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THE LAW ON BUDGET AND FINANCE MANAGEMENT

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Amendments by the law as of :

25.11.96 (L.V. No.211, December 6,

Zinotajs, No.24, 1996)

01.10.97 (L.V. No.258/259, October 8

Zinotajs No.21, 1997)

01.04.98 (L.V. No.100/101, April 16

Zinotajs No.9, 1998)

Amendments introduced to Article 47 of the Law On Budget and Finance Management regarding the authority of the State Treasury to impose administrative punishment shall take force and effect simultaneously with related amendments to the Administrative Code of the Republic of Latvia (Transition Rule of the law as of 25.11.96)

The Saeima has passed and the State President promulgates the following law:

THE LAW ON BUDGET AND FINANCE MANAGEMENT

This law shall regulate the procedure for formulation, enactment and execution of the state budget and the local government budgets, and the responsibility for the budget process. For the purpose of this law finance management shall refer to the state budget and local government budget resources.

[<*> - With amendments by the law as of 01.04.98, effective with 17.04.98]

The provisions of this law shall apply to the financial activity of enterprises when the state budget or municipal budget funds are allocated to them or if specified by a special law or regulations of the Cabinet of Ministers.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

I. Terminology Used in the Law

Loans - the budget funding transferred to the legal persons who are entitled to handle them and who have an obligation to return them, as well as loans issued for the purpose of meeting transferred liabilities in cases when the borrower is indebted to the state or local government.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Loan repayments - loans repaid to the state or local government.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Appropriation - specifically limited authority granted by the budget or another law permitting the State Treasury to allocate and make payments for specific purposes from the state budget revenues.

Assignment - authority to undertake commitments or make payments for specific purposes out of the state budget revenues in compliance with appropriation.

Budget financed institutions - budget institutions, all enterprises (business companies) and organizations financed from the state budget in part or in full.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Budget institution - all institutions financed from the budget in part or in full.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Budget executors - Heads of budget financed institutions authorized through assignment to execute budget expenditures or undertake budget-related commitments

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Package of draft budget laws - the package of draft laws comprising annual state budget draft or draft amendments to the annual state budget and draft legislation defining or amending state budget revenue.

[<*> - Wording of the law as of 1 October 1997, effective with 09.10.97]

Budget plan - a plan of such interrelated activities or services that are oriented to a common goal or to several closely related goals. The budget plan can be subdivided into subprograms.

[<*> - Wording of the law as of 25 November 1996, effective with 20.12.96]

Dividends - revenues from the use of the state capital , excluding interest payments.

Budget transfers - budget funds granted to other budgets, enterprises (business companies), organizations for the purpose to ensure execution of the state or municipal functions.

Transfers from general revenues - funds received by the state budget institutions or municipalities from the centralized taxes, fees and other payments made to the state budget revenues with a specified (earmarked) purpose or without it.

[<*> - Wording of the law as of 25 November 1996, effective with 20.12.96]

Financial plan -

[<*> - Wording of the law as of 25 November 1996, effective with 20.12.96]

break-down of revenue and expenditure of budget financed institution or an activity compiled in compliance with procedure established by the Minister of Finance providing the entitlement to the State Treasury allocation.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Revenues -

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

– payments of taxes, state or municipal fees and other payments to the budgets, collected or levied in compliance with the tax laws as well as the income of the state and municipal budget institutions from delivered charged services and other own income, revenues earmarked for specific purposes, net income from asset sale, received interest payments and dividends, foreign aid, donations and gifts in cash or in kind (with accounting in cash)

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Investments - contributions made to equity capital, stock, bonds and cash loans.

Expenditures - all payments from the state budget , except repayment of principal debt amount.

Consolidated budget - sum total of the state base budget, state special budget, municipal base budgets and municipal special budgets from which transfers - direct mutual cash transfers to various budgets - are subtracted.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Earmarked subsidies - state budget funds transferred to other budgets for financing a certain function.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Base budget - such part of the budget, which is made up of all revenues, except revenues earmarked for specific purposes, donations and gifts, and expenditures to be covered by these revenues.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Permanent appropriation - an appropriation which is enacted by a law not requiring additional appropriations.

Authority for future commitments - authority to undertake commitments for a time period exceeding the limits of one fiscal year.

Commitment -

an order placed, a contract concluded, a service received or a similar activity that has to be paid within the accounting year.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Sectors - ministries and other central public agencies to which budget funds are prescribed by way of appropriation.

Special budget - such part of the budget which is made up of the revenues earmarked for specific purposes as well as donations and gifts in cash or in kind (with accounting in cash) and the resources of which shall be utilized in relation with such revenues .

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Grants - budget funds granted to enterprises (business companies) to cover expenses, in part or in full, related to production of certain goods or delivery of certain functions.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Net lending - total lending extended to legal entities from the state or municipal budget resources for attainment of the state goals minus repaid loans.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

State debt - sum total of commitments in terms of cash to be covered from the state budget resources.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Assignment delay – partial allocation of the state budget resources assignment for the next month, not changing a total amount of assignment.

