



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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THE NON-CONFORMITY REPORT PROCEDURE OF THE FISCAL DISCIPLINE LAW

Riga, 2016

1 The legal grounds for the non-conformity report

1.1 Fiscal Discipline Council (hereinafter – the Council) supervises compliance with the Fiscal Discipline Law (hereinafter – FDL), including the requirements to the Government regarding amendments to the state budget¹ stipulated in Section 9 of the FDL.

1.2 The Council shall draw-up a non-conformity report, if the Council identifies –

1.2.1 A breach of Section 9 Part 1 of the FDL – the Cabinet of Ministers submits to the Saeima a draft law which causes an increase of the state budget expenditure or a decrease of the state budget revenues, without submitting a draft law with compensating measures for the abovementioned changes in the state budget.

1.2.2 A breach of Section 9 Part 2 of the FDL – the Cabinet of Ministers adopts the regulatory enactment which causes an increase of the state budget expenditure or a decrease of the state budget revenues, without adopting a regulatory enactment with compensating measures for that of the above changes in the state budget.

1.2.3 A breach of Article 66 Paragraph 2 of the Constitution – the Saeima makes a decision that involves expenditures not included in the budget without specifying the funds to cover such expenditures.

1.3 The Council draws up a non-conformity report following the identified non-conformity and submits to the Cabinet of Ministers and the Saeima, and publishes the report on the website of the Council and the Ministry of Finance. The non-conformity report contains a clear formulation of the violation of the legal act, and a recommendation for rectifying the breach is included.

2 Non-conformity threshold

2.1 Section 29 of the FDL does not determine the threshold for a non-conformity, thus the Council itself determines the criteria to guide the drawing-up of the non-conformity reports.

2.2 The Council shall draw-up a non-conformity report, if any of the rules listed in Paragraph 1.2, as well as the non-conformity report is drafted if any of the rules listed below are violated –

2.2.1 the draft of the regulatory enactment does not specify the impact on the state budget and local budgets and the state budget contingency fund has been depleted;

2.2.2 the draft of the regulatory enactment does not specify the impact on the state budget and local budgets and the funds allocated to protected positions (hereinafter – protected positions) specified in Section 9 Part 14 of the Law On Budget and Financial Management have been depleted;

2.2.3 the impact on the state budget of the draft regulatory enactment exceeds the funds allocated to the contingency fund and protected positions by 1 euro;

2.2.4 the state institution responsible for the draft regulatory enactment does not provide the information requested by the Council about the impact on the state budget and local budgets;

2.2.5 the cumulative² deviations from the state budget plan make up 0.1% of the nominal GDP;

2.2.6. a single deviation from the state budget plan makes up 0.1% of the nominal GDP amount.

3 Non-conformity report preparation and approval procedure

3.1 After the violation has been identified, the Council's Secretariat, depending on the availability of data, assesses the impact of the non-conformity –

¹ Hereinafter "state budget" is meant as annual state budget and medium-term budget framework.

² Cumulus are created starting from the annual state budget and medium-term budget framework law enactment (beginning of the year) by adding all deviations from the approved budget.

3.1.1 if the impact is below 0.1% of nominal GDP, the amount is added to the total of previous violations, and it is calculated whether the deviation does not exceed a total of 0.1% of nominal GDP and if that is the case, the Council shall draw-up a non-conformity report;

3.1.2 if the impact is 0.1% of nominal GDP or more, the Council shall draw up a non-conformity report.

3.2 The Council Secretariat shall draw up a draft of the non-conformity report, and the accuracy of the content is confirmed by contacting representatives of the Ministry of Finance. If necessary, additional information is requested.

3.3 After contacting the Ministry of Finance, the Council's Secretariat make adjustments to the content if necessary, and send the draft of the non-conformity report to Council members for comments.

3.4 If necessary, the Chairman of the Council shall convene an emergency Council meeting to consider the prepared non-conformity report.

3.5 In the absence of an emergency Council meeting the non-conformity report is adopted in written consultation, in accordance with the FDL Section 30 Part 3.

3.6 The non-conformity report shall be submitted to the Cabinet and the Saeima, as well as published on the websites of the Council and the Ministry of Finance.

4 "Comply or explain" principle procedure

4.1 In cases where the Council's non-conformity report includes recommendations for introducing changes to fiscal policy, in their response the Ministry of Finance confirms that the recommendations will be implemented or explains how other measures will ensure compliance with the targets set in the FDL.

4.2 The Council can comment upon the Ministry of Finance's reply regarding whether the attainment of fiscal targets set in the FDL is being ensured.