

DRAFT BUDGETARY  
PLAN OF THE  
REPUBLIC OF LATVIA  
2019

## Content

Abbreviations.....	3
Introduction .....	4
Macroeconomic Development Scenario .....	5
Table 0.i) Basic assumptions.....	6
Table 1a: Macroeconomic prospects .....	7
Table 1b: Price developments .....	8
Table 1c: Labour market developments.....	8
Table 1d: Sectoral balances.....	8
Fiscal strategy and the structural balance objective.....	9
Table 2.a: General government budgetary targets broken down by subsector.....	11
Table 2.b: General government debt developments .....	12
Table 2.c: Contingent liabilities.....	12
Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components .....	13
Table 4.a: General government expenditure and revenue targets, broken down by main components .....	14
Table 4.b: Amounts to be excluded from the expenditure benchmark .....	14
Table 4.c General government expenditure by function.....	15
4.c.i) General government expenditure on education, healthcare and employment	15
4.c.ii) Classification of the functions of the Government .....	15
Table 5. Description of discretionary measures included in the draft budget. ....	16
Table 5.a.i) Discretionary measures taken by General Government .....	16
Table 5.a.ii) Discretionary expenditure measures taken by General Government ..	18
Table 5.b.i) Discretionary measures taken by Central Government.....	22
Table 5.b.ii): Discretionary expenditure measures taken by Central Government .	24
Table 5.c Discretionary measures taken by sub-sectors of the General Government .....	28
Table 6.a CSR recommendations .....	29
Table 6.b Targets set by the Union's Strategy for growth and jobs. ....	34
Table 7: Divergence from Stability Programme 2018-2021 .....	49
Annex: Methodological aspects.....	50

## Abbreviations

ALTUM	Joint Stock Company “Development Finance Institution Altum”
CIT	Corporate income tax
EC	European Commission
ERDF	European Regional Development Fund
ESA	European System of Accounts
ESF	European Social Fund
ETS	Emissions Trading Scheme
EU	European Union
GDP	Gross domestic product
GRTDI	Guidelines on Research, Technology Development, and Innovation for 2014–2020
Framework Law	Medium- Term Budget Framework Law
CoM	Cabinet of Ministers
MoE	Ministry of Economy
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MTO	Medium-term objective of budget balance in structural terms
NRP	National Reform Programme
PIT	Personal income tax
GHG	Greenhouse gas
SO	Specific objective
SSC	Social security contributions
STEM	Science, technology, engineering and mathematics
VAT	Value added tax
VET	Vocational education and training

## **Introduction**

The Republic of Latvia hereby submits an updated Draft Budgetary Plan for 2019 prepared by a new government, which was approved by Saeima on 23 January 2019 after Saeima elections on 6 October 2018.

At first, the Republic of Latvia submitted a general government Draft Budgetary Plan for 2019 under a no-policy change scenario to the EC and the Euro Group on 15 October 2018.

The updated Draft Budgetary Plan for 2019 is based on the same macroeconomic forecasts as used in the Draft Budgetary Plan under a no-policy change scenario. The fiscal scenario takes into account decisions taken from 15 October 2018 and includes revenue and expenditure adjustments resulting from the most up-to-date outcome data for 2018.

## Macroeconomic Development Scenario

The updated forecasts for the general government budget 2019-2021 are based on the medium-term macroeconomic growth scenario, which was developed in September 2018 taking into account the GDP data for the first half of 2018 and the short-term macroeconomic statistics available until September 2018. Moreover, the macroeconomic growth scenario includes estimation for the actual GDP growth rate in 2018 at current and constant prices based on the GDP flash estimate for the fourth quarter of 2018 published on 30 January 2019. Thus, the GDP forecasts at current prices for 2019-2021 have been updated without changing previously projected growth rates.

The macroeconomic indicators' forecasts have been approved by the Bank of Latvia and the MoE by signing an agreement protocol. Furthermore, the forecasts have been endorsed by the Fiscal Discipline Council. In the preparation of the forecasts, the MoF has consulted experts from the International Monetary Fund and the EC. In February of 2019, the MoF will prepare new macroeconomic forecasts for Latvia's Stability Programme 2019-2022 taking into account the data about the GDP flash estimate for the fourth quarter of 2018 that was released by the Central Statistical Bureau on 30 January of 2019.

Compared with the forecasts included in Latvia's Stability Programme for 2018-2021 that were developed in February 2018, Latvia's economic growth in 2018 exceeded the GDP growth projection by 0.8 percentage points, but the GDP growth forecast for 2019 has been reduced by 0.4 percentage points to 3%. GDP growth in 2018 was determined by stronger than expected development of the construction sector and investment as well as better than previously projected performance of the transport and financial service sectors, therefore taking into account these base effects it is expected that economic growth in 2019 will be slightly weaker. Also, economic growth in 2019 will be negatively affected by a slightly less favourable situation in the global economy. It is projected that investment growth will continue in 2019 which is to a large extent associated with EU fund investment inflow, however it will become more moderate and the overall economic growth rates between 2019-2021 will become weaker, moderating at the 3.0% level which is close to the potential growth of Latvia's economy.

The average annual inflation is projected at the 2.5% level for 2019. Compared with the forecasts in Latvia's Stability Programme 2018-2021, the inflation forecast for 2019 is raised by 0.1 percentage point. Stronger than expected economic growth in 2018 has also determined a faster decline of unemployment. The projected average unemployment level in 2019 constitutes 7.4% which is a reduction of the forecast by 0.3 percentage points. Accordingly, employment will grow faster - in 2019 the number of employed persons is expected to increase by 0.1%. The average wage is also projected to grow faster - in 2018 by 8.3%, and in 2019 by 6.0% when average monthly gross wage will reach 1 063 EUR.

The macroeconomic growth scenario has been developed taking into account the EC's Summer 2018 Interim Economic Forecast about Latvia's trade partners' growth prospects. Overall, the external economic situation remained favourable for Latvia's economic growth. The EC projected that the EU's GDP will increase by 2.0% in 2019, which is a slight slowdown compared to the 2.4% growth reached in 2017. For the seven main Latvia's external trade partner countries - Lithuania, Estonia, Russia, Germany, Sweden, United Kingdom and Poland - GDP growth projection was higher than the EU average growth forecast, comprising 2.3% in 2019.

Relatively stable prices for raw materials and low interest rates were also favourable for the global demand and economic growth. The MoF assumed that the average crude oil price would be 76.5 USD/b in 2019, while the EUR/USD exchange rate would constitute 1.16 in 2019. Interest rates were projected to stay stable and low, with short-term rates remaining negative, constituting -0.2% in 2019.

**Table 0.i) Basic assumptions**

	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Short-term interest rate in euro area (annual average)</b>		-0.3	-0.2
<b>Long-term interest rate in euro area (annual average)</b>		0.5	0.6
<b>USD/EUR exchange rate (annual average)</b>	1.13	1.19	1.16
<b>Nominal effective exchange rate</b>	0.8	7.3	0.3
<b>World excluding EU, GDP growth</b>	3.9	4.2	4.1
<b>EU GDP growth</b>	2.4	2.1	2.0
<b>Growth of relevant foreign markets</b>	4.7	4.2	4.1
<b>World import volumes, excluding EU</b>	5.3	4.9	4.4
<b>Oil prices (Brent, USD/barrel)</b>	54.3	73.9	76.5

Table 1a: Macroeconomic prospects

	ESA Code	2017	2017	2018	2019
		Level	Rate of change		
<b>1. Real GDP</b>	B1*g	22.8	4.6	4.8	3.0
<b>of which</b>					
<b>Attributable to the estimated impact of aggregated budgetary measures on economic growth</b>					
<b>2. Potential GDP</b>		22.7	3.3	3.4	3.4
<b>Contributions:</b>					
<b>labour</b>			0.0	0.0	0.0
<b>capital</b>			2.2	2.2	2.2
<b>total factor productivity</b>			1.1	1.1	1.2
<b>3. Nominal GDP</b>	B1*g	27.0	8.0	8.0	6.2
<b>Components of real GDP</b>					
<b>4. Private consumption expenditure</b>	P.3	14.0	4.1	4.2	4.2
<b>5. Government consumption expenditure</b>	P.3	3.9	4.1	3.8	3.5
<b>6. Gross fixed capital formation</b>	P.51	4.8	13.1	14.1	6.3
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53				
<b>8. Exports of goods and services</b>	P.6	14.5	6.2	5.0	4.1
<b>9. Imports of goods and services</b>	P.7	15.0	8.9	5.7	5.5
<b>Contribution to real GDP growth</b>					
<b>10. Final domestic demand</b>			6.3	4.8	4.1
<b>11. Changes in inventories and net acquisition of value</b>	P.52 + P.53		0.5	-1.4	-0.6
<b>12. External balance of goods and services</b>	B.11		-1.7	-0.6	-1.1

**Table 1b: Price developments**

	ESA Code	2017	2017	2018	2019
		Level	Rate of change		
<b>1. GDP deflator</b>			3.2	3.1	3.1
<b>2. Private consumption deflator</b>			3.1	2.5	2.5
<b>3. HICP</b>			2.9	2.5	2.5
<b>4. Public consumption deflator</b>			2.9	4.1	2.9
<b>5. Investment deflator</b>			1.7	2.7	2.2
<b>6. Export price deflator (goods and services)</b>			3.5	3.2	3.1
<b>7. Import price deflator (goods and services)</b>			2.8	1.5	2.5

