established for the surveillance of complying with this Law.

Section 22. Composition of the Council

(1) The Council shall consist of the following six members:

1) three representatives nominated according to the joint proposal of the Governor of the Bank of Latvia and Minister for the Finance;

2) three representatives nominated by at least ten deputies of the *Saeima*.

(2) Specialists of the field of finances and economics from Latvia or other Member State of the European Union who have experience in fiscal policy issues may be elected as members of the Council.

(3) The signatures of submitters of the candidacy mean that the nominated candidate has agreed for the nomination of his or her candidacy.

Section 23. Powers of Members of the Council

Members of the Council shall be approved in the office by the *Saeima* for six years. One and the same member of the Council may hold the office in the Council for not more than two terms of office in succession.

Section 24. Restrictions for Members of the Council

A member of the Council may not be:

- 1) a person who holds a position in a political party or in an association of political parties;
- 2) a person who has been sentenced for committing an intentional criminal offence, unless he or she has been exonerated or criminal offence is not deleted or removed.

Section 25. Termination of Powers of Members of the Council

(1) Powers of a member of the Council shall terminate if:

- 1) he or she is dismissed from his or her office by a decision of the *Saeima*;
- 2) the term of his or her powers has expired;
- 3) if he or she has been convicted of committing an intentional criminal offence and the judgement has come into legal effect.

(2) The *Saeima* shall release a member of the Council from the office if he or she:

- 1) leaves his or her office of his or her own free will. The member of the Council shall notify the Council in writing regarding leaving of the office, which informs the *Saeima* within 14 days after receipt of the submission.
- 2) he or she has not participated in the work of the Council, has not attended more than half of the Council meetings without justification, or can not fulfil his or her office duties due to illness or other reasons for more than six months in succession;
- 3) the circumstances specified in the laws and regulations prohibiting the person concerned from being a member of the Council have been determined.

Section 26. Chairman of the Council

(1) Members of the Council shall elect a Chairman of the Council from amongst them by open ballot with a simple majority of votes for three years. One and the same person may hold the office of the Chairman of the Council not more than six years in succession.

(2) The Chairman of the Council shall:

- 1) organise and manage the work of the Council;
- 2) convene and chair meetings of the Council;
- 3) hire and dismiss from work the secretariat of the Council;
- 4) represent the Council without special authorisation.

Section 27. Vice-chairperson of the Council

(1) Members of the Council shall elect a Vice-chairperson of the Council from amongst them by open ballot with a simple majority of votes for three years. One and the same person may hold the office of the Vice-chairperson of the Council not more than six years in succession.

(2) A vice-chairperson of the Council shall perform the functions laid down in Section 26, Paragraph two of this Law during the absence of the Chairman of the Council.

Section 28. Competence of the Council

- (1) The Council shall supervise the compliance with fiscal rules laid down in this Law when drawing up the draft framework law and draft annual State budget law, implementation of these laws and drawing up of amendments thereto.
- (2) The Council shall examine the correctness of application of balance rule and expenditure growth rule, including when performing independent assessment of potential gross domestic product and nominal gross domestic product and structural balance calculation.
- (3) The Council shall supervise observance of the conditions of this Law in the implementation of the annual State budget law, conformity of total fiscal indicators of the consolidated budget of local governments and budgets of derived public persons with the forecasted values.
- (4) The Council shall draw up an opinion on how large deviation from the balance rule is permissible during a severe economic downturn (Section 12, Paragraph one, Clause 3).
- (5) The Council shall draw up an opinion regarding the conformity of a fiscal security reserve with the fiscal risks present in the State (Section 16, Paragraph four).
- (6) The Council shall draw up a fiscal discipline surveillance report and, where necessary, non-conformity report (Section 29).
- (7) The Council shall draw up and submit to the *Saeima* and Cabinet an opinion in other fiscal policy and macroeconomic development issues, if it considers them as substantial for the complying with the norms set out in this Law.
- (8) In order to prepare reports laid down in this Law, the Council shall assess and analyse the sustainability of the State fiscal policy.
- (9) The Council has the following rights:
 - 1) in conformity with the competence thereof to co-operate with the State and local government institutions, legal and natural persons, as well as foreign institutions;
 - 2) to request and receive information from the State institutions necessary for the performance of the tasks of the Council;
 - 3) to provide the Ministry of Finance and the Cabinet with recommendations in issues regarding development of the draft framework law and draft annual State budget law;
 - 4) to invite experts and other specialists to participate and provide opinion in the meetings of the Council;
 - 5) to provide proposals to the Cabinet regarding necessary amendments to the laws and regulations related to the State fiscal discipline.
- (10) If a Member of the Council has different opinion regarding any issue included in the reports of the Council, he or she has the right to append it to the report within five working days.

Section 29. Reports of the Council

- (1) The Council shall draw up a fiscal discipline surveillance report before submission of the draft framework law to the *Saeima*. The report shall be appended to the draft framework law and submitted to the *Saeima*. The report shall be published also on the website of the Ministry of Finance.
- (2) If the Council detects infringements of this Law or they become known to the Council, it shall draw up a non-conformity report where recommendations for the rectification of non-conformities shall be included. The non-conformity report shall be drawn up immediately after detection of non-conformity, submitted to the Cabinet and *Saeima*, as well as published on the website of the Ministry of Finance.

