



Finanšu ministrija

Ministry of Finance of the Republic of Latvia

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Mr. Valdis Dombrovskis
Vice-President of the European Commission

Mr. Pierre Moscovici
Member of the European Commission

European Commission
Rue de la Loi / Wetstraat 200
1049 1049 Brussels
Belgium

July 29 2016, No: 3-1-04/4080

Subject: The Treaty on Stability, Coordination and Governance

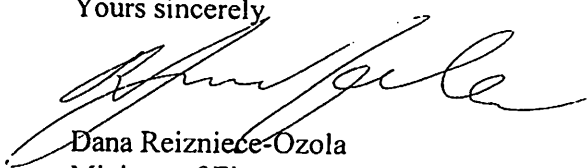
Dear Mr. Dombrovskis and Mr. Moscovici, *Dear Valdis and Pierre,*

I would like to thank you for your letter, the contents of which have had my careful attention. I welcome your assessment of the balanced budget rule and the monitoring institution. With this letter I provide our observations on the outstanding issues described in your letter.

Referring to the escape clause of Article 12 of the Fiscal Discipline Law (FDL), I commit, that the exceptional circumstances of this article have been and will continue to be interpreted in line with the provisions of exceptional circumstances included in the regulations of the Stability and Growth Pact (SGP), and therefore in line with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. I would like to inform you that this commitment will be made public by publishing this letter on the website of the Ministry of Finance. Moreover, we intend to make an explicit reference to the SGP's meaning of exceptional circumstances in the Article 12 of the FDL during the next round of FDL amendments.

Referring to the 'comply-or-explain' principle the Ministry of Finance and the Fiscal Discipline Council have already signed amendments to the Memorandum of Understanding to ensure that the 'comply-or-explain' principle has been explicitly stated as operational rule in cooperation between the Fiscal Discipline Council and the Ministry of Finance. Please find enclosed the signed amendments to the Memorandum of Understanding.

Yours sincerely


Dana Reizniece-Ozola
Minister of Finance



LATVIJAS REPUBLIKAS
FINANŠU MINISTRIJA



LATVIJAS REPUBLIKAS
FISKALAS DISCIPLINAS PADOME

Amendment No 1 of the Memorandum of Understanding¹

Riga

29 July 2016

The Fiscal Discipline Council and the Ministry of Finance agree on the following amendments to the Memorandum of Understanding signed on 8 February 2016:

1. Replace the words "numerical fiscal rules" with "numerical fiscal rules included in the FDL" throughout the entire MoU.

2. Supplement Article 5 of the MoU with Subsections 5.15 and 5.16 as follows:

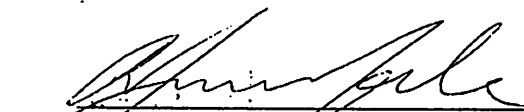
"5.15 Fiscal policy assessment mentioned in the Article 5.1 includes the assessment of:


5.15.1 whether the general government structural budget balance adjustment, in case it must be applied in accordance with Article 11 of the FDL, meets the provisions of this Article, especially with regard to the necessity of the activation, amount and timing of the correction;

5.15.2 whether the draft MTBF is prepared in accordance with numerical fiscal rules included in the FDL, especially in the event that revised fiscal forecasts indicate that the general government structural balance objective set forth in the MTBL for the previous year might not be met;

5.15.3 whether deviations from the balance rule, if these are introduced in accordance with Paragraph 4 of Article 5, Part 1 of the FDL, or these are planned in the draft MTBF, in accordance with Article 12 of the FDL, meet the provisions of the above articles, especially with regard to the fulfilment of the activation criteria, and the amount and timing of the deviation.

5.16 After receiving the fiscal policy assessment mentioned in Article 5.1, the MoF corrects the non-compliance or prepares and advances a legislative proposal that corrects the non-compliance, or submits its opinion on the Council's findings and an explanation as to why the MoF does not intend to act in this matter, no later than within 20 working days. The Council's fiscal policy assessment and the MoF's opinion and explanation are published on the Council's and MoF's websites within five working days."


Minister of Finance
Dana Reizniece-Ozola


Council Deputy Chairman
Ingars Eriņš

¹ In the sense of Chapter 7 of the State Administration Structure Law.