**Table 1c: Labour market developments**

	ESA Code	2017	2017	2018	2019
		Level	Rate of change		
<b>1. Employment, persons ('000)</b>		894.8	0.2	1.2	0.1
<b>2. Employment, hours worked</b>		1 687.3	0.5	0.0	0.0
<b>3. Unemployment rate (%)</b>			8.7	7.7	7.4
<b>4. Labour productivity, persons</b>			4.5	3.0	2.9
<b>5. Labour productivity, hours worked</b>			3.7	3.0	2.9
<b>6. Compensation of employees, bln.euro</b>	D.1	12.5	8.2	9.6	6.1
<b>7. Compensation per employee (Gross wage), euro</b>		926	7.8	8.3	6.0

**Table 1d: Sectoral balances**

	ESA Code	2017	2018	2019
		% GDP		
<b>1. Net lending/borrowing vis-a-vis the rest of the world</b>	B.9	1.4	2.7	2.1
<b>of which</b>				
- Balance on goods and services		0.0	0.7	0.2
- Balance of primary incomes and transfers		0.6	0.3	0.3
- Capital account		0.8	1.7	1.6
<b>2. Net lending/borrowing of the private sector</b>	B.9	1.9	3.4	2.8
<b>3. Net lending/borrowing of general government</b>	EDP B.9	-0.6	-0.7	-0.5
<b>4. Statistical discrepancy</b>		0.0	0.0	0.0



## **Fiscal strategy and the structural balance objective**

Latvian fiscal policy principles, MTO and applied flexibility clauses due to an increase in contributions to the second pension pillar and the reform of the healthcare system have been described in the Stability Programme for 2018-2021 and have not been changed.

Due to the parliamentary elections held in October 2018, a budget plan under a no-policy change scenario was submitted to the EC and the Euro Group on 15 October 2018. In view of the fact that the government was not established by the end of 2018, as of 1 January 2019, the State had no budget and, in accordance with existing legal provisions, the minister of finance approved budget expenditure, loan and borrowing limits necessary for the functioning of the State.

The government formation process was completed with the approval of the government on 23 January 2019 and work on the Budget for 2019 continued on 5 February, when the MoF presented a report “On the forecasts of macroeconomic indicators, revenues and general government budget balances in 2019-2021” to the new government, which provided the basis for the government to launch discussions on financing new policy priorities.

As contrary to existing practice, the Framework Law for 2019-2021 will not be drafted together with the Budget for 2019, the government has not specifically defined new medium-term budgetary policy priorities. Therefore, the previous Framework Law is in force and the government policy priorities described in the Stability Programme for 2018-2021 continue accordingly:

1. increasing state defence capacity by raising state defence funding to 2% of GDP;
2. continuing to introduce the tax reform;
3. providing funding for defence, health, demography and motor road maintenance;
4. gradually increasing tax revenue to 1/3 of GDP, in particular by improving tax collection.

Preparation of the Budget for 2019 started with negative fiscal space amounting to -34,0 mln euros. The newly formed government took decisions on discretionary revenue and expenditure measures to ensure both the elimination of negative fiscal space and the allocation of additional funding to priorities of the line ministries.

Additional resources for priorities of the government were provided also by carrying out a state budget expenditure revision which allowed to ensure additional funding both for sectoral priorities and other government priorities.

Fiscal data in the Table 3 has been prepared on the basis of a no-policy change scenario, which for the year 2019 takes into account discretionary revenue and expenditure measures already included in the Framework Law for 2017-2019 and in the Framework Law for 2018-2020, and which were included in the Draft Budgetary Plan under a no-policy change scenario submitted to the EC on 15 October 2018.

It should be noted that this Draft Budgetary Plan has been drawn up on the basis of the same macroeconomic development scenario elaborated in autumn 2018, according to which the Draft Budgetary Plan submitted on 15 October 2018 was prepared. However, in addition to the changes brought by the new discretionary revenue and expenditure measures, other adjustments have also been made in the revenue and expenditure part of the fiscal scenario. Some of the adjustments relate to the impact of the new discretionary expenditure measures and tax revenues and some of the adjustments relate to the latest performance data for 2018, where this has an impact on the corresponding fiscal indicators in 2019. Although these changes are not directly regarded as discretionary measures, those are included in Tables 5a and 5b as a separate section in order to ensure a visible reflection of changes between the no-policy change and policy-change scenario in 2019.

Considering the aforementioned, the Budget for 2019 has been prepared by:

- 1) continuing government policies as defined in the Framework Law for 2018-2020 and providing funding for protection, health, demography and motor road maintenance;
- 2) allocating funding to new policy priorities;
- 3) forecasting that the general government nominal deficit in 2019 is 0,54% of GDP;
- 4) implementing a state budget expenditure revision and by developing additional discretionary revenue and expenditure measures in order to ensure funding for the priorities defined by the government;
- 5) continuing previously approved and initiating new discretionary measures to reduce the informal economy and improve tax collection, as well as to reduce income inequality.

According to Latvia's output gap calculations (0.94% of GDP) and one-off measures representing -0.45% of GDP, which includes a temporary net reduction of revenue -0.51% of GDP from the implementation of the tax reform and additional revenue from sales of emission allowances of 0.06% of GDP, the structural deficit for 2019 is 0.45% of GDP  $(-0.54 - 0.94 * 0.38 - (-0.45)) = -0.45$ ).

According to the Fiscal Discipline Law, the Budget for 2019 foresees a fiscal security reserve in the amount of 0.1% of GDP. The Budget for 2019 has been prepared by respecting a structural balance target for 2019 in the amount of -0.6% of GDP enshrined in the Framework Law for 2018-2020 as the structural deficit in the Budget for 2019 is smaller than the permissible target exceeding the amount of fiscal security reserve.

The Draft Budgetary Plan for 2019 is also in line with the balance rule of the Stability and Growth Pact. Latvia's structural deficit in 2019 shall not exceed the MTO of -1% of GDP by more than the permissible deviation linked to the implementation of structural reforms in the healthcare sector which are 0.5% of GDP. Therefore, the structural deficit shall not exceed -1.5% of GDP.

As it can be seen, it is respected by a substantial margin when applying the output gap and one-off measures according to national methodology. Compliance is also respected in the most prudent scenario, which uses the EC output gap assessment and the EC approach regarding one-off measures.

According to the EC output gap calculations (which according to informally communicated data is estimated at 2.0% of GDP in 2019), and given that the EC will not recognise a temporary net revenue reduction caused by the tax reform as a one-off measure and even by applying a precautionary approach regarding the accounting of revenue from the sale of emission allowances, where all revenue in the amount of 0.2% is recognised as one-off, Latvia still respects the balance rule  $((-0.54 - 2.0 * 0.38 - 0.2) = -1.5)$ .

**Table 2.a: General government budgetary targets broken down by subsector**

	ESA Code	2018	2019
		% of GDP	
<b>Net lending (+) / net borrowing (-) ( B.9) by sub-sector</b>			
<b>1. General government</b>	S.13	-0.7	-0.5
<b>2. Central government</b>	S.1311	-0.8	-1.0
<b>3. State government</b>	S.1312		
<b>4. Local government</b>	S.1313	-0.5	-0.3
<b>5. Social security funds</b>	S.1314	0.6	0.7
<b>6. Interest expenditure</b>	D.41	0.8	0.8
<b>7. Primary balance</b>		0.1	0.2
<b>8. One-off and other temporary measures<sup>1</sup></b>			0.1
<b>9. Real GDP growth (%) (=1. in Table 1a)</b>		4.8	3.0
<b>10. Potential GDP growth (%) (=2 in Table 1.a)</b>		3.4	3.4
<b>contributions:</b>			
<b>- labour</b>		0.05	0.03
<b>- capital</b>		2.2	2.2
<b>- total factor productivity</b>		1.1	1.2
<b>11. Output gap (% of potential GDP)</b>		1.3	0.9
<b>12. Cyclical budgetary component (% of GDP)</b>		0.5	0.4
<b>13. Cyclically-adjusted balance (1 - 12) (% of GDP)</b>		-1.2	-0.9
<b>14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)</b>		-0.4	-0.1
<b>15. Structural balance (13 - 8) (% of GDP) <sup>2</sup></b>		-1.2	-1.0

---

1 The share of revenue of EUR 18.2 million from the EU ETS sale of emission allowances, which took place in November 2018 and is attributable to the increase in volume, is included in the Draft Budgetary Plan as a one-off measure. On the other hand, the increase in revenue from this transaction, which is attributable to price fluctuations in 2019, is not considered a one-off measure.

2 In order to facilitate data comparability, the structural balance is shown together with a reduction of 0.5% of GDP in net revenue from the tax reform, which is temporary and recognised as a one-off measure from the perspective of Latvian fiscal framework, but the EC includes this effect in the structural balance, since revenue-reducing/expenditure-increasing measures by the EC as a rule are not recognised as one-off/short-term measures.

