



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

Reģ.nr. 90010248231, Smilšu ielā 1-512, Rīgā, LV-1919
tālrunis: (+371) 6708 3650; e-pasts: info@fdp.gov.lv; mājaslapa: http://fdp.gov.lv

RĪGĀ

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Uz _____ Nr. _____

Prime Minister
Republic of Latvia
Arturs Krišjānis Kariņš

Chairman of the Budget and Finance (Tax) Committee
Saeima of the Republic of Latvia
Mārtiņš Bondars

Minister of Finance
Republic of Latvia
Jānis Reirs

Dear Mister Kariņš,
Dear Mister Bondars,
Dear Mister Reirs,

Non-conformity report regarding the maximum budget 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 is detected. Then the report is submitted to the Cabinet and Saeima, and published on the website of the Council and of the Ministry of Finance.

Cabinet meeting that took place on 5 February 2019 approved report "On forecasts of macroeconomic indicators, revenue and general government budget balance in 2019-

2021"¹ and decided that the next Medium term budget framework will be adopted for 2020-2022. Thus, the Council regards that the Medium-term budget framework law for 2018-2020 will continue determining the key budget indicators for 2019 (further in text MTBFL 2018-2020). MTBFL 2018-2020 Article 6 determines the maximum amount of the state budget expenditure for 2019 which is 9 322 890 409 euros. However, Article 2 of the State Budget Law 2019 states that state budget expenditure for 2019 is EUR 9 391 492 946.

Thus, the Council finds a non-compliance with the requirements of the FDL resulting from the approval of 2019 budget law, with expenditure exceeding VTbil 2018-2020 allowed maximum amount by 68,602,537 euros. On March 5, 2019, the Council prepared a Surveillance Report on Latvia 's State Budget for 2019, which stated that after recalculating the fiscal framework for 2019 in accordance with FDL requirements, the maximum expenditure ceiling for state budget should be by EUR 138.9 million less than proposed by the draft state budget.

During the Cabinet meeting that took place on October 29, 2019 the Cabinet approved a report "On state basic budget basic functions expenditure potential savings and possible redistribution for the state budget for 2019"². Among other measures, it envisions the following distributions from:

- Ministry of Welfare: EUR 7 641 126, of which:
6 983 624 euros - from the state budget sub-program 20.01.00 "State social Benefits",
EUR 624 561 from the state budget sub-program 20.02.00 "Service pensions",
EUR 32 941 - State budget sub-program 20.04.00 "Refugee and Alternative Status survivors 'benefits'.

In all cases, the projected number of recipients of social benefits or pensions on average does not reach the target.

- EUR 457 140 from the Ministry of Finance, sub-state budget sub-program 31.02.00 "Government Debt Management"

The Council considers that the funds from the Ministry of Environmental Protection and Regional Development in amount of 148 070 euros from the state budget sub-program 21.20.00 "Contributions to International organizations "are used for a similar purpose - contributions to international organizations - for membership as an Associate Member of the European Space Agency, and in this case does not create an FDL Violation of the first paragraph of Article 5.

The Council finds the decision about redistribution of expenditures to be contrary to the requirements of Article 5 of the Fiscal discipline law, which specifically requires the following:

¹ Minutes of decision available here:
<http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2019-02-05>, accessed on 11.02.2019

² Minutes of decision available here: :
<http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2019-10-29>, accessed on: 01.11.2019

(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;*
- 7) state debt servicing debt, which is under Treasury competence;*
- 8) current payments into the European Union budget and international co-operation.*

Any reduction in expenditure from programs under the Fiscal Discipline Act Article 5(1) also reduces the maximum permissible amount of government expenditure because: initially, the maximum permissible government expenditure is based on adjusted expenditure forecasts. Consequently, redistribution of funding for these programs to other budget programs do not meet the requirements of the Fiscal Discipline Act.

The Council considers that the maximum permissible government expenditure should be reduced in accordance with the decision on meeting of 29 October 2019 about redistribution of expenditures in amount of EUR 8 098 266.

According to Article 9 (2) of the Fiscal Discipline Law, if the Cabinet of Ministers adopts a legal act, 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 legal act(s) come into force concurrently, which compensate the increase in expenditure or decrease in revenues.

In order to rectify the non-conformity created by the decision made by the Cabinet of Ministers on October 29 2019, the Council recommends the following:

1. The Cabinet should prepare and adopt legislative acts that would fully compensate the decision to appropriate additional funds in 2019 in the amount of 8 098 266 euro

from the programmes stipulated in the Article 5(1) of the Fiscal discipline law to ensure the compliance with the maximum expenditure amount.

2. 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 stipulated in the medium-term budget framework.

Kind regards,

Council Chairman

Jānis Platais