Assignment reduction – reduction of state budget resources assignment until the end of the accounting year by changing financial plans for respective months.

Central state institution – state budget institution, budget resources of which are provided in the annual state budget law in compliance with appropriation.

Financial report – calculation of financial activities of the enterprise financed directly from the state budget and consisting of balance sheet, calculation of operational activity, report of changes in equity capital, report on appreciation of fixed assets, report on flow of intangible fixed assets and tangible fixed assets and report on financial fixed assets and statement.

State long-term liabilities – projects and activities for implementation of unified state policy, including the state debt the maturity of which is longer than the economic year, and implementation of which is undertaken by budget financed institutions by concluding an agreement containing specific terms of execution or participating in implementation of decisions made by the Cabinet of Ministers.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

II. General Rules

Article 1. The Budget and its Purpose

- (1) The budget shall be the means for implementing the policy of the state by financial methods. The budget shall be the basis of the financial activity and administration of the government.
- (2) The purpose of the budget shall be to determine and substantiate the resources required by the government, other public institutions and the local governments for the execution of such state functions the financing of which has been determined by legislation, ensuring that expenditures shall be financed by adequate revenues in the period for which such resources are projected. In the budgeting process the necessity to ensure overall economic balance shall be taken into consideration

Article 2. Finance Management

- (1) Finance management shall comprise all administrative activities required to ensure budget formulation and implementation process, including also control and responsibility activities.
- (2) The Cabinet of Ministers shall ensure formulation and implementation of the state budget and shall also determine the procedure for financial activity of the local governments.
- (3) The Cabinet of Ministers shall issue orders, instructions and recommendations for the purpose of detailed application of this law.

Article 3. Budget Classification

- (1) The budgets are divided into the state budget and the local government (municipal) budgets.
- (2) The state budget and the municipal budgets are comprised of the base budget and the special budget.
- (3) A summary of the state and municipal budgets - the consolidated aggregate budget shall be formed for informative purposes.

[<*> - With amendments by the law as of 01.04.98, effective with 17.94.98]

Article 4. Fiscal Year

The fiscal year shall commence as with 1 January and close as with 31 December.

Article 5. The State Budget

(1) All payments to be transferred to the state budget revenues in compliance with law or another legislation or regulations shall be the state budget funds which can be appropriated for state purposes in compliance with an appropriation specified in the current state budget law.

(2) The state budget funds shall be granted or received only under appropriation of the current state budget law.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(3) The state budget expenditure shall be comprised of appropriations specified for certain public needs in compliance with the current state budget law (including the accounts of the special budget).

(4) The difference between the state budget revenues and expenditures shall be the financial surplus of the budget (if revenues exceed expenditures) or the financial deficit of the budget (if expenditures exceed revenues).

(5) The state budget loans shall be the state budget funds transferred to the legal persons incurring entitlement to dispose of them and the obligation to repay the received loan, as well as the loans from the state budget for the purpose of meeting overtaken liabilities in cases when the borrower is indebted to the state or local government.

(6) Repayments of the state budget loans shall be formed of all repaid loans.

(7) The difference of the state budget financial surplus or financial deficit (financial balance) and the net lending shall make fiscal deficit or fiscal surplus (fiscal balance) of the state budget.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Article 6. Municipal (local government) Budgets

(1) The local government budgets for each fiscal year shall comprise all revenues collected or received by the local governments (municipal institutions) appropriated for the local government purposes by the municipalities.

(2) The local government budget funds shall be allocated or received only by appropriation executed lawfully by the municipality.

(3) The distribution of revenues between the state budget and the municipal budgets as well as equalization of the state budget transfers and territorial economic opportunities shall be specified by the laws on which such revenues are based, special laws or the current annual state budget law.

(4) The powers of the municipal budgets are regulated in detail by a special law.
[<*> - With amendments by the law as of 25.11.96, effective with 20.12.96]

Article 7. Base Budget

(1) The base budget shall be a component of the budget comprising:

- 1) the entire state and municipal revenues that have been projected for financing expenditures and have not been earmarked for special purposes;
- 2) appropriations for the entire state and local government expenditure, the financing of which has been projected from the base budget funds;

(2) The state budget lending, repayment of the state budget lending, and the expenses related to meeting the surety liabilities undertaken on behalf of the state and to be covered from the state budget funds shall be referred only to the base budget, if not otherwise stipulated by the law.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Article 8. Special Budget

(1) The special budget shall incorporate appropriations for the state or municipal purposes in the following cases:

- 1) if the law provides for expenditures to be financed from the revenue sources earmarked for special purposes;
- 2) if the state, local government or a particular municipal institution (executor) has received a donation or gift earmarked for a specific purpose or without it;
- 3) [<*> - Deleted by the law as of 25.11.96]

(2) Special budget account shall be opened in compliance with the law or by a permit of the Minister of Finance.

(3) Transfers from the base budget account to the special budget account shall be permitted only by appropriation.

[<*> - With amendments by laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

Article 9. Appropriations

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(2) Any amendment related to the purposes or terms of appropriation shall be made in compliance with the provisions under this law.