**Table 2.b: General government debt developments**

	<b>ESA Code</b>	<b>2018</b>	<b>2019</b>
		% of GDP	
<b>1. Gross debt</b>		37.2	38.1
<b>2. Change in gross debt ratio</b>		-2.8	1.0
<b>Contributions to change in gross debt</b>			
<b>3. Primary balance</b>		0.1	0.2
<b>4. Interest expenditure</b>	EDP D.41	0.8	0.8
<b>5. Stock-flow adjustment, i.e. Implicit interest rate on debt</b>		-3.5	0.4
		2.1	2.2
<b>Other relevant variables</b>			
<b>6. Liquid financial assets</b>			
<b>7. Net financial debt (7=1-6)</b>			
<b>8. Debt amortization (existing bonds) since the end of the previous year</b>		2.6	1.2
<b>9. Percentage of debt denominated in foreign currency</b>		10.2	9.9
<b>10. Average maturity</b>		7.63 years	
<i>For information - in calculations used GDP data:</i>			
<b>Nominal GDP. mln euro</b>		29 194.1	31 005.1

**Table 2.c: Contingent liabilities**

<b>% of GDP</b>	<b>2018</b>	<b>2019</b>
<b>Public guarantees</b>	1.1	1.1

**Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components**

	<b>ESA Code</b>	<b>2018</b>	<b>2019</b>
		% GDP	
<b>1. Total revenue at unchanged policies</b>	TR	37.4	35.6
<b>of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	14.0	14.1
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	7.4	6.5
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	9.4	9.3
<b>1.5. Property income</b>	D.4	0.9	0.6
<b>1.6. Other</b>		5.8	5.1
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		30.9	30.1
<b>2. Total expenditure at unchanged policies</b>	TE	38.0	36.3
<b>of which</b>			
<b>2.1. Compensation of employees</b>	D.1	10.2	10.1
<b>2.2. Intermediate consumption</b>	P.2	6.0	5.8
<b>2.3. Social payments</b>	D.62 D.632	11.6	11.8
<b>of which Unemployment benefits</b>		0.4	0.4
<b>2.4. Interest expenditure</b>	D.41	0.8	0.8
<b>2.5. Subsidies</b>	D.3	1.7	1.5
<b>2.6. Gross fixed capital formation</b>	P.51	5.4	4.8
<b>2.7. Capital transfers</b>	D.9	0.2	0.1
<b>2.8. Other</b>		2.1	1.4

**Table 4.a: General government expenditure and revenue targets, broken down by main components**

	ESA Code	2018	2019
		<b>% GDP</b>	
<b>1. Total revenue target</b>	TR	37.4	36.4
<b>Of which</b>			
<b>1.1. Taxes on production and imports</b>	D.2	14.0	14.1
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	7.4	6.6
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	9.4	9.5
<b>1.5. Property income</b>	D.4	0.9	0.7
<b>1.6. Other</b>		5.8	5.5
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		30.9	30.4
<b>2. Total expenditure target</b>	TE3	38.0	36.9
<b>Of which</b>			
<b>2.1. Compensation of employees</b>	D.1	10.2	10.5
<b>2.2. Intermediate consumption</b>	P.2	6.0	5.4
<b>2.3. Social payments</b>	D.62 D.632	11.6	11.7
<b>of which Unemployment benefits</b>		0.4	0.4
<b>2.4. Interest expenditure (= Table 2.a.9.)</b>	D.41	0.8	0.8
<b>2.5. Subsidies</b>	D.3	1.7	1.6
<b>2.6. Gross fixed capital formation</b>	P.51	5.4	5.3
<b>2.7. Capital transfers</b>	D.9	0.2	0.1
<b>2.8. Other</b>		2.1	1.6

**Table 4.b: Amounts to be excluded from the expenditure benchmark**

	ESA Code	2018	2019	2020	2021
		<i>mln. euro</i>	<b>% GDP</b>		
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		325.0	1.2	1.7	1.4
1.a of which capital expenditure (gross fixed capital formation) corresponding to revenue received from foreign financial assistance received		174.0	0.6	1.1	0.9
<b>2. Cyclical unemployment benefit expenditure</b>		-30.4	-0.1	-0.1	-0.1
<b>3. Effect of discretionary revenue measures</b>		215.1	0.8	-0.2	0.2
<b>4. Revenue increases mandated by law</b>					

**Table 4.c General government expenditure by function****4.c.i) General government expenditure on education, healthcare and employment**

	<b>2018</b>		<b>2019</b>	
	% GDP	% general government expenditure	% GDP	% general government expenditure
<b>Education</b>	5.6	14.8	5.5	14.9
<b>Health</b>	4.0	10.5	4.2	11.4
<b>Employment</b>	0.2	0.4	0.1	0.3

**4.c.ii) Classification of the functions of the Government**

	<b>COFOG Code</b>	<b>2018</b>	<b>2019</b>
		% of GDP	
<b>1. General public services</b>	1	4.6	4.2
<b>2. Defense</b>	2	2.0	2.0
<b>3. Public order and safety</b>	3	2.2	2.0
<b>4. Economic affairs</b>	4	5.1	4.7
<b>5. Environmental protection</b>	5	0.6	0.4
<b>6. Housing and community amenities</b>	6	0.9	0.7
<b>7. Health</b>	7	4.0	4.2
<b>8. Recreation, culture and religion</b>	8	1.5	1.4
<b>9. Education</b>	9	5.6	5.5
<b>10. Social protection</b>	10	11.6	11.8
<b>11. Total Expenditure (= item 2 in Table 2.c.i)</b>	TE	38.0	36.9

**Table 5. Description of discretionary measures included in the draft budget.****Table 5.a.i) Discretionary measures taken by General Government**

List of measures	Detailed description*	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2019	2020	2021
						% of GDP		
A measure to fight against the shadow economy - Reduction of unauthorized gambling and lotteries market	A measure to fight against the shadow economy - Reduction of unauthorized gambling and lotteries market	Gambling tax	D.21	Accrual	Partly approved by government	0.01	0.00	0.00
		PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
A measure to fight against the shadow economy - Introduction of the electronic working time accounts in the construction industry	A measure to fight against the shadow economy - Introduction of the electronic working time accounts in the construction industry	PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Partly approved by government	0.01	0.00	0.00
		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in the Solidarity tax	Changes in the Solidarity tax	SSC	D.61	Accrual	Approved by government	0.02	-0.01	0.00
Changes in funded pension scheme structure as of January 1, 2020	Changes in funded pension scheme structure as of January 1, 2020	SSC	D.61	Accrual	Approved by government	0.00	0.08	0.05
Increase in budget revenue from dividends, because of increase in State company "Latvijas valsts meži" payments	Increase in budget revenue from dividends, because of increase in State company "Latvijas valsts meži" payments	Non-tax revenue	D.421	Accrual	Approved by government	0.12	-0.11	0.00
		CIT	D.5	Accrual	Approved by government	0.03	-0.03	0.00
08.02.2019. meeting of the Committee of the CoM decision to decrease revenue forecast on State duty for keeping oil products` security reserves	08.02.2019. meeting of the Committee of the CoM decision to decrease revenue forecast on State duty for keeping oil products` security reserves	VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
		Non-tax revenue	D.214	Accrual	Approved by government	-0.01	0.01	0.00
Additional funding for raising healthcare workers' (Workers in	Additional funding for raising healthcare workers' (Workers in	PIT	D.5	Cash flow	Approved by government	0.04	0.00	0.00



health, justice, education and welfare sectors) wages	health, justice, education and welfare sectors) wages	SSC	D.61	Cash flow	Approved by government	0.06	0.00	0.00
		SSC for the Health payment	D.61	Cash flow	Approved by government	0.00	0.00	0.00
		VAT	D.2	Cash flow	Approved by government	0.00	0.00	0.00
Additional funding for raising wages of judges and prosecutors, additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	Additional funding for raising wages of judges and prosecutors, additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	PIT	D.5	Cash flow	Approved by government	0.02	-0.02	0.00
		SSC	D.61	Cash flow	Approved by government	0.04	-0.03	0.00
		SSC for the Health payment	D.61	Cash flow	Approved by government	0.00	0.00	0.00
Other measures						0.01	0.00	0.00
					<b>TOTAL</b>	<b>0.35</b>	<b>-0.11</b>	<b>0.04</b>

Changes in 2019 due to updating the fiscal forecasts following the Draft Budgetary Plan submitted in October 2018, including:							2019
Tax adjustment according to the ESA methodology							0.03
Adjustment of non-tax revenues according to the ESA methodology <sup>3</sup>							0.23
Adjustment of EU funds according to the ESA methodology							0.04
Own revenue							0.04
Foreign financial assistance revenue							0.06
					<b>TOTAL</b>		<b>0.40</b>

<sup>3</sup> Including correction for the revenue received in the state budget in November 2018 from Latvia's emission quota trading, which according to the ESA principles is attributed to the revenue of 2019.

