



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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**Republic of Latvia
Prime minister
Artūrs Krišjānis Kariņš**

**Republic of Latvia
Saeima Budget and finance
Committee chairman
Mārtiņš Bondars**

**Republic of Latvia
Minister of Finance
Jānis Reirs**

On the use of proceeds of crime received from the State budget revenue

Riga Regional Court Criminal Court Chamber on October 10 decided to declare the seized funds in amount of 29 million euros as proceeds of crime, which is at non-resident accounts in JSC "Regional Investment Bank". The proceeds will become national budget revenue of the State. Discussions on the use of these funds have begun in the society.

In the State Budget Law for 2019, proceeds from the confiscation of proceeds of crime are estimated at EUR 3.5 million, while the Ministry of Justice's basic budget program, "Confiscation of Proceeds from Crime", envisages EUR 2 million. Article 39 of the Law on the State Budget for 2019 provides for the possibility that, if in 2019 the actual income of the proceeds of crime confiscation is more than the law of the planned amount, the Minister of Finance has the right to increase the appropriations for funds for contingencies. The transfer of these funds shall be made by a decision of the Cabinet of Ministers, unless the Saeima Budget and Finance Commission objects.

The State Budget for 2019 was adopted without taking into account the objection of the Fiscal Discipline Council (hereinafter - the Council) that the maximum expenditure of

the State budget was set at 0.5% of GDP higher than the fiscal conditions would allow. The main reason for the deviation was the decline in tax revenues as a result of the tax reform, which the government qualified as a one-off measure in the calculation of fiscal conditions, contrary to the Council's objections.

Fiscal conditions calculations are corrected by deduction of one-off events and other temporary factors. Methodological guidance for the implementation of the Stability and Growth Pact (SGP) *Vade Mecum* and Public Finance Institutional Report (2015, Part 3) defines the characteristics of one-off measures. The Council notes that according to these documents, criminal proceeds revenue to the state budget corresponds to the one-off measures characteristics. Consequently, the implementation of the regulation provided for in Article 39 of the Law on State Budget 2019 will lead to a deterioration of the state budget balance relative to the requirements of fiscal discipline. In addition, it must take into account the risks that potentially seized amounts will be subject to repayment if third-party claims are proved.

In view of the above, we would like to draw your attention to the fact that in recent years Latvia has failed to meet its structural balance and budgetary expenditure restraint targets. This may adversely affect the build-up of reserves before the economic slowdown takes place taking into account the increasing risks. Under these circumstances, the relaxation of fiscal discipline by the use of one-off revenue from the budget to increase current expenditure is unacceptable.

Fiscal discipline council calls for the budget revenues from the proceeds of crime to be treated as one-off revenues, which should be directed to the budget deficit reduction, and the appropriate legal norms should be written in the annual budget law.

Respectfully,

Chairman

Jānis Platais