(3) The state appropriation can be temporarily reduced in cases established by the Minister of Finance when lower expenditure is required by changed circumstances.

(4) The special budget shall have a permanent appropriation which shall allow only such expenditures that shall not exceed the level of actual revenues and residue of resources at the beginning of the fiscal year.

All appropriations shall expire at the end of the fiscal year.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(6) The revenues from the budget institution-delivered services for charge and other income, the level of which is in excess of the level specified for the major budget executors under the annual state budget law, as well as the residue of the income from the budget institution-delivered services for charge computed at the beginning of the fiscal year in compliance with the provisions under Article 27 of this law, can be channeled for additional financing of the budget expenditure as an independent appropriation under the permission of the Minister of Finance , or utilized for other purposes upon reaching a special agreement on it with the State Treasury.

[<*> - With amendments by laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

Article 10. Amendments to Budget Revenues and Expenditures

(1) The Saeima resolutions related to unforeseen budget expenditure shall also provide for funds to cover such expenditure in compliance with Clause 2 of Article 66 of the Constitution (Satversme). In cases stipulated by law the Minister of Finance shall submit a recommendation on submitted draft laws not later than within two weeks from the reception date of the respective draft law.

(2) Provided that after enactment of the state budget law the Saeima passes such laws or the Cabinet of Ministers adopts such regulations that give rise to increased local government budget expenditure or reduced revenues in the current fiscal year, the said regulations or laws shall specify the state budget resources from which the increase of the municipal budget expenditure or decrease of revenues shall be financed.

(3) Provided that after enactment of the state budget law the Saeima passes such laws or the Cabinet of Ministers adopts such regulations that permit an increase of the local government budget expenditure or reduction of revenues, such budget fund surplus can be channeled, by way of appropriation, to finance the state or local government needs.

(4) If the local governments, in breach of their authority, make decisions resulting in a decrease of the state budget revenue or increase of expenditure, the funds required for loss financing shall be collected from the local government budgets to the state budget.

[<*> - With amendments by laws as of 25.11.96 and 01.10.97, effective with 09.10.97]

Article 11. Classification

The Minister of Finance shall establish classification of the state budget revenues, expenditures, financing and state debt accounting, which ensures control over budget fund utilization and enables necessary analysis in compliance with administrative, functional and economic categories.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Article 12. Contingency Financing

Funds for contingency financing and nationally significant activities shall be incorporated as a component within appropriation in the competence of the Ministry of Finance. The Minister of Finance shall report to the Saeima on utilization of such appropriation on a quarterly basis.

Article 13. State Secrets (secret expenditures)

(1) Secret expenditures projected for financing of certain activities of national security shall be approved in the annual state budget law without detailed exposition.

(2) The Minister of Finance shall submit the exposition of secret expenditures of the state budget to a special commission of the Saeima, which, in turn, shall present a special report to the Saeima Budget and Finance (Tax) Commission prior to enactment of the state budget, if the Saeima has not ruled otherwise.

(3) The auditing of secret expenditures shall be carried out in compliance with the regulations issued jointly by the Minister of Finance and the State Audit.

[<*> - With amendments by the law as of 01.04.98, effective with 17.04.98]

Article 14. Accessibility of the Budget Information

(1) Information on state budget shall be published regularly in a full, comprehensive form easily perceivable by the public. All major reports on the state budget shall be accessible to the public.

(2) The state budget and its implementation indicators shall be published in an official periodical not less than once in three months. The local government budget shall be accessible to the public in each respective local government.

Article 15. State Budget Expenditures in the Event of Non-Enactment of Current Annual State Budget Law

Provided the current annual state budget law is not enacted prior to the commencement of the fiscal year the Minister of Finance shall approve the state budget expenditures required for the operation of the state under the condition that:

1) financing shall not be provided for services (assignments) that were not delivered (performed) in the previous fiscal year and investments shall not be carried out that were not implemented in the previous fiscal year;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

2) monthly expenditures shall not exceed one twelfth part from the appropriation of the previous year;

3) authority delegated in compliance with this article shall terminate with enactment of the annual state budget law, and all expenditures shall be recorded pursuant to the new annual state budget law from the very beginning of the fiscal year;

[<*> - With amendments by law as of 25.11.96, effective with 20.12.96]

4) financing of activities started in the previous fiscal year shall be continued.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

III. Formulation, Submission and Passing of the Annual State Budget Draft Law (Package of Draft Budget Laws)

[<*> - Wording of the law as of 1 October 1997, effective with 09.10.97]

Article 16. Responsibility for Preparation of State Budget Draft Law (Package of Budget Draft Laws)

The Minister of Finance shall be held responsible for the preparation of the annual state budget draft law (package of budget draft laws) and explanatory information to be attached to it.

[<*> - Wording of the law as of 1 October 1997, effective with 09.10.97]

Article 17. Instruction for Budget Proposal Preparation

(1) The Minister of Finance shall issue instructions for budget proposal preparation providing information on the economic situation in the coming fiscal year and recommendations on the budget proposal development to the sectors.