Table 5.a.ii) Discretionary expenditure measures taken by General Government

	List of measures	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2019	2020	2021
					% of GDP		
Ministry of Defence	Increased funding for construction projects	<i>P.51</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Technical clarifications* (incl. increase expenditure on maintenance of National Armed Forces, increased investment for NATO projects)				0.05	-0.05	0.00
MoE	Increased expenditure for ALTUM support for housing programme	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Reduced funding for maintenance of oil stocks, in order to reduce fees	<i>D.2</i>	Cash flow	Approved by government	-0.01	0.01	0.00
MoF	Increased expenditure according to Cabinet Order No. 597-s of 08.11.2018		Cash flow	Approved by government	0.00	0.01	0.04
	Increased funding for the implementation of the priority measure for the prevention of laundering of proceeds of crime and financing of terrorism by 31 December 2019		Cash flow	Approved by government	0.01	0.00	0.00
	Technical clarifications (incl. increased expenditure for ERDF advance, interim and final payments, increased expenses for CF technical help projects)				0.18	-0.11	-0.01
Ministry of the Interior	Increased funding to provide benefits to officials with special service grades after every five years of continuous service	<i>D.6</i>	Cash flow	Approved by government	0.12	-0.10	0.00
	Increased funding for the implementation of the priority measure for the prevention of laundering of proceeds of crime and financing of terrorism by 31 December 2019		Cash flow	Approved by government	0.01	-0.01	0.00

	Technical clarifications (incl. increased expenditure for "ABC Gate at International Airport "Riga" and financing for other EU policy instruments)				0.02	-0.01	0.00
MoES	Technical clarifications (incl. increased expenditure for Erasmus+ projects)				0.04	-0.03	-0.01
Ministry of Agriculture	Increased financing for ALTUM loan programme	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Increased funding for implementation of the program for monitoring and combating African swine fever and ensuring the capacity of the Food and Veterinary Service	<i>D.1</i>	Cash flow	Approved by government	0.00	0.01	0.00
	Technical clarifications (incl. increased expenditure on implementing other EU policy instruments and measures)				0.07	-0.06	-0.01
Ministry of Transport	Technical clarifications (incl. increased spending on other EU policy instruments and projects)		Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Justice	Increased spending to increase the salary of judges	<i>D.1</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure according to Cabinet Order No. 597-s of 08.11.2018		Cash flow	Approved by government	0.01	0.00	0.07
	Increased expenditure to provide benefits for prison administration officers with special service stages after every five years of continuous service	<i>D.6</i>	Cash flow	Approved by government	0.02	-0.02	0.00
	Additional funding to ensure the payment of state-guaranteed maintenance from the Maintenance Guarantee Fund	<i>D.6</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Decreased spending on social benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.01	0.00
	Technical clarifications (incl. increased expenses to ensure the payment of state guaranteed maintenance from the Maintenance Guarantee Fund)				0.02	0.00	0.00
Ministry of Environmental Protection and Regional Development	Technical clarifications (incl. funding for cross-border cooperation programs, projects and activities)				0.05	-0.03	0.00

Ministry of Culture	Technical clarifications (incl. increased funding for the implementation of ERDF projects)		Cash flow	Approved by government	0.02	-0.01	0.00
Ministry of Health	Increased funding to ensure the functioning of the e-veselība system	<i>P.51</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure in order to ensure an increase in the remuneration of other non-medical workers in relation to the provision of state-paid healthcare services	<i>D.1</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Increased expenditure in order to ensure an increase in the wages for medical workers, including in relation to the abolition of the extended normal working time	<i>D.1</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure in order to ensure an increase in the lowest monthly salary rate of medical workers	<i>D.1</i>	Cash flow	Approved by government	0.20	0.00	0.00
	Increased expenditure in order to ensure an increase in the remuneration of medical workers and drivers of emergency medical vehicles working in the Emergency Medical Service	<i>D.1</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Increased expenditure in order to ensure the implementation of the priority action “Accessibility of medicines to patients with rare diseases”	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Technical clarifications (incl. increased expenditure on the implementation of ERDF projects in the field of health, increased costs for the payments of reimbursable medical prescriptions)				0.03	-0.03	0.00
Prosecutor’s Office	Increased expenditure to ensure the remuneration of prosecutors	<i>D.1</i>	Cash flow	Approved by government	0.02	0.00	0.00
Grant to Municipalities	Changes to municipal grants according to the decision of the CofM No 5 30.§ point (05.02.2019.), which ensures that income tax and special subsidies to municipalities will not be less than 1.47 billion	<i>D.7</i>	Cash flow	Approved by government	-0.05	0.04	0.00
	Technical clarifications				-0.01	0.01	0.01

Financing to be redistributed in the annual budget execution process	Technical clarifications (incl. reallocation of funding for the implementation of EU policy instruments and other foreign assistance projects and measures)		Cash flow	Approved by government	-0.28	0.16	0.03
Ministry of Welfare	Increased expenditure in order to ensure the implementation of the priority measure for special care allowance for children and adults with disabilities since childhood development	<i>D.6</i>	Cash flow	Approved by government	0.01	0.01	0.00
	Increased expenditure in order to ensure the implementation of the priority measure for improving the quality of long-term social care service		Cash flow	Approved by government	0.02	0.00	0.00
	Reduction of expenses for maternity benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.00	0.00
	Reduction of expenses for sickness benefits	<i>D.6</i>	Cash flow	Approved by government	-0.06	0.03	0.00
	Decrease in expenses for parental benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.00	0.00
	Decrease in expenditure on pensions	<i>D.6</i>	Cash flow	Approved by government	-0.07	0.05	0.00
	Technical clarifications (incl. increased expenditure to projects implemented by the ERDF in the welfare sector)				0.01	-0.01	0.00
	Other measures approved by government				0.06	-0.02	0.00
	Other technical clarifications				0.01	0.00	0.00
<b>TOTAL</b>					<b>0.63</b>	<b>-0.23</b>	<b>0.13</b>

\* Reallocation of funds (incl. implementation of EU funds, revenue from fee services and other own revenue)

Table 5.b.i) Discretionary measures taken by Central Government

List of measures	Detailed description*	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2019	2020	2021
						% of GDP		
A measure to fight against the shadow economy - Reduction of unauthorized gambling and lotteries market	A measure to fight against the shadow economy - Reduction of unauthorized gambling and lotteries market	Gambling tax	D.21	Accrual	Partly approved by government	0.01	0.00	0.00
		PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
A measure to fight against the shadow economy - Introduction of the electronic working time accounts in the construction industry	A measure to fight against the shadow economy - Introduction of the electronic working time accounts in the construction industry	PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
		SSC	D.61	Accrual	Partly approved by government	0.01	0.00	0.00
		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in the Solidarity tax	Changes in the Solidarity tax	SSC	D.61	Accrual	Approved by government	0.02	-0.01	0.00
Changes in funded pension scheme structure as of January 1. 2020	Changes in funded pension scheme structure as of January 1, 2020	SSC	D.61	Accrual	Approved by government	0.00	0.08	0.05
Increase in budget revenue from dividends, because of increase in State company "Latvijas valsts meži" payments	Increase in budget revenue from dividends, because of increase in State company "Latvijas valsts meži" payments	Non-tax revenue	D.421	Accrual	Approved by government	0.12	-0.11	0.00
		CIT	D.5	Accrual	Approved by government	0.03	-0.03	0.00
08.02.2019. meeting of the Committee of the CoM decision to decrease revenue forecast on State duty for keeping oil products` security reserves	08.02.2019. meeting of the Committee of the CoM decision to decrease revenue forecast on State duty for keeping oil products` security reserves	VAT	D.2	Accrual	Approved by government	0.00	0.00	0.00
		Non-tax revenue	D.214	Accrual	Approved by government	-0.01	0.01	0.00
Additional funding for raising healthcare workers' (Workers in health, justice, education and welfare sectors) wages	Additional funding for raising healthcare workers' (Workers in health, justice, education and welfare sectors) wages	PIT	D.5	Cash flow	Approved by government	0.01	0.00	0.00
		SSC	D.61	Cash flow	Approved by government	0.06	0.00	0.00

		SSC for the Health payment	D.61	Cash flow	Approved by government	0.00	0.00	0.00
		VAT	D.2	Cash flow	Approved by government	0.00	0.00	0.00
Additional funding for raising wages of judges and prosecutors, additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	Additional funding for raising wages of judges and prosecutors, additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	PIT	D.5	Cash flow	Approved by government	0.00	0.00	0.00
		SSC	D.61	Cash flow	Approved by government	0.04	-0.03	0.00
		SSC for the Health payment	D.61	Cash flow	Approved by government	0.00	0.00	0.00
<b>Other measures</b>						0.01	0.00	0.00
						<b>0.30</b>	<b>-0.09</b>	<b>0.04</b>

Changes in 2019 due to updating the fiscal forecasts following the Draft Budgetary Plan submitted in October 2018, including:						2019
Tax adjustment according to the ESA methodology						0.03
Adjustment of non-tax revenues according to the ESA methodology <sup>4</sup>						0.23
Adjustment of EU funds according to the ESA methodology						0.04
Own revenue						0.04
Foreign financial assistance revenue						0.06
<b>TOTAL</b>						<b>0.40</b>

<sup>4</sup> Including correction for the revenue received in the state budget in November 2018 from Latvia's emission quota trading, which according to the ESA principles is attributed to the revenue of 2019.

Table 5.b.ii): Discretionary expenditure measures taken by Central Government

	List of measures	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
					2019	2020	2021
					% of GDP		
Ministry of Defence	Increased funding for construction projects	<i>P.51</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Technical clarifications* (incl. increase expenditure on maintenance of National Armed Forces, increased investment for NATO projects)				0.05	-0.05	0.00
MoE	Increased expenditure for ALTUM support for housing programme	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Reduced funding for maintenance of oil stocks, in order to reduce fees	<i>D.2</i>	Cash flow	Approved by government	-0.01	0.01	0.00
MoF	Increased expenditure according to Cabinet Order No. 597-s of 08.11.2018		Cash flow	Approved by government	0.00	0.01	0.04
	Increased funding for the implementation of the priority measure for the prevention of laundering of proceeds of crime and financing of terrorism by 31 December 2019		Cash flow	Approved by government	0.01	0.00	0.00
	Technical clarifications (incl. increased expenditure for ERDF advance, interim and final payments, increased expenses for CF technical help projects)				0.18	-0.11	-0.01
Ministry of the Interior	Increased funding to provide benefits to officials with special service grades after every five years of continuous service	<i>D.6</i>	Cash flow	Approved by government	0.12	-0.10	0.00
	Increased funding for the implementation of the priority measure for the prevention of laundering of proceeds of crime and financing of terrorism by 31 December 2019		Cash flow	Approved by government	0.01	-0.01	0.00



