



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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Uz _____ Nr. _____

**The Chairperson of the Saeima
of the Republic of Latvia
Mrs Ināra Mūrniece**
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**Prime Minister
of the Republic of Latvia
Mrs Laimdota Straujuma**
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**Chairman of the Budget and Finance (Tax) Committee
Saeima of the Republic of Latvia
Mr Kārlis Šadurskis**
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**The Minister of Finance
of the Republic of Latvia
Mr Jānis Reirs**
e-mail: pasts@fm.gov.lv

Dear Mesdames Mūrniece and Straujuma,
Dear Messrs Šadurskis and Reirs,

*Non-conformity report regarding the Fiscal Security Reserve and
the appropriation for payments to the Budget of the European Union*

According to the Law on Fiscal Discipline (FDL) Article 28 Part 7 the Fiscal Discipline Council (Council) shall prepare and submit to the Saeima and the Cabinet's attention of fiscal policy matters, where it finds them important to comply with the FDL terms.

According to Article 29 Part 2 the Council shall prepare a non-conformity report including recommendations for the rectification of non-conformities, if the Council detects infringements of the FDL. The non-conformity report shall be prepared as soon as the non-conformity has been detected, submitted to the Cabinet and Saeima and published on the website of the Council and of the Ministry of Finance.

The Cabinet of Ministers has passed and submitted through the Ministry of Finance¹ to the Saeima Budget Committee a proposition to the draft law "On State budget 2016" and to the draft law "On Medium-term budget framework 2016-2018" for review in the second reading. The proposal contains the reassigning of funding in the amount of 10 million EUR annually from the sub-programme 41.01.00 "Regular payments in the budget of the European Union" to the sub-programme 33.01.00 "Treatment" of the Ministry of Health's budget to provide for the wage increase of medical professionals and other professionals working in the health care system. The substantiation for the reduction of estimate for the amount of funding required for payments in the budget of the EU has not been disclosed in the decision or the documents attached to the meeting of the Cabinet.

The Council would like to draw your attention to the lack of provision for the Fiscal Security Reserve for 2016 in the draft State Budget 2016 and Medium-term Budget Framework Law for 2016-2018 in the amount of 0.1% of GDP as stipulated by the transition provision 3 of the FDL. The Council has pointed out this irregularity in its annual Monitoring report 2015 with the understanding that the Government would make up for the lack of the reserve by restraining the growth of expenditures or other measures improving the fiscal balance during the adoption of the 2016 budget and during the budget execution.

The funds for the regular payments to the budget of the European Union belong to a special category of the budget funds, which could be appropriated by a decision of the Minister of Finance in excess of the approved allocation in the annual State Budget according to the parts 14 and 16 of the Article 9 of the Law on Budget and Financial Management. Therefore, the Council regards any re-appropriation from such special categories as additional fiscal risk. Furthermore, this adds to the estimated cumulative negative departures from the established fiscal targets in budget outturn for 2014 and 2015, as well as numerous fiscal risks outlined for 2016, which could result into general government budget deficit reaching 1.2% according to the European Commission estimates in the assessment of the Draft Budget Plan for 2016.

In view of the above decision made by the Cabinet of Ministers, the Council proposes that the Saeima consider the following:

1. Use the appropriation for contingencies (*Līdzekļi neparedzētiem gadījumiem*) for the purposes of funding the increase of wages in the health sector.
2. Replenish the appropriation for contingencies only after providing adequate savings during 2016 from revenue increases or expenditure savings for establishing the Fiscal Security Reserve in the amount of 0.1% of GDP.

The Council members have been consulted on this non-conformity report through written consultation.

Council chairman

Jānis Platais

Council secretary

Dace Kalsone

¹ The letter of the Ministry of Finance dated 20 November 2015 No 2-7-02/6139 based on decision of the Cabinet of Ministers minutes No 59 dated 16 November 2015 § 23 Part 10.