(2) The budget proposal preparation instruction can specify financial restrictions to be complied with in the process of the budget computations.

[<*> - With amendments by the law as of 01.04.98, effective with 17.04.98]

Article 18. Contents of Budget Proposals

(1) The Budget Proposals shall:

- 1) specify the amount of financing for specific purposes for the past, current, coming fiscal year and the fiscal year after the next year in compliance with established classification;
- 2) provide summary of staff positions, rates of pedagogical staff;
- 3) indicate projected financing for capital expenditure – (capital) reconstruction, purchase of tangible fixed assets;
- 4) indicate amount of funds projected for investments and planned annual exploitation expenses for the next five years after the completion of the project;
- 5) plan the state long-term commitments;
- 6) indicate results of functioning of the state budget program (sub-program);
- 7) contain other indicators of financial activity of the state budget financed institution in compliance with instruction of Budget Proposal development issued by the Minister of Finance.

(2) The authorization related to the future commitments shall be reflected in the current annual state budget law separately from the budget appropriations for the year.

(3) Such budget financed institutions that receive direct state budget transfer shall develop the Budget Proposal in compliance with instruction of Budget Proposal development issued by the Minister of Finance.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 19. Development and Analysis of State Budget Proposal and State Budget Draft Law

(1) Upon consultation with the Bank of Latvia and with microeconomic trends taken into account the Cabinet of Ministers shall determine the financial strategy to be used in developing the state budget proposal and the state budget law for the coming fiscal year. The Minister of Finance shall determine the total revenues and expenditures amount that can be planned for the budget of the coming fiscal year and amounts of the state long-term commitments and ways to assess the level of deficit for coming years.
[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(2) The Minister of Finance shall draft the annual state budget law on the basis of the budget proposals in compliance with the provisions under Articles 17 and 18 of this law.

(3) The Minister of Finance shall be entitled to assess the budget proposals in terms of their purpose, efficiency and effectiveness at any stage of the budgeting process. On the basis of such an assessment the Minister of Finance shall make a decision on incorporation of the budget proposals in the draft state budget law prior to forwarding the draft to the Cabinet of Ministers. The Minister of Finance shall be entitled to voice his/her opinion, attach required conclusions and findings of certain audits at any stage of the budget review process.

(4) The budget proposal submitted by the Saeima (Parliament) shall not be subject to amendments without the consent of the budget submitting agency in the process of the budget proposal reviewing prior to the submission of the budget draft law to the Saeima.
[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

(5) The Minister of Finance accepts the maximum permissible budget expenditure amount for each ministry and other central government institutions in the coming fiscal year. The Cabinet of Ministers is authorized to include funds for contingency situations in the state budget without the budget proposal.
[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 20. Reviewing of Draft State Budget Law (Package of Draft Budget Laws) at the Cabinet of Ministers

(1) All sectors shall receive the draft state budget law (package of the draft budget laws) and shall be entitled to submit motivated objections related to this draft to the Minister of Finance within two weeks.

(2) The Minister of Finance shall attempt to reach an agreement with the heads of respective sectors. Provided such an agreement is not reached, he/she shall attach a report on the objections on which an agreement shall not be reached to the draft state budget law (Package of draft state budget laws) for submission to the Cabinet of Ministers.

(3) The Minister of Finance shall submit the draft state budget law (package of draft state budget laws) and explanatory notes to it to the Cabinet of Ministers.

(4) The sector heads can submit the issues not resolved in the budget proposal review process to the Cabinet of Ministers for solution.

(5) The Cabinet of Ministers shall resolve on forwarding of the state budget draft law (package of state budget draft laws) to the Saeima.

[<*> - With amendments by the laws as of 01.10.97, effective with 09.10.987]

Article 21. Submission of Draft Annual State Budget Law (Package of Draft State Budget Laws)

(1) The Cabinet of Ministers shall submit the annual draft state budget law (package of draft state annual budget laws) for the coming fiscal year, proposals on amendments to the laws to be consistent with the budget proposals and explanatory notes to the state draft budget law (package of the draft state budget laws) by 1 October of each respective year to the Saeima.

(2) The explanations to the state draft budget law (package of draft state budget laws) shall comprise:

1) introductory statement of the Prime Minister ;

2) report of the Minister of Finance comprising major explanations to the draft state budget law (package of draft state budget laws);

3) information on the economic situation in the country and the description of macroeconomic conditions underlying the state budget;

4) total revenues, computations and analysis by revenue categories;

5) total expenditures, distribution of funds among budget categories, motivation of expenditures related to new activities;

6) request for funding required for the completion of a project under the Public Investments Program and a detailed exposition of the sources of financing;

7) request for financing in excess of the limits of the annual fiscal year needed for the completion of a project under the Public Investment Program in the coming years, and annual operating costs after the completion of the project;

8) proposals on such amendments to the laws that have not been incorporated into the draft state budget law (package of draft state budget laws) to make these laws consistent with the budget proposals ;

9) state borrowing proposed for the needs of expenditure financing , explanations on commitments and transactions related to borrowings during the previous, current, coming and the next year after the coming fiscal year ;