	Technical clarifications (incl. increased expenditure for "ABC Gate at International Airport "Riga" and financing for other EU policy instruments)				0.02	-0.01	0.00
MoES	Technical clarifications (incl. increased expenditure for Erasmus+ projects)				0.04	-0.03	-0.01
Ministry of Agriculture	Increased financing for ALTUM loan programme	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Increased funding for implementation of the program for monitoring and combating African swine fever and ensuring the capacity of the Food and Veterinary Service	<i>D.1</i>	Cash flow	Approved by government	0.00	0.01	0.00
	Technical clarifications (incl. increased expenditure on implementing other EU policy instruments and measures)				0.07	-0.06	-0.01
Ministry of Transport	Technical clarifications (incl. increased spending on other EU policy instruments and projects)		Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Justice	Increased spending to increase the salary of judges	<i>D.1</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure according to Cabinet Order No. 597-s of 08.11.2018		Cash flow	Approved by government	0.01	0.00	0.07
	Increased expenditure to provide benefits for prison administration officers with special service stages after every five years of continuous service	<i>D.6</i>	Cash flow	Approved by government	0.02	-0.02	0.00
	Additional funding to ensure the payment of state-guaranteed maintenance from the Maintenance Guarantee Fund	<i>D.6</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Decreased spending on social benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.01	0.00
	Technical clarifications (incl. increased expenses to ensure the payment of state guaranteed maintenance from the Maintenance Guarantee Fund)				0.02	0.00	0.00
Ministry of Environmental Protection and Regional Development	Technical clarifications (incl. funding for cross-border cooperation programs, projects and activities)				0.05	-0.03	0.00
Ministry of Culture	Technical clarifications (incl. increased funding for the implementation of ERDF projects)		Cash flow	Approved by government	0.02	-0.01	0.00

Ministry of Health	Increased funding to ensure the functioning of the e-veselība system	<i>P.51</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure in order to ensure an increase in the remuneration of other non-medical workers in relation to the provision of state-paid healthcare services	<i>D.1</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Increased expenditure in order to ensure an increase in the wages for medical workers, including in relation to the abolition of the extended normal working time	<i>D.1</i>	Cash flow	Approved by government	0.01	0.00	0.00
	Increased expenditure in order to ensure an increase in the lowest monthly salary rate of medical workers	<i>D.1</i>	Cash flow	Approved by government	0.20	0.00	0.00
	Increased expenditure in order to ensure an increase in the remuneration of medical workers and drivers of emergency medical vehicles working in the Emergency Medical Service	<i>D.1</i>	Cash flow	Approved by government	0.03	0.00	0.00
	Increased expenditure in order to ensure the implementation of the priority action “Accessibility of medicines to patients with rare diseases”	<i>D.3</i>	Cash flow	Approved by government	0.01	-0.01	0.00
	Technical clarifications (incl. increased expenditure on the implementation of ERDF projects in the field of health, increased costs for the payments of reimbursable medical prescriptions)				0.03	-0.03	0.00
<i>Prosecutor’s Office</i>	Increased expenditure to ensure the remuneration of prosecutors	<i>D.1</i>	Cash flow	Approved by government	0.02	0.00	0.00
Grant to Municipalities	Changes to municipal grants according to the decision of the CofM No 5 30.§ point (05.02.2019.), which ensures that income tax and special subsidies to municipalities will not be less than 1.47 billion	<i>D.7</i>	Cash flow	Approved by government	-0.05	0.04	0.00
	Technical clarifications				-0.01	0.01	0.01
Financing to be redistributed in the annual budget execution process	Technical clarifications (incl. reallocation of funding for the implementation of EU policy instruments and other foreign assistance projects and measures		Cash flow	Approved by government	-0.28	0.16	0.03

Ministry of Welfare	Increased expenditure in order to ensure the implementation of the priority measure for special care allowance for children and adults with disabilities since childhood development	<i>D.6</i>	Cash flow	Approved by government	0.01	0.01	0.00
	Increased expenditure in order to ensure the implementation of the priority measure for improving the quality of long-term social care service		Cash flow	Approved by government	0.02	0.00	0.00
	Reduction of expenses for maternity benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.00	0.00
	Reduction of expenses for sickness benefits	<i>D.6</i>	Cash flow	Approved by government	-0.06	0.03	0.00
	Decrease in expenses for parental benefits	<i>D.6</i>	Cash flow	Approved by government	-0.01	0.00	0.00
	Decrease in expenditure on pensions	<i>D.6</i>	Cash flow	Approved by government	-0.07	0.05	0.00
	Technical clarifications (incl. increased expenditure to projects implemented by the ERDF in the welfare sector)				0.01	-0.01	0.00
	Other measures approved by government				0.06	-0.02	0.00
	Other technical clarifications				0.01	0.00	0.00
<b>TOTAL</b>				<b>0.63</b>	<b>-0.23</b>	<b>0.13</b>	

\* Reallocation of funds (incl. implementation of EU funds, revenue from fee services and other own revenue)

**Table 5.c Discretionary measures taken by sub-sectors of the General Government**

List of measures	Detailed description*	Type of tax	ESA Code	Accounting principle	Adoption Status	Budgetary impact		
						2019	2020	2021
						% of GDP		
Additional funding for raising healthcare workers' (Workers in health, justice, education and welfare sectors) wages	Additional funding for raising healthcare workers' (Workers in health, justice, education and welfare sectors) wages	PIT	D.5	Cash flow	Approved by government	0.03	0.00	0.00
Additional funding for raising wages of judges and prosecutors. additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	Additional funding for raising wages of judges and prosecutors. additional payment for long service for employees of The Corruption Prevention and Combating Bureau (KNAB) and long service benefits for employees of the Ministry of Interior	PIT	D.5	Cash flow	Approved by government	0.02	-0.01	0.00
Other measures						0.01	0.00	0.00
					<b>TOTAL</b>	<b>0.06</b>	<b>-0.02</b>	<b>0.00</b>

Table 6.a CSR recommendations

CSR Nr.	Measures	Description
<b>1</b>	<p><b>Achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted.</b></p> <p><b>Reduce taxation for low-income earners by shifting it to other sources, particularly capital and property, and by improving tax compliance.</b></p>	<p>Although there are different methodologies regarding calculation of output gap and recognition of one-off measures, Latvia has followed the recommendation ensuring that in 2019 it will not deviate from MTO, which is -1% of GDP, by more than the permissible deviation linked to the implementation of structural reforms in the healthcare sector, which is 0.5% of GDP. Therefore, the structural deficit in the Budget for 2019 shall not exceed -1.5% of GDP.</p> <p>According to Latvia's output gap calculations (0.94% of GDP) and one-off measures representing -0.45% of GDP, which includes a temporary net reduction of revenue -0.51% of GDP from the implementation of the tax reform and additional revenue from sales of emission allowances of 0.06% of GDP, the structural deficit for 2019 is 0.45% of GDP <math>(-0.54 - 0.94 * 0.38 - (-0.45)) = -0.45</math>).</p> <p>According to the EC output gap calculations (which according to informally communicated data is estimated at 2.0% of GDP in 2019), and given that the EC will not recognise a temporary net revenue reduction caused by the tax reform as a one-off measure and even by applying a precautionary approach regarding the accounting of revenue from the sale of emission allowances, where all revenue in the amount of 0.2% is recognised as one-off, Latvia still respects the balance rule <math>((-0.54 - 2.0 * 0.38 - 0.2) = -1.5)</math>.</p> <p>See NRP.</p> <p>Changes made in 2019:</p> <ul style="list-style-type: none"> <li>• increased income threshold subject to progressive PIT rate of 31,4%, i.e. income above EUR 62 800 per annum (2018 above EUR 55 000,01 per annum);</li> <li>• differentiated non-taxable minimum increased to EUR 230 per month (EUR 200 per month in 2018);</li> <li>• relief for a dependant increased to EUR 230 per month (EUR 200 per month in 2018);</li> <li>• non-taxable minimum for pensioners increased to EUR 270 per month (EUR 250 per month in 2018).</li> </ul>

<p>2</p>	<p><b>Improve the adequacy of minimum income benefits, minimum old-age pensions and income support for people with disabilities.</b></p>	<p>See NRP. As of 2019:</p> <ul style="list-style-type: none"> <li>• surviving spouse (person who has reached pensionable age) will receive 50% from the pension amount of the deceased spouse for 12 months (supplements included);</li> <li>• in the calculation of funeral benefit amount the supplement granted for the insurance record before 1996 will be included;</li> <li>• more favorable indexation rules will be applied to those old age pension recipients with insurance period 45 or more years - consumer price index and 80% of the real increase in the social insurance contribution wage sum will be taken into account when indexing the pension;</li> <li>• supplements to old age and disability pensions for work period before 1996 will be indexed, considering consumer price index and 50% of the real increase in the social insurance contribution wage sum;</li> <li>• A military service in the USSR army will be deemed as insurance record for the period before 1996.</li> </ul> <p>To increase financial support for persons with disabilities, the draft budget for 2019 foresees an increase in the amount of special care allowance from 1 July 2019 by EUR 100 per month (from EUR 213.43 per month to EUR 313.43 per month) for:</p> <ol style="list-style-type: none"> <li>1) children with disabilities who have specified indications for special care; and</li> <li>2) persons with I Group Disability who have identified indications for the need for special care and for whom the disability is caused by “disease from childhood”.</li> </ol>
	<p><b>Increase the labour market relevance of vocational education and training, and foster upskilling of low-skilled workers and jobseekers.</b></p>	<p>Vocational education (VET) content reform continues to ensure a transition from subject-based VET content to learning outcomes-based, as well as to introduce a modular approach in implementation of VET programmes. Within the framework of the project until 31 December 2021 improvement of sectoral qualification system is being anticipated in order to develop vocational education content that is in line with the requirements of the labour market and to ensure the compliance of VET with the European Qualifications Framework (EQF). The project’s planned financing is 12.9 million euro, including the ESF 11 million euro and the state budget co-financing - 1.9 million euro. The project is implemented by the National Centre for Education in co-operation with the Employers’ Confederation of Latvia (LDDK), the Free Trade Union Confederation of Latvia (LBAS), the Latvian Agricultural Organization Cooperation Council (LOSP) and the State Education Quality Service (IKVD).</p> <p>Within the SO 8.5.3 “Ensure effective management of vocational education institutions and the development of the professional competence of the personnel involved” project “Effective management of vocational education institutions and the development of staff competencies” the approbation seminars</p>

**Increase the accessibility, quality and cost-effectiveness of the healthcare system.**

of the modular programmes took place, as well as consultations for vocational education institutions regarding the actualization of vocational education content.  
 In the school year 2016/2017, piloting of modular vocational education programmes took place in 27 VET schools subordinated to MoES, in total 133 modular VET programmes are being piloted.  
 Within the SO 8.5.3 project, in-service training courses for VET teachers on designing and implementation of modular VET programmes are organized.  
 The legislation documents for the implementation of reforms of VET curricula are being reviewed.

