



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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RĪGĀ

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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
pasts@fm.gov.lv**

Dear Mister Kučinskis,
Dear Mister Vucāns,
Dear Madam Reizniece-Ozola,

Non-conformity report regarding the maximum expenditure ceilings

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 30 January 2018 the Cabinet adopted the conceptual report on "On the proposals of the Cooperation Platform "Demogrāfisko lietu

centrs" (*Demographic Affairs Center*) in support of families with children in 2018-2020"¹. Specifically the Cabinet accepted a proposal that allows reallocation of funds earmarked for the state family benefits for the purposes of implementing other priority measures proposed by the Demographic Affairs Center, if any savings in this budget category are identified.

Any expenditure savings achieved in the budget estimates for the categories listed under the Article 5(1) of the Fiscal Discipline Law is reducing expenditure ceilings thus making any reallocation of expenditure a breach of the requirements of the Fiscal Discipline Law.

Article 8 of the Fiscal Discipline Law stipulates that amendments to the budget should be accompanied by a re-assessment of the corrected state budget expenditure ceilings in the cases stipulated by the Article 5 of the Fiscal Discipline Law.

Article 5 (1-1) of the Fiscal Discipline Law stipulates that this applies to cases when there are changes to basic budget expenditure in relation to more current forecasts for the contingent of beneficiaries of the state social benefits and pensions.

According to Article 9 (2) of the Fiscal Discipline Law, if the Cabinet adopts a regulatory enactment which causes budget expenditure to exceed state budget expenditure ceiling established in the Medium-term Budget Framework Law that is related to the cases referred to in Section 5, Part 1 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.

The Council can not agree with the view that the reallocation of appropriations is permissible in the sense of Latvian law as redistribution results in the modification of the appropriations covered by the provisions of Chapter II of the Fiscal Discipline Law.

In view of the above, the Council finds the decision made during the Cabinet meeting on 30 January to reallocate funds from the Ministry of Welfare's family state benefits programme not compliant with the requirements of the Fiscal Discipline Law. The decision to allocate additional funds reducing any appropriation that has flexibility clauses established in the Article 5 (1) of the Fiscal Discipline Law is causing allocation in excess of the expenditure ceilings stipulated in the Medium-term Budget Framework Law.

In order to rectify the non-conformity created on 30 January 2018 the Council recommends the following:

The Cabinet should not consider proposals to reallocate the expenditure savings achieved under the categories outlined in Article 5(1) of the Fiscal Discipline Law and thus exceed maximum permissible state budget expenditures for 2018 and further years stipulated in the medium-term budget framework.

Chairman of the Council

Jānis Platais

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¹ Please see 25.§ of the minutes of the Cabinet of Ministers of 30 January 2018 meeting. Available here: <http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2018-01-30>, accessed on 02/02/2018.