Section 30. Convening of Council Meetings and Adoption of Decisions

- (1) The Council shall develop and approve internal rules for the determination of the activities thereof. The internal rules shall provide the time and procedures for convening of current meetings of the Council.
- (2) Extraordinary meeting of the Council shall be convened, if it is requested by the Chairperson of the Council or at least four members of the Council.
- (3) The Council shall have quorum if at least four members of the Council participate in the meeting thereof and a decision shall be taken if not less than four members of the Council votes for it.
- (4) The decisions taken by the meeting of the Council and reports drawn up by the Council shall be publicly accessible.

Section 31. Ensuring of the Work of the Council

- (1) The Council shall determine the functions and office duties for the Secretariat of the Council.
- (2) The activities of the Council shall be technically ensured by the Ministry of Finance.
- (3) The members of the Council shall receive remuneration in conformity with the Law On Remuneration of Officials and Employees of State and Local Government Authorities and in proportion to the duration worked. The hourly wage rate for members of the Council shall be determined applying the coefficient 0.056 to the amount of the average monthly remuneration for work for the workforce in the State as published in the official statistical notification of the Central Statistical Bureau of the year before last, which is rounded off to full euro. The amount of remuneration to be disbursed shall not exceed the amount laid down in Section 3, Paragraph 6.³ of the Law On Remuneration of Officials and Employees of State and Local Government Authorities.
- (4) Remuneration for experts invited by the Council shall be determined in proportion to the time work and in conformity with the average price for equal work on the labour market.
- (5) The remuneration of the Secretary of the Council shall be determined in conformity with the Law On Remuneration of Officials and Employees of State and Local Government Authorities. The Secretary of the Council shall be employed in the Council within the framework of usual working hours.
- (6) The Ministry of Finance shall plan the expenditure necessary for the provision of the work of the Council in a separate budget programme (sub-programme) of the Ministry of Finances, by intending:
 - 1) remuneration for the members of the Council in accordance with Paragraph three of this Section at least for six meetings of the Council per year, including at least for eight hours in relation to preparing for each meeting of the Council;
 - 2) remuneration for the Secretary of the Council;
 - 3) remuneration for experts invited by the Council – in the amount of not less than 50 per cent of the remuneration fund of the members of the Council and Secretary of the Council;
 - 4) transport expenditure and expenditure for compensations of accommodation for the members of the Council in accordance with Section 3, Paragraph 6.³ of the Law On Remuneration of Officials and Employees of State and Local Government Authorities, by complying with the following conditions:
 - a) if aircraft is used, expenditure to be compensated shall not exceed costs for travel in economy class,
 - b) expenditure for accommodation shall be compensated for not more than three nights not exceeding 100 euro per one night;

5) expenditure necessary for the technical provision of the activities of the Council.
[12 September 2013]

Transitional Provisions

1. The condition of Section 10 of this Law shall be applied starting from the time when the structural balance of the planned general government budget of the previous year is greater than -1.0 per cent of the gross domestic product in current prices. Until performance of this condition the structural balance of the general government budget shall be planned higher for at least 0.5 per cent of the gross domestic product in current prices than the planned or actual structural balance of the general government budget in the previous year. If in an international agreement approved by the *Saeima* other pace of increase of the structural balance of the general government budget is determined, the pace of increase laid down in the international agreement shall be applied instead of the pace of 0.5 per cent.
2. When drawing up the draft framework law for 2014, 2015 and 2016:
 - 1) a declaration of fiscal risks shall not be appended thereto;
 - 2) corrected maximum permissible State budget expenditure for the first and second year of the period shall be laid down in accordance with Section 15 of this Law and complying with Paragraph 1 of these Transitional Provisions.
3. A fiscal security reserve shall not be determined for 2014 and 2015. Fiscal security reserve for 2016 shall be determined as 0.1 per cent of the gross domestic product.
4. In 2014 the conditions of this Law shall be applied to the fiscal risks laid down in Section 16, Paragraph five of this Law, which are applicable to the quantifiable risks included in the declaration of fiscal risks.
5. Expenditure equalisation to the State debt service expenditure shall be applied from 2017.
6. Expenditure equalisations for the projects and measures of the European Union structural funds, Cohesion Fund, Common Agricultural Policy and Common Fisheries Policy shall be applied from 2016.
7. A difference between actual structural balance of the general government budget and minimum planned structural balance of the general government budget for referred to in Section 11 of this Law shall be started to calculate for 2013 and the first calculation the Ministry of Finance shall perform until 1 December 2014.
8. The Council shall start activities from 1 January 2014.
9. The *Saeima*, when electing the Council for the first time, shall elect three members thereof – the representatives referred to in Section 22, Paragraph one, Clause 1 of this Law - for six years, but the representatives referred to in Section 22, Paragraph two, Clause 2 of this Law - for three years.

Informative Reference to the European Union Directive

This Law contains legal norms arising from Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

This Law has been adopted by the *Saeima* on 31 January 2013.

President

A. Bērziņš

Riga, 20 February 2013