Thanks to the health reform measures launched in 2017 and continued in 2018, data for the first half of 2018 show that the actual reduction in the length of rows of secondary outpatient health care services, which has emerged as a result of additional direct funding to the demand for health care services, is slower compared with data available before the start of the reform, as a change in patient behavior is observed: those people in Latvia who have not received health care services due to queues, distances or finances are entering the queue, as are some patients moving from paid services to publicly funded health care. services sector. These two population groups, in addition to the direct impact of funding, increase the demand for publicly funded health care, while reducing the number of patients who have not been able to receive health care before.

As of July 1, 2018, patient waiting queues for specialist counseling have fallen on average to 84.65 days compared to pre-reform times, with an average waiting time of up to 100.48 days. In the first half of 2018, the line cut was secured by 15.75% of the original queue volume, while the line reduction without patient behavior change was provided at 27.80%.

As of July 1, 2018, patient waiting queues for outpatient examinations and therapies have been reduced to an average of 36.83 days compared to pre-reform when the average waiting time was up to 40.39 days. In the first half of 2018, the decrease in rows was secured by 8.81% of the original queue volume, while the decrease of the rows without the change of the patients' behavior was ensured by 21.85%.

As of July 1, 2018, patient waiting queues for daytime inpatient services have fallen to an average of 148,50 days compared to pre-reform when the average waiting time was up to 407 days. In the first half of 2018, the decrease of the rows was provided by 63.51% of the original row volume, while the decrease of the rows without the change of the patients' behavior was ensured by 68.73%.

As of July 1, 2018, patient waiting queues for outpatient rehabilitation services have fallen to an average of 294.80 days compared to pre-reform times, with an average waiting time of up to 500.2 days. Considering the length of the rows for rehabilitation services, the reduction in the number of rows is a very significant improvement in accessibility for patients. The 41.06% cut in lines reduced the waiting line by more than about 7 months, while the decrease in the number of lines without patient behavior change was 49.49%.

With the decision of the CoM of December 18, 2018 (prot. Nr. 60, 88 §) additional funding was supported:

- increase of wages for medical practitioners, including residents, for other personnel for provision of state-funded health care services, which are not medical practitioners (for integration into tariffs), for maintenance of registers and methodologically organizational work for medical practitioners and for emergency medical assistance teams for operational medical drivers 2019 and EUR 83 315 880 annually thereafter;

- additional funding for planned wage increases for medical treatment persons of the Ministry of Health, Ministry of Interior, Ministry of Welfare and MoES, subordinate institutions of other budget departments, subject to monthly salary groups of officials and employees of State and local government institutions. in connection with the abolition of the extended normal working hours and the contract organization of the Ministry of Welfare, which provide social services on the basis of the agreement on the implementation of the delegated functions of the public administration or on the basis of public procurement, to health care providers providing publicly paid health services for increasing wages for 2019 EUR 4 167 828 per year;

- By the decision of the CoM of February 5, 2019, the revised budget base of the Ministry of Health 2019.2021 was approved for the year, in accordance with the judgment of the Constitutional Court of 15 May 2018 in case no. 2017-15-01 decided on the redistribution from the budget line "74. Financing to be redistributed in the annual budget execution process" 08.00.00 in the program "Financing of the implementation of the health care system reform" in 2019 in the amount of 11 297 326 euros in 2020 and beyond EUR 16 097 729 per year in order to phase out the extended normal working hours;

- the implementation of the health care system reform in accordance with the European Commission's tolerance for the deficit in 2019 budget allocation "74. Financing to be redistributed in the annual state budget execution process" 08.00.00 in the "Health care system reform funding" reserve of EUR 154 205 000, including: EUR 114 224 007 to continue the implementation of measures launched in 2018 to improve access to health services and EUR 39 980 993 to ensure the implementation of new measures to improve access to health services. The allocated funding for the implementation of reforms in 2019 is planned to be directed towards improving the availability of health care services (outpatient and inpatient services), primary health care, access to oncological diagnosis and treatment, reduction of the spread of infectious diseases, cardiovascular program, reform of medical institutions, rehabilitation services. strategic procurement, as well as improving the environment and making infrastructure more efficient.

In October 2018 the strategic procurement for medical rehabilitation services was executed by National Health Service. In 2019 NHS is planning to launch the strategic procurement for the mental health services.



<p>3</p>	<p><b>Strengthen the efficiency of the public sector, in particular with regard to local authorities and state-owned enterprises.</b></p> <p><b>Strengthen the accountability of public administration by protecting whistleblowers, preventing conflicts of interest and following-up on the results of the ongoing assessment of past insolvency proceedings.</b></p>	<p>In 5th report, approved by the Moneyval Committee of the Council of Europe on 4th July 2018, the ability of the Republic of Latvia to prevent the use of legal persons and legal arrangements for criminal purposes was assessed as low. In order to strengthen efficiency in this area, Moneyval identified several recommendations. The measures necessary for the implementation of these recommendations were approved by the Government of Latvia on October 11, 2018, in a high-level action plan of measures to prevent money laundering and terrorist financing for the period until 31st December 2019. In order to prevent the misuse of legal persons with the highest risk and to ensure that the registration and availability of the true beneficiaries of legal entities is in compliance with the requirements, the action plan envisaged a number of tasks that require additional funding from the state budget and which will increase the efficiency and accountability of the public sector, including simplifying of administrative registration procedures in the Register of Enterprises. Increased transparency in the business environment will enhance its security and reduce the opportunity to use legal entities for criminal purposes.</p> <p>The modernization of services provided by the Enterprise Register is expected to result in innovation-based e-services, at the same time strengthening the verification of submitted information. Convenient data entry and, in most cases, automated, instant information checks, will speed up the registration process for businesses and reduce the number of negative decisions. In addition, by strengthening the broader rights of the Enterprise Register, resources and expertise will be found to further examine the information provided regarding the true beneficiaries of legal entities, thereby increasing the public sector's responsibility for the quality of information required by the private sector for customer due diligence process. Additionally, in order to promote the transparency of legal entities registered in Latvia and to improve access to information required for customer due diligence process, it is envisaged that from 2020 information from the registers of the Enterprise Register will be issued free of charge.</p>
----------	---	---

**Table 6.b Targets set by the Union's Strategy for growth and jobs.**

National 2020 target	Measures	Description
<b>National 2020 employment target [73,0%]</b>	<ol style="list-style-type: none"> <li>1. Improving training measures for the unemployed;</li> <li>2. Implementing support measures to reduce youth unemployment;</li> <li>3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility;</li> <li>4. Retaining the working ability and fostering employment among the elderly residents;</li> <li>5. Improving the efficiency of the work of the State Employment Agency;</li> <li>6. Promoting self-employment and entrepreneurship.</li> </ol>	<p>See NRP.</p>
<b>National 2020 R&amp;D target [1,5% of GDP]</b>	<ol style="list-style-type: none"> <li>1. Raising the Competitiveness of GRTDI sector;</li> <li>2. Connecting the GRTDI Sector with Societal and Economical Needs;</li> <li>3. Efficient management of GRTDI sector;</li> <li>4. Supporting development of innovative merchants;</li> <li>5. Raising Awareness in the Society and Promoting Science and Innovation.</li> </ol>	<p>The science policy has been subject to significant reforms since 2014 – scientific institutions have been consolidated, conditions for the allocation of funding for scientific base reflect policy guidelines – funding raised from merchants, from international projects and so on is taken into account. Investments of EU Structural Funds are purposefully made in best scientific institutions, as well as grant programmes are implemented – researches of practical nature (activity 1.1.1.1 “Researches of practical nature”), post-doctoral research support (activity 1.1.1.2 "Post-doctoral research support "), a programme “Innovation grants for students” (activity 1.1.1.3 “Innovation grants for students”). At the same time, according to the latest data of the Central Statistical Bureau, national funding for research is 0.51% of GDP in 2017, which is the second lowest indicator among EU member states.</p> <p>A new Fundamental and Applied Research Project scheme (F&amp;A research scheme) was launched in 2018. In comparison to the previous years the funding has been increased from 4,4 million euro annually to 9,5 euro annually. This scheme provides a platform for bottom-up research proposal implementation in all six fields of science (according to the FOS classification) where the focal goal and evaluation criteria is</p>

research excellence. All projects are evaluated by international experts only. In 2018, two calls were organized by the Latvian Council of Science. During the 1st call (closed on March 8th) 397 proposals were received from which 61 were funded for a total budget of 17,8 million euro for three years. First results were positive indications regarding applications numbers (16 % success rate). In addition, 74 % of the projects were rated above the quality threshold.

