



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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RĪGĀ

04.10.2017. \_\_\_\_\_ Nr. 1-08/1503 \_\_\_\_\_

Uz \_\_\_\_\_ Nr. \_\_\_\_\_

**Prime Minister**  
**Republic of Latvia**  
**Māris Kučinskis**  
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**Chairman of the Budget and Finance (Tax) Committee**  
**Saeima of the Republic of Latvia**  
**Jānis Vucāns**  
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**Minister of Finance**  
**Republic of Latvia**  
**Dana Reizniece-Ozola**  
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Dear Messrs Kučinskis and Vucāns,  
Dear Madam Reizniece-Ozola,

*Non-conformity report regarding the reallocation of appropriations from the Ministry of Finance's budget sub-programmes "Payments to the budget of the European Community"*

According to Part 1, Section 28 of the Fiscal discipline law, the Fiscal discipline council (hereafter – Council) shall monitor whether the medium term budget framework law and the annual state budget law are prepared and implemented in compliance with the fiscal rules stipulated in the Fiscal discipline law.

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 Fiscal discipline law. 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.

During the Cabinet meeting that took place on 3 October 2017 the Cabinet discussed agenda items that foresee the reallocation of funds from the budget sub-programme "Payments to the budget of the European Community" in the amount of 3 419 478 euro.

Funds from "Payments to the budget of the European Community" will be allocated to the Ministry of Culture's budget programmes "Cultural Education" (2 920 746 euro for material and technical support) and "Cultural Heritage" (498 732 euro for the purposes of research, conservation and restoration).

Section 8 of the Fiscal discipline law stipulates that modifications to the budget should be accompanied by a re-assessment of the corrected maximum permissible State budget expenditure ceilings in the cases stipulated by Section 5 of the Fiscal discipline law. Point 8 of Part 1, Section 5 stipulates that this applies to cases when there are changes to the current payments to the budget of the European Union. Point 7 of Part 1, Section 5 stipulates that this applies to cases when there are changes to the expenditure for service of that part of the State debt, which is within the competence of the Treasury.

In view of the above, the Cabinet decision of 3 October 2017 to reallocate savings reduces maximum permissible government expenditures for 2017 by 3 419 478 euro.

According to Section 9, Part 2 of the Fiscal discipline law, if the Cabinet adopts a regulatory enactment which causes an exceedance of maximum permissible State budget expenditures laid down in the framework law that is not related to the cases referred to in Section 5, Part 2 of the Fiscal discipline law, or causes a decrease of planned State budget revenues, the Cabinet shall ensure that a regulatory enactment or regulatory enactments come into force concurrently, which compensate the increase in expenditure or decrease in revenues.

In view of the above, the Council objects to the decision made during the Cabinet meeting of 3 October to reallocate funds from the Ministry of Finance's budget sub-programmes "Payments to the budget of the European Community". This decision reduces maximum permissible government expenditures. The decision to allocate additional funds for the abovementioned purposes when there is no fiscal space is not consistent with the restrictions stipulated in the Fiscal discipline law regarding maximum permissible government expenditure.

The Council underlines that previous non-conformities that arose as a result of (i) decoupling the submission of the draft legislation of the tax reform from the medium-term budget framework, thus exceeding the maximum permissible State budget expenditures for 2018 and 2019 stipulated in the current medium-term framework, (ii) the decision to reallocate funds from "Payments to the budget of the European Community" to the sub-programmes of the Ministry of Transport (Cabinet meeting, 5 September), (iii) the decision to reallocate funds from "Payments to the budget of the European Community" to the sub-programmes of the Ministry of Health (Cabinet meeting, 14 September) and (iv) the decision to reallocate funds from "Payments to the budget of the European Community" and "State debt management" (Cabinet meeting, 19 September), have yet to be resolved.

In order to rectify the non-conformity created on 3 October 2017 the Council recommends the following:

1. The Cabinet should prepare normative acts that fully compensate the decision to allocate an additional 3 419 478 euro and thus exceed maximum permissible state budget expenditures for 2017 stipulated in the medium-term budget framework.

Chairman of the Council

Jānis Platais

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