10) tax exemptions (allowances) and amounts of tax arrears;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]11) draft of the consolidated budget comprising summary forecasts of the draft state budget and draft local government budgets;

12) summary of the financial commitments related to the state debt and issued sureties in relation to the current fiscal year and at least five coming years, in such computations specifying the permissible limits of the state activities in financing expenditures that can be incurred in servicing the payment liabilities from the state budget;

13) computations of the local government finance equalization.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

14) state long-term commitments;

15) amounts of the state budget loans and disbursements in compliance with agreements concluded in previous fiscal years, projects of the State investment programs and programs supported by the Cabinet of Ministers.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(3) In the year when Saeima is elected the draft state budget law (package of draft state budget laws) is submitted to Saeima not later than two months after the newly elected Saeima has expressed its faith in the Cabinet of Ministers.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 22. Enactment of the Annual State Budget Law

(1) The draft state budget law (package of draft state budget laws) submitted by the Cabinet of Ministers shall be examined and passed by the Saeima following legislative procedure.

(2) The state budget law shall incorporate:

1) permissible maximum of the state debt and the fiscal budget deficit in the end of the fiscal year, permissible maximum of the state borrowing for fiscal deficit in the end of the fiscal year as well as the amount projected in the state debt for financing the surety commitments issued on behalf of the state, and the value of sureties to be issued anew in the fiscal year;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

2) the amount of financing to be assigned by way of appropriation to each expenditure category in the coming fiscal year in compliance with the budget classification, specifying the utilization purpose of the funding for each category;

3) the amount of such funding from the previous periods (if such exist), for which reappropriation is required ;

4) authorization for future commitments for each expenditure position of the budget classification;

5) regulations to be attached to all or certain appropriations.

(3) Provisions specified under Clause 1 of Article 10 of this law shall apply to the review of the state budget draft law (package of the state budget draft laws).

(4) The state budget law (package of the budget laws) passed by the Saeima shall be promulgated in compliance with the procedure established by the Saeima.

[<*> - Wording of the law as of 1 October 1998 with amendments by the law as of 01.04.98, effective with 17.04.98]

IV. Execution of State Budget

Article 23. The State Treasury

The State Treasury shall be an institution subordinated to the Ministry of Finance that shall assign and make payments for specific purposes from the state budget revenues, organize and execute budget control and reporting functions, state debt management function as well as other functions related to financial management.

[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Article 24. Expenditures Stipulated by Law

(1) The state budget executors can make expenditures from the state budget or undertake commitments only within the allocations projected by their financial plans issued by the State Treasury under the authorization of the Minister of Finance.

(2) It shall be solely the authority of the State Treasury to make allocations for such expenditure that have been defined by appropriation in compliance with a law, on the basis of the plans of financing elaborated pursuant to the procedure established by the Minister of Finance.

(3) Budget financed institution long-term commitments recorded with the State Treasury in compliance with the procedure established by the Minister of Finance shall be declared the long-term commitments of the state.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 25. Control of revenues and expenditures

(1) The State Treasury in cooperation with the State Revenue Service shall ensure that all revenues due to the state budget are collected in due manner and time, and that expenditures from the state budget are executed in compliance with enacted legislation.

(2) the Minister of Finance reports on necessary delay or reduction of allocations if the annual fiscal budget deficit is expected to exceed the level of the fiscal deficit specified in the current annual state budget law. The Cabinet of Ministers within seven working days from the report of the Minister of Finance makes a decision on delay or reduction of these allocations and not later than within three working days after the decision is made submits proposals on amendments in annual state budget law to Saeima.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(4) The State Treasury shall make the special budget allocations in a manner that the total expenditures for the purposes of this budget shall not exceed the total amount of resources collected for such purposes to the special budget and the cash residue at the beginning of the fiscal year.

[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

(5) The Ministry of Finance is authorized to audit revenue, expenditure, accounting reports of state budget financed institutions.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 26. Amendments to Appropriations

(1) The state budget appropriations, also their amounts, purposes and terms shall be amended only under the condition that this is specified by the annual state budget law.

(2) Expenditures for purposes not included in the approved appropriation shall be made only under the condition that a special law on amendments to the appropriation is passed. The proposals on amendments to appropriation for such purposes shall be submitted in compliance with the procedure established for the budget proposals.

[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

Article 27. Opening and Closing of Accounts

(1) Budget financed institutions shall open their accounts only in the State Treasury.

(2) At the close of the operating year on 31 December annually the State Treasury shall close all accounts opened in the course of the current fiscal year. Base budget accounts for budget financed institutions shall be opened in the next operation year in compliance with allocations indicated in the financial plans. Such residue of funds on the budget institution accounts at the end of the year that has been generated by income from charged services and other own income, under the conditions that such income residue does not exceed the actual amount received within the year, shall be left at the disposal of the institutions and can be used as an appropriation for financing additional expenditure in the coming year. The accounts of the special budgets shall be opened in the coming year and all residue from the previous year shall be transferred to them.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 28. Report on State Budget Implementation Process

(1) By June 1 of the current year the Cabinet of Ministers shall submit to the Saeima a report on the financial situation of the state and simultaneous assessment of the forecast for macroeconomic development and the assumptions used in the budget approval process with due account of the economic conditions in the given period.