(1) The Guidelines for the Development of Science, Technology and Innovation for 2014-2020 set a goal to reduce the number of state-funded research institutions from 40 to 20 (by 2020). In 2018, this goal has been reached (21 state funded institution in 2018). Therefore, the current R&D policy steps away from institutional consolidation towards strengthening research capacity in these institutions.

At the moment basic research funding is aligned with measures that promote resource concentration and consolidation (e.g. precluding state funding for poorly evaluated research institutions).

This year MoES has begun preparations for the international assessment of scientific institutions to be organized in 2019. Cabinet order Nr. 619 approved on October 2nd 2018 "Procedure for Organizing the International Assessment of Scientific Institutions" sets out the framework and evaluation principles for the following procedure. Furthermore, the accompanying Cabinet protocol decision for the cabinet order (2.10.2018. Cabinet protocol Nr.45 §23) enables MoES to review further linkage of all public R&D funding to the results of 2019 international assessment exercise, including review of base funding principles.

Latvian participants – scientists, higher education institutions, scientific institutions, entrepreneurs, etc. – in cooperation with representatives of other counties successfully participate in the EU programmes for research, technological development and innovation (7<sup>th</sup> Framework Programme "Horizon 2020", EURATOM, EUROSTARS 2, EUREKA, BONUS, ECSEL, IMI and COST), receiving high assessments of project applications submitted for competitions. In order to provide support for implementation of projects in Latvia, the amount of available funding was gradually increased within the framework of Sub-programme 70.06.00 "Participation in the EU research and technology development programmes" of the state budget programme 70.00.00 "Implementation of projects and measures of other EU policy instruments". MoES has asked the CoM to increase the amount of funding for this programme also for 2018 – 2020 to amount to 16,250,903 euro in total, incl. 5,114,572 euro for 2017, 4,578,777 euro for 2018, 3,778,777 euro for 2019, and 2,778,777 euro – for 2020 and each year thereafter.

During 2017-18 Latvia joined as a member five Joint Programming initiatives (JPI): Urban Europe (UE), Water challenges for a changing world (WATER), Cultural Heritage (CH), Agriculture, Food Security and Climate Change (FACCE), A Healthy Diet for a Healthy Life (HDHL). This strongly encourages Latvian scientists and institutions to produce input to JPI Strategic Research and innovation agendas (SRIA) and to participate in national discussion on agendas.

(2) Adoption of the law "Amendments to the Law on Scientific Activity" and its entry into force on July 12th 2018 (see Article 35) and the subsequent approval of Cabinet Regulation No. 560 (on September

4th 2018) "Procedure for the implementation of state research programme projects" enabled sectoral ministries to create and finance state research programmes in their respective areas of competence.

The necessity for sectoral ministries to plan and finance their research and innovation policy in their areas of responsibility was addressed in the MoES's and MoE policy planning document "Smart specialization strategy monitoring" where it was proposed as one of the priority tasks to be implemented by 2020.

In 2018, there were already three state research programmes already in commencement stages – MoES is responsible for the implementation of two programmes: "Latvia's heritage and future challenges for a sustainable state" and "Latvian language" (total funding for the period of 2018-2020 is 6,2 million euro). MoE is responsible for the implementation of state research programme "Energetics" (total funding for the period of 2018-2020 is 6 million euro).

The model of the student innovation grants within the 1.1.1.3 activity "Innovation Grants for Students" was presented in the Initial sub-committee of the Research, Technological Development and Innovation priority sub-committee of the EU funds, as well as several discussions with the companies, incl. start-up, representatives of employers' organizations and scientific institutions about the implementation of the program were launched.

(3) Introduction and implementation of the RIS3 monitoring system that started in 2015 continues, steadily preparing for the next planning period RIS3 development (2021 -2027). See NRP.

An interim evaluation of RTDI and RIS3 (time period from 2014 to 2016) was performed (informative report "Monitoring of the Smart Specialization Strategy", announced by Meeting of the State Secretaries on 08.06.2017, VSS-621), which includes information on trends, targets and challenges of the development of Latvian economy, progress of implementation and advancement to the achievement of RIS3 programmes and activities, as well as analysis of RIS3 indicators and the plan of further activities.

At this moment, work continues towards further development of RIS3 monitoring system and in June 2019 2<sup>nd</sup> RIS3 midterm evaluation report will be written. This report will analyze the observable progress between 2014 – 2017 (on a detailed micro analysis level) in each of the 5 defined specialization areas and also this report will do a preliminary exploration about the potential structure, governance and development for the RIS3 during the next planning period (2021 – 2027).

(4) Responsible institution – MoE, MoF

(5) A targeted communication campaign for popularisation of science, implemented within the framework of activity 1.1.1.5 "Support to international cooperation projects in research and technologies", took place for the first time in 2018. The CoM regulation on 1.1.1.5 activity "Support for International Cooperation Projects in Research and Innovation" was approved and entered into force. It intends to strengthen the Latvian research and development interest representation in the "Horizon 2020" programme

committees and other international programmes; national level measures for the expansion of international cooperation networks, including cooperation with the Latvian diaspora abroad.

The ERFD investments within SO 1.2.1. “Increase private sector investment in R&D” entails following programs to promote investments in R&D:

Measure 1.2.1.1. “Support for the development of new products and technologies within the Competence Centers” (64,3 MEUR) funds implementation of private sector research projects for solving practical problems of economy, including fostering cooperation between scientific institutions and enterprises. As a result of the 1st selection round 138 R&D projects are completed (47.5 MEUR, incl. 21.9 MEUR private investments). Overall results are positive with recommendation to further promote intersectoral collaboration. In 2018 the 2nd selection round has been launched and practical implementation of selected projects will start early in 2019.

Measure 1.2.1.4. “Introduction of new products in production” (60 MEUR) was developed and designed with the special purpose to foster the increase in productivity and competitiveness of businesses by developing and introducing new products and technologies in production, as well as increasing investments of the private sector in R&D&I. The aid provided to experimental production facilities within the programme is a significant contribution to the Latvian economy, providing companies the possibility to increase their competitiveness in the local and export market. During the 1st open call (12.07. – 12.09.2016.) 17 projects were approved of total funding 25,8 MEUR. During the 2nd open call (21.11. – 12.04.2018.) 51 projects were received and now the evaluation process is still going on. It is planned to approve approximately 20 projects of funding 34,2 MEUR in the 2nd open call. Overall, it is planned to support at least 30 enterprises for developing new products and technologies till the end of 2022. At the same time, it is planned to attract at least 10,5 MEUR private funding for R&D activities.

Measure 1.2.1.2. “Technology Transfer Programme”. Within the framework of the Technology Transfer Programme (Voucher scheme), open call of project proposals was announced in February 2017, of total funding 4 MEUR. Innovation voucher aim is to support innovation activities in SME’s by providing them with the support of outsourcing R&D activities for making new or significantly improved products or technologies. 27 projects have already been approved till the end of 2018 to promote innovative activities in micro, SME’s for developing new products and technologies.

A specific Start-up Law has been introduced since the end of 2016 and with the new amendments, that came into force last year, the reach of the support instrument has been further extended. Specific Start-up Law provides tax relief and cash grants for attraction of highly skilled team members for start-up companies starting from January, 2017. In addition, 3 new accelerators (Overkill Ventures, BuildIT and the Commercialisation Reactor) and 60 mln EUR through venture capital investments is available since last year for the support of start-ups. Last year 100 start-ups also had the chance to apply for support for participation in exhibitions, conferences and direct visits in foreign countries with the possibility to make a use of the

Latvian business networking, co-working and investor attraction place in Silicon Valley. An important element in the use of support programmes is their popularisation for the international range of interested persons. For these purposes, an informative portal for start-ups, StartupLatvia.eu, was opened in June 2018.

Additionally, Ministry of Economics in closer cooperation with the most active state-owned companies has been developed innovation platform for state-owned companies with the aim to increase R&D in business sector as well as to promote closer cooperation between innovative and outstanding Latvian enterprises in order to create innovative, export-oriented products and services. The 1st innovation forum was organized at 26th of April 2018, with the aim to introduce the most active state-owned companies to show their experience of making innovation and sharing best practise. The 2nd innovation forum held on 6th of September 2018, for the purpose of developing common projects in the fields of bioeconomy, smart materials, IoT and new technologies incl. logistics, geospatial information systems. Additionally, the management team has already been created with the aim to supervise the whole process of innovation platform. Next forum will be held on 4 of April 2019 with the aim to widening the potential partners and state-owned companies in the community.

Finally, Ministry of Economics currently is developing three national strategic projects in fields of Smart materials, Biomedicine and Smart city. These projects have been developing since the mid 2018 with the aim to promote closer cooperation between excellence in both industry and science sectors and to make closer cooperation with EU partners to develop common R&D projects thus promote private investments in R&D in Latvia.

##### 5. Raising Awareness in the Society and Promoting Science and Innovation.

The ERFD investments within SO 1.2.1. “Increase private sector investment in R&D” entails following programs to raise awareness in the society and promote innovation:

Innovation Motivation programme's aim is to promote understanding about innovation and business, as well as to practically involve different society groups in business activities, and development and further implementation of innovative ideas and solutions. Programme has been developed by the Ministry of Economics and introduced by the Investment and Development Agency of Latvia (LIAA). Programme has already been started since October, 2016. Total programme funding is 5,65 mln EUR and it is planned to involve 10 000 persons and support 100 enterprises till the end of 2023.

<b>GHG emission reduction target [12,2 Mt CO<sub>2</sub>]</b>	<p>1. Limiting non-ETS sector emissions;</p> <p>Research, innovations, raising public awareness.</p>	<p>1. Latvia's total GHG emissions in 2005-2016 are reduced by 1.32% and in 2016 were 11.3 Gg CO<sub>2</sub> eq.<sup>5</sup>, and this amount is 7.4% lower than the target that Latvia has set – 12.2 Gg CO<sub>2</sub> eq.</p> <p>It is projected that Latvia will fulfil the targets set in national and EU level.</p>
<b>Renewable energy target [40,0%]</b>	<ol style="list-style-type: none"> <li>1. Adjusting the legal basis;</li> <li>2. Ensuring availability of financial resources for the production of renewable energy;</li> <li>3. Promoting the use of biofuels in the transport sector;</li> <li>4. Measures for achievement of 10% renewable energy resources within the transport sector.</li> </ol>	<p><b>Adjusting the legal basis</b></p> <p>In 2018, work on the evaluation of the efficiency of the existing support mechanism for electricity generation from RES and cogeneration was continued and proposals for possible solutions were prepared. On 7 January 2019, the CoM Committee endorsed a conceptual document “Complex Measures for Elimination of a Mandatory Procurement Component and Development of the Electricity Market”. In addition, on 10 January 2019, the National Parliament (Saeima) adopted a decision that, in order to reduce burden on electricity consumers, the mandatory electricity procurement component should be abolished in a legally sound way from 31 March 2019. The MoE is currently assessing whether it can be implemented in a legally sound way. Consequently, work on legal solutions of these issues will continue in 2019.</p> <p><b>Ensuring the availability of financial resources for renewable energy production</b></p> <p>The total amount of the aid above the market price for the energy producers that sell electricity within the framework of mandatory procurement or receive a guaranteed payment for installed electric capacity in 2017 is about 119,4 mil.EUR and is about 30% more than the paid amount in 2016. This increase is related to increase of support level to biomass powerplants. In turn, the total volume of electricity purchased within the support mechanism in 2017, compared to 2016, is 16% higher.</p> <p>The MoE is responsible for the implementation of the EU funds SO 4.3.1. "To promote energy efficiency and use of local RES in district heat supply". The support is provided to enterprises operating in centralized district heating system for transition to renewable energy sources, as well as improve energy efficiency in thermal power plants that already use renewable energy resources.</p> <p><b>Promoting the use of biofuels in the transport sector</b></p> <p>On 1 April 2018, amendments to Cabinet Regulation No. 332 of 26 September 2000 on the conformity assessment of petrol and diesel fuel entered into force, which reinforced the mandatory requirements for the</p>

<sup>5</sup> 2018 GHG Inventory: <https://unfccc.int/process-and-meetings/transparency-and-reporting/reporting-and-review-under-the-convention/greenhouse-gas-inventories-annex-i-parties/national-inventory-submissions-2018>

		<p>presence of biofuels for diesel, which is subsequently marketed during the period from 16 April to 31 October.</p> <p>The Ministry of Economics prepared a draft Transport Energy Law, which has been supported by the CoM on 29 May 2018 and is currently under consideration in the National Parliament (Saeima). The draft law provides legislative framework for further development of transport energy, in order, inter alia, to ensure Latvia's move towards an increase in the share of renewable energy to 10% in the final consumption of the transport sector in 2020, and therefore this base could be used as a platform for the further development of alternative fuels and the infrastructure needed for it by 2030.</p> <p>In addition, in 2018, the Ministry of Economics worked on CoM regulations in the field of the sustainability of biofuels and bioliquids, regulations regarding energy quality requirements for transport, market surveillance, as well as a mandatory obligation for fuel suppliers. The draft Cabinet regulations "Amendments to Cabinet Regulation No. 545 of 5 July 2011, Regulations regarding the Sustainability Criteria for Biofuels and Bioliquids, the Mechanism for their Introduction and the Procedures for Supervision and Control" have been submitted for approval to the Cabinet in February 2019. Development of the draft regulations on transport energy quality requirements as well as mandatory obligations for fuel traders will continue in February 2019.</p>
<p><b>National energy efficiency target [0,670 Mtoe]</b></p>	<ol style="list-style-type: none"> <li>1. Improving energy efficiency in households and industrial production;</li> <li>2. Improving energy efficiency in public buildings;</li> <li>3. Introducing efficient lighting infrastructure in public territories of municipalities;</li> <li>4. Improving energy efficiency in heat energy production;</li> <li>5. Support for energy-intensive merchants.</li> </ol>	<ol style="list-style-type: none"> <li>1. As regards points 1.-2., 4.-5. please see NRP.</li> <li>2. During the reporting period, the implementation of projects in open project tender "Reduction of GHG Emissions - Low Energy Consumption Building" under the Emission Allowances Auctioning Instrument (EAAI) continued. 6 projects were ongoing with total expenditures in amount of EUR 8 818 783 in 2018. During the reporting period, one project: No. EKII-2/2 "Reconstruction of the Cēsis Town Pastariņš Primary School Building for Low Energy Consumption Building at 7 Raunas Street, Cesis, Cesis District" has been completed.</li> </ol> <p>The implementation of 7 projects of the EAAI's open project tender "Reduction of GHG Emissions in Protected Architectural Monuments of National Importance" also continued during the Reporting period Total expenditure in amount of EUR 3 147 251 has been made in 2018. During the reporting period, one project: No. EKII-1/18 "Reduction of GHG Emissions in the State Architectural Monument of VEF Culture at Ropazu Street 2, Riga" has been completed. Unfortunately contract cancellation process of one Project: No. EKII-1/10 "GHG Emission Reduction Measures at the Old Church of St. Gertrude in Riga" also has been initiated.</p> <p>The total planned reduction of carbon dioxide (CO<sub>2</sub>) emissions is calculated in an amount of 989 tonnes.</p> <p>On July 24, 2018, the CoM adopted Regulations No. 418 "Regulation for Open tender for projects funded by the Emission Allowances Auctioning Instrument "Reducing GHG Emissions by Developing Energy Self-sufficient Buildings ". The aim of the tender is to limit the potential GHG emissions by</p>



		<p>supporting the construction of new and sustainable low-energy self-sufficient buildings in order to demonstrate and promote technologies necessary for low carbon development in Latvia. The total amount of funding for this open tender is EUR 10 000 000.</p> <p>3. The implementation of the Climate Change Financial Instrument (CCFI) has been completed in 2015 and now there is still ongoing phase of maintenance and monitoring of implemented projects results.</p> <p>On June 28, 2018, the CoM adopted Regulations No. 333 "Regulation for open tender for projects funded by the Emission Allowances Auctioning Instrument " Reducing GHG Emissions through Smart Urban Technologies". The aim of the tender is to introduce and demonstrate smart urban technologies that reduce GHG emissions. Total funding amount available under this open tender is EUR 8 000 000. Most of the projects submitted involve the actions regarding energyefficiency solutions in street lighting of urban areas.</p> <p>4.-;</p>
<p><b>National early school leaving target [13,4% (10,0%)]</b></p>	<ol style="list-style-type: none"> <li>1. Ensuring access to primary and secondary education;</li> <li>2. Introducing modern teaching methods.</li> <li>3. Implementing structural reforms in vocational education;</li> <li>4. Implementation of vocational education content reform;</li> <li>5. Strengthening the cooperation with sectoral social partners to improve and develop vocational education.</li> </ol>	<p>(1) In 2018 data on School map was updated, now providing information on three school years. The results of the mapping are used for further negotiations with the municipalities on the improvement of the network of general education institutions and also in 2019 it is planned to supplement the information.</p> <p>Modernisation of infrastructure of general education institutions continues. By attracting ERDF funding, it is planned to create a modern, ergonomic learning environment in general education institutions, also meeting sanitary requirements. It is expected that at least 100 general education institutions will be fully modernized by 2023, and 20-25% of students will have access to a fully modernized general education learning environment. The total indicative funding planned is 168.2 million EUR, incl. ERDF co-funding of 142.9 million EUR.</p> <p>From 16 March 2017 the State Education Quality Service (IKVD) started to implement a project of SO 8.3.4 "Prevention of and Intervention to Early School Leaving" of Operational Programme "Growth and Employment" of the ESF for the purposes of reducing early school leaving among children and youths by implementing preventive and intervention measures in 665 educational institutions for pupils of forms 5 to 12 of general education institutions, as well as for pupils of years 1 to 4 of VET institutions and general education institutions, which implement VET programmes. The planned total eligible funding is 39,8 million euro, including ESF funding of 33,8 million euro and state budget funding of almost 6 million euro. During the project, it is intended to introduce systemic support in Latvian general education and vocational education for mitigation of the risk of early school leaving, providing both individual material and advisory support to pupils subject to the risk of early school leaving and creating a supportive learning environment by implementing professional improvement of teachers and youth initiative projects. The preparation works were made in the 2017: guidelines for the identification and prevention of early school leaving risks were developed, and cooperation agreements with municipalities and state VET institutions were commenced, with the involvement of 102 educational institutions in the project. In 2018, 344 seminars took place in</p>

education institutions, 3 regional seminars for attraction of new partners and 5 seminars for cooperation partners' