



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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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 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 5 February 2019 the Cabinet reviewed a 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.

During the Cabinet meeting that took place on 8 February 2019 the Cabinet reviewed a report "On fiscal space-enhancing measures and expenditures for priority measures for the state budget for 2019"² and decided to adopt a number of measures, including the redistribution of funding to other purposes from:

- the Ministry of Welfare's State special budget expenditure programme for social benefits in the amount of 48 598 013 euro in 2019, in the amount of 24 328 498 euro in 2020 and in the amount of 23 643 052 euro in 2021 due to changes in the number of beneficiaries;
- the Ministry of Justice's social benefits sub-programme 03.08.00 "Subsistence guarantee fund" in the amount of 2 345 065 euro in 2019, based on updated information on changes in the number of beneficiaries in 2019;
- the Ministry of Foreign Affairs budget programme "Contribution to the OECD" in the amount of 1 061 920 euro for 2017-2019.

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

(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;

¹ Minutes decision available here:

<http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2019-02-05>, accessed on 11.02.2019

² Minutes decision available here:

<http://tap.mk.gov.lv/mk/mksedes/saraksts/protokols/?protokols=2019-02-08>, accessed on 11.02.2019

8) current payments into the European Union budget and international co-operation.

The Council finds it possible to revise the expenditure allocations for the above mentioned purposes only in the circumstances of preparing a new medium term budget framework, including the review of the related fiscal rules. The Council in the assessment of the compliance with the expenditure ceilings will still apply the medium term budget framework law for 2018-2020 and any reduction of expenditure allocations from the programs under the provisions of article 5(1) of the Fiscal discipline law will be regarded as the reduction in the expenditure ceilings. Therefore, the use of these mandatory expenditure allocations as a source for other budgetary requirements does not agree with the provisions of the Fiscal Discipline Law.

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.

In order to rectify the non-conformity created by decisions made by the Cabinet of Ministers on 5 and 8 February 2019 the Council recommends the following:

1. The Cabinet should prepare and adopt legislative acts that would fully compensate the decision to reallocate the funds in 2019 in the amount of 52 004 998 euro, in 2020 in the amount of 24 328 498 euro and in 2021 in the amount of 23 643 052 euro from the items stipulated in the Article 5(1) of the Fiscal discipline law to ensure the compliance with the medium-term budget framework law for 2018-2020.
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