(2) The report on the state budget situation shall provide comparison of the revenues, expenditures, deficit and lending summaries with the respective levels in the approved budget law as well as provide explanations on major amendments.

V. Accounting and Financial Reports

Article 29. Accounting

(1) The State Treasury shall maintain official finance accounting by registration of all budget settlements, assets, liabilities and commitments.

(2) The budget executors shall record account sin books in compliance with the State Treasury regulations, and such books shall be harmonized with the Accounting registers of the State Treasury.

[<*> - With amendments by the law as of 25.11.96, effective with 20.12.96]

Article 30. Surveys and Reports to State Treasury

(1) The budget financed institutions shall submit accounting surveys and reports on budget execution in compliance with the instructions and orders of the State Treasury. Upon a change of the budget executor the budget institutions shall also submit the reports on transfer and acceptance of the documents.

(2) The local governments shall submit detailed surveys and reports on the volume of all revenues, expenditures and borrowings as well as of the volume of the special budgets.

[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

(3) Ministries, central government institutions and local governments in a due time submit an annual report to the State Treasury. Resolution of the State Audit on the correctness of the annual report preparation is annexed to the report.

(4) Ministries and central government institutions submit financial reports and financial information of enterprises in their jurisdiction to the State Treasury in compliance with procedure established by the Cabinet of Ministers. Financial reports mentioned above are to be submitted to the State Audit.

(5) Provisions of this Article do not refer to Saeima the activities of which are controlled by the procedure established in Rules of Parliamentary Procedure.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 31. The Report of the Operating Year (Annual statement)

(1) The Cabinet of Ministers shall submit to the Saeima the report of the fiscal year on the state budget execution and the municipal budgets (their financial position) in the respective fiscal year.

(2) The report on the fiscal year shall comprise:

1) all end-of-year balances of the state budget accounts (settlements) in comparison with the balances of the previous period;

2)

a report on revenues and expenditures of all state budget accounts compared to the state budget appropriation and the revenues and expenditures of the previous year together with a statement on residue of revenues in compliance with Article 27;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

3) a report on expenditures for contingencies incurred during the year (in compliance with Article 12);

4) a comparative table showing:

a) outstanding state debt and payments made in the course of the current year and three previous consecutive years in compliance with the debt (payment) liabilities ;

b) annual payment obligations for five consecutive years in the future;

5) a full list the outstanding state debt, state borrowing and lending;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

6) a report on sureties issued on the behalf of the state as well as on transactions related to state surety commitments;

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

7) a report on investments made by the Minister of Finance in compliance with Article 34 of this law;

8) a summary of the local government budget and the consolidated budget execution;

9) other explanations deemed necessary by the Minister of Finance.

Article 32. Auditing by the State Audit

(1) By May 30 of the year coming after the fiscal year the Minister of Finance shall submit to the State Audit the annual report of the fiscal year.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(2) The Minister of Finance shall submit the annual report together with the statement by the State Audit in compliance with the Law On State Audit to the Cabinet of Ministers. The Cabinet of Ministers shall forward the annual report and the statement of the State Audit to the Saeima by 30 September of

the current fiscal year following the accounting year. [*<*>* - With amendments by the law as of 25.11.96, effective with 20.12.96]

[*<*>* - Wording of the law as of 25 November 1999, effective with 01.01.00]

VI. Banking and Investments

Article 33. Budget Accounts of the State Treasury with Banking Institutions

- (1) The State Treasury shall manage all bank accounts of the state budget and such shall be called the State Treasury bank accounts.
- (2) The Minister of Finance shall be entitled to authorize the State Treasury or any other legal entity to open and use the accounts, or to open accounts for funds transferred to the State Treasury budget accounts.

Article 34. Investing of the state budget funds

- (1) Within the framework of fund management the Minister of Finance using funds from the State Treasury budget accounts is authorized to make investments in the form of government securities or deposits for such periods and on such terms and conditions as he/she considers appropriate as well as liquidate such investments to ensure the state budget execution.
- (2) The Minister of Finance shall establish the procedure of investment of state budget funds mentioned in the Paragraph 1 of this Article and transfer of received interest payments to the base budget.
[*<*>* - Wording of the law as of 25 November 1999, effective with 01.01.00]

VII. Borrowing and Lending

Article 35. Borrowing restrictions

- (1) The Minister of Finance is authorized to make borrowings in the name of the government within the limits specified under the annual budget law. The borrowed funds are the state budget funds used only by appropriation. The Minister of Finance shall be authorized to make borrowing in the name of the government only for the purpose of financing state budget fiscal deficit and refinancing of the state debt, and also other purposes if such have been specified in the annual state budget law.
[*<*>* - Wording of the law as of 25 November 1999, effective with 01.01.00]
- (2) For the purpose of economy and efficiency the Minister of Finance shall be authorized to select the creditor, the type of crediting and the currency.
- (3) Borrowing shall be from within Latvia, or a foreign country, by issuance of securities, execution of a loan agreement or by way of other means of borrowing.
- (4) The annual state budget law shall specify the limits of outstanding state debt and permissible limits of the government activities in the event of government commitments caused by contingencies. Such limits shall be stated in Lats in accord with the Bank of Latvia exchange rate effective at the moment of the enactment of the state budget law in the respective year.

[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

Article 36. Lending or Borrowing Authorization

(1) The Minister of Finance shall have exclusive authority to handle the state borrowing or lending affairs within the framework specified by the state budget law; hence he/she shall:

- 1) represent the state in all loan and borrowing agreements;
- 2) extend authority to the responsible institution to keep originals of the documents and the registers of all loan and borrowing agreements executed, and government guaranties issued in the name of the government as well as the registers of payment liabilities incurred in the result of contingencies;
- 3) establish the procedure for issuance and servicing of credits;
- 4) informs the public on the terms and conditions of the agreements concluded in the name of the government on borrowings from the money or capital markets;

(2) The heads of the budget institutions shall not be entitled to take loans and enter into lease agreements with credit or other institutions in the name of the institution without reaching prior agreement on it with the Minister of Finance. .

[<*> - Wording of the law as of 25 November 1996 with amendments by the law as of 01.04.98, effective with 17.04.98]

Article 37. Sureties

(1) The Minister of Finance shall have exclusive authority to issue surety committing the state funds in the name of the government and within the framework of the annual state budget law under the condition that he/she:

- 1) has received and reviewed required motivation and commitments related to proposed or already existing sureties;
- 2) expenditure incurred in connection with meeting liabilities related to particular surety are attributed to the state debt .

(2) The Minister of Finance shall establish the procedure for surety servicing.[<*> - Wording of the law as of 1 April 1998, effective with 17.04.98]

Article 38. Constancy of Borrowing Terms

(1) The government shall not have the right to unilaterally change the terms and conditions of a loan agreement related to an outstanding loan.

(2) The provision of Clause 1 of this Article shall not preclude the government from offering early redemption of debt instruments under the condition that such redemption shall be permitted by respective agreements.

Article 39. Appropriation of State Debt Repayment

Expenditures for the settlement of debt obligations, repayment of debt and interest payments shall be a constant appropriation. Expenditures for the settlement of debt obligations shall be mane in compliance

with the loan agreement irrespective of the funds projected for the purpose in the annual state budget. Provided the Minister of Finance detects that the expenditures for state debt settlement can exceed the funds projected for the purpose in the annual state budget, he/she shall promptly give notice to the Cabinet of Ministers and the Saeima.

[<*> - With amendments by the law as of 25.11.96, effective with 20.12.96]

Article 40. Loans to Municipalities

The Minister of finance shall be entitled to issue loans to municipalities in the amount provided by annual state budget law and in compliance with procedure established by the Cabinet of Ministers”.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

VIII. Budgetary Powers and Procedures of Local Governments

Article 41. Budget Powers

- (1) The local governments shall have the right to formulate and approve their budgets independently.
- (2) The local government budgets shall reflect the administrative structure of the municipality and shall comply with the provisions under Article 11 of this law;
- (3) Special laws shall regulate the powers and framework (scope) of the local government budgets.
- (4) If the local governments act as the state agents, the state shall in full cover their expenditures. After the enactment of the state budget law no financial commitments shall be placed on the local government budgets without specification of sources of financing granted by the state for the purpose of execution of these commitments.

[<*> - With amendments by the law as of 01.04.98, effective with 17.04.98]

Article 42. Local Government Entitlement to Revenues

- (1) In compliance with legislation the local governments shall be entitled to receive budget revenues to ensure permanent and safe income base compatible with the requirements of macroeconomic stability.
- (2) The local governments shall be entitled to levy local fees in compliance with the order and within the limits specified by legislation.

Article 43. Local Government Finance Accounting

- (1) The Minister of Finance shall establish a uniform classification for budget revenues, expenditures, financing and debts as well as sets terms and conditions for formalization of the budget reports.
- (2) All financial activities of the local governments shall be registered with the official local government finance accounting in compliance with the instructions of the State Treasury. The reports shall be submitted in compliance with the procedure established by law and the State Treasury instructions and resolutions.

[<*> - Wording of the law as of 25 November 1996, effective with 20.12.96]

Article 44. Transfers to Local Government Budgets.

- (1) The structure of the transfers from the state budget to the local government budgets shall be determined by specific legislation.
- (2) The transfers from the state budget to the local government budgets shall be specified under the annual state budget law.
- (3) Transfers, also transfers and earmarked subsidies related to general financial assistance, shall be granted through the annual state budget law for execution of such functions in which the state and the local governments have common interests.
- (4) Provided that after enactment of the state budget and the local government the Saeima passes such laws or the Cabinet of Ministers adopts such regulations that permit a decrease of the local government budget expenditure or an increase of their revenues, the amendments to the local government transfer or earmarked subsidy amounts can be made.
[<*> - With amendments by the law as of 25.11.96, effective with 20.12.96]

Article 45. Local Government Borrowings

- (1) In order to maintain overall economic balance and ensure a consistent integrated state financial policy the annual budget law shall separately stipulate the amount of the local government borrowing and sureties.
[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]
- (2) The local governments shall ensure a complete recording of the borrowings and sureties and elaboration of reports in compliance with the instructions and orders of the State Treasury.
[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]
- (3) In case the local governments shall not ensure due compliance with the commitments under loan agreements the State Treasury shall be authorized to write the funds off the local government budget.
[<*> - Wording of the law as of 25 November 1996, effective with 20.12.96]

IX. Liability and Sanctions

Article 46. Liability for Budget Execution

- (1) Heads of the budget financed institutions shall be liable for compliance with, abidance by and control over the procedure and provisions specified under this law as well as effective and efficient utilization of the budget funds in compliance with the projected goals.
- (2) The Minister of Finance shall be held liable for the organization and management of the state budget execution process as well as shall supervise the performance of the State Treasury in compliance with law.
- (3) The officials of the State Treasury shall be held liable for finance management in compliance with provisions of this law.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

(4) The commitments assumed by persons with regard to the state budget funds without authorization (allocation) or in excess of the extended authorization (allocation) shall not be considered as a state liability.

[<*> - With amendments made by the law as of 01.04.98, effective with 17.04.98]

Article 47. Breaches of the Law and Sanctions

(1) For failure to make timely or complete payments to the State Treasury accounts of the amounts due to the state budget the State Treasury, if not in the competence of any other public institution, shall collect the overdue amounts for the payment to the state base budget revenues, and is authorized also to collect late charges in the amount of 0.1 percent from the overdue amount for each day of delay, unless stipulated otherwise in the laws and Cabinet of Ministers regulations. .

(2) In order to cover losses incurred by the budget the State Treasury is entitled to collect amounts to the base budget revenues, impose administrative penalty on the guilty entities withdraw or terminate allocations in cases when:

- 1) the reports on the budget and finance management to be submitted pursuant to this law are overdue or incomplete;
- 2) budget funds and transactions with such budget funds have not been registered in due course and time and information on them has not been submitted;
- 3) accounting does not comply with established procedure, thus concealing the funds due to the budget;
- 4) the head of a budget institution has breached the provisions under Article 24 of this law and has undertaken commitments exceeding the State Treasury allocation;

(3) In cases of violation of financial management and the procedure for elaboration of financial plans the Minister of Finance , the manager of State Treasury and the heads of the sectors are authorized to take the following actions against the budget executors to whom allocations have been assigned:

- 1) temporary cancel authorization to assign or to handle budget revenues or expenditures;
- 2) impose restrictions on the use of budget accounts;
- 3) withdraw or suspend allocations to recompense illegally used funds or to demand reimbursement of illegally used funds;
- 4) to bring an action to a civil court or to submit materials for initiation of criminal investigation.

(4) The State Treasury shall be entitled , in compliance with the Law On Local Government Finance Equalization , to exact from the local government funds the amounts not transferred by the respective municipality to the local government equalization fund in time or in full by writing such amounts off the budget of the respective municipality.

[<*> - With amendments by the laws as of 25.11.96 and 01.04.98, effective with 17.04.98]

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

Article 48. Procedure for Reviewing Breaches

(1) The Cabinet of Ministers or the Minister of Finance are authorized o form a commission for reviewing breaches of the present law giving notice of it to the State Audit. On the basis of the resolution of such commission the Minister of Finance shall take necessary action to prevent consequences of the breaches.

(2) Any person to whom sanctions related to this law shall be applied can submit his/her claim to the Minister of Finance and provided the resolution of the Minister of Finance does not satisfy him/her, appeal to the court or take any other action in compliance with the law.

(3) The Minister of Finance , State Treasury or budget executor shall immediately give notice of the decisions taken on the breaches of the regulations related to finance management to the State Audit.

(4) Provided the finance management regulations shall be breached by the Minister of Finance, the person having detected such a breach shall give notice in writing to the State Audit, the Cabinet of Ministers and the Saeima by specification of certain facts describing such a breach.

Transition Rules

1. The Minister of Finance shall ensure elaboration and implementation of related regulations , instructions and recommendation in the fiscal year of 1994.

2. With the present law taking force and effect Articles 1-18 and 20 and 21 of the Law On Budgetary Rights of the Republic of Latvia (published in Zinotajs No. 29, 1990 and No.29/31, 1992) shall become invalid.

Note. The remaining Articles of the Law On Budgetary Rights of the Republic of Latvia shall become invalid with the Law On Local Government Budgets taking force and effect.

3. Article 30, Paragraph 3 shall take force and effect on January 1, 2001.

[<*> - Wording of the law as of 25 November 1999, effective with 01.01.00]

The Law has been passed by the Saeima 24 March 1994.

G.Ulmanis, State President
Riga, 6 April 1994.