The *Saeima*1 has adopted and

and the President has proclaimed the following Law:

**Law On Long-Term Stabilisation Reserve**

**Chapter I. General Provision**

**Section 1.** This Law prescribes the procedures for creating a long-term stabilisation reserve, using, managing, accounting of funds and preparing reports.

**Chapter II. Creation of Long-Term Stabilisation Reserve**

**Section 2.** The long-term stabilisation reserve shall be created from:

1) the funds from the State basic budget in accordance with Section 19 of the Fiscal Discipline Law;

2) the funds from the State basic budget which are to be paid into the long-term stabilisation reserve in accordance with the law on the State budget for the current year;

3) the funds which are acquired from transactions related to the management of the funds of the long-term stabilisation reserve.

**Section 3.** In conformity with Section 19 of the Fiscal Discipline Law, the Cabinet shall take the decision to pay the funds of the State basic budget into the long-term stabilisation reserve in accordance with the provision laid down in Section 2, Clause 1 of this Law after it has examined the report referred to in Section 17 of this Law but not later than by 10 March of the financial year following the reporting year.

**Section 4.** (1) The Treasury, within a time period of three working days, shall:

1) after taking the decision referred to in Section 3 of this Law, ensure the transfer of the funds to the long-term stabilisation reserve account opened by the Bank of Latvia;

2) ensure the transfer of the revenues from transactions related to the management of the funds of the long-term stabilisation reserve to the long-term stabilisation reserve account opened by the Bank of Latvia from the date when such funds have been acquired.

(2) The Treasury shall ensure the transfer of those funds from the State basic budget to the long-term stabilisation reserve account opened by the Bank of Latvia which in accordance with the law on the State budget for the current year are to be paid into the long-term stabilisation reserve.

**Chapter III. Procedures for Using the Funds of the Long-Term Stabilisation Reserve**

**Section 5.** The funds of the long-term stabilisation reserve may be used only in the following cases:

1) for covering the financial deficit of the State basic budget in the years when financial deficit has been planned for the State basic budget of the relevant year by the medium term budget framework law which has been formulated in accordance with the Fiscal Discipline Law;

2) without prejudice to the provisions of Section 17, Paragraph six of the Fiscal Discipline Law, for financing fiscal risk reduction or prevention measures (including the financing of those fiscal risk reduction or prevention measures which correspond to the objectives laid down in Section 8.1 of the Law on Budget and Financial Management) if the funds cannot be provided from other sources of funding or the provision of funds is connected with exorbitant State budget expenditures;

3) for providing short-term funding to the Treasury budget accounts within the framework of cash management for a period not exceeding 12 calendar months if the funds cannot be provided from other sources of funding or the provision of funds is connected with exorbitant State budget expenditures.

**Section 6.** The decision on the use of the long-term stabilisation reserve funds shall be taken by the Cabinet upon the proposal of the Minister for Finance.

**Section 7.** Within 10 working days after having taken the decision referred to in Section 6 of this Law, the Treasury shall ensure the transfer of the funds from the long-term stabilisation reserve account to the State budget account in the Bank of Latvia.

**Chapter IV. Management of Funds**

**Section 8.** The Treasury shall ensure the management of the funds of the long-term stabilisation reserve. The Treasury shall cover all payments related to the management of these funds from the funds of the long-term stabilisation reserve.

**Section 9.** Funds of the long-term stabilisation reserve shall be managed separately from the other funds of the State budget, and the strategy for investment of these funds shall be approved by the Minister for Finance.

**Section 10.** The following shall be determined for the management of financial risks in the strategy for investment of the funds of the long-term stabilisation reserve:

1) restrictions in relation to investment subjects and the types of financial instruments admissible for making investments using the credit ratings determined by internationally recognised credit rating agencies;

2) restrictions of the structure of investment currencies;

3) restrictions of geographic and sectoral diversification of investments and other restrictions for the management of financial risks.

**Section 11.** It shall be allowed to invest the funds of the long-term stabilisation reserve according to the restrictions set out in the investment strategy of these funds:

1) in debt securities issued or guaranteed by State and international financial institutions, except the debt securities issued or guaranteed by the State of Latvia;

2) in debt securities issued or guaranteed by local governments, except the debt securities issued or guaranteed by local governments of Latvia;

3) in equity securities and debt securities issued by commercial companies if they are admitted to trading on a regulated market of at least one European Union Member State or Member State of the European Economic Area, or Member State of the Organisation for Economic Co-operation and Development;

4) in investments in the Bank of Latvia and in a credit institution registered in a European Union Member State or Member State of the European Economic Area, or Member State of the Organisation for Economic Co-operation and Development;

5) in investment funds within the meaning of the Law on Investment Management Companies and in the investment funds of a Member State of the Organisation for Economic Co-operation and Development.

**Section 12.** For the management of the long-term stabilisation reserve and in order to manage financial risks according to the restrictions set out in the investment strategy of these funds, it shall be allowed to use derivative financial instruments.

**Chapter V. Accounting of Funds and Reports**

**Section 13.** The Treasury shall ensure the accounting of the long-term stabilisation reserve and that an annual report on the long-term stabilisation reserve is prepared pursuant to the regulatory enactments regarding accounting and reports.

**Section 14.** Once every quarter, until the tenth of the month following the reporting period, the Treasury shall submit to the Minister for Finance a report on performed transactions.

**Section 15.** The annual report on the long-term stabilisation reserve and investments thereof shall be an integral part of the report of the financial year on the implementation of the State budget and the budgets of local governments (hereinafter – the report on the financial year) and shall be subject to the same control as the report on the financial year.

**Section 16.** The reports referred to in Sections 13 and 14 of this Law shall not be prepared and submitted for a reporting period in which the financial data value to be indicated is equal to zero.

**Section 17.** (1) Once a year, until 1 March of the financial year following the reporting year, the Ministry of Finance shall prepare and the Minister for Finance shall submit for examination by the Cabinet a report:

1) regarding the revenues of the State basic budget and the result of the implementation of the State basic budget in the reporting year;

2) regarding the revenues of the long-term stabilisation reserve, financial transactions and payments related thereto and the measures financed from the long-term stabilisation reserve in the reporting year.

(2) The Cabinet shall submit the report referred to in Paragraph one of this Section to the *Saeima* by 1 April of the financial year following the reporting year.

**Transitional Provisions**

1. With the coming into force of this Law, the Law on Long-Term Stabilisation Reserve (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2008, No. 24; 2009, No. 14), is repealed.

2. The Ministry of Finance shall prepare and the Minister for Finance shall submit for examination by the Cabinet the report referred to in Section 17 of this Law on the period beginning with 1 January 2014.

3. The reports referred to in Sections 13 and 14 of this Law shall be prepared beginning with the reporting period when the Treasury in accordance with Section 4, Paragraph one of this Law has ensured the transfer of funds to the long-term stabilisation reserve account.

This Law has been adopted by the *Saeima* on 24 April 2014.

President A.Bērziņš

Riga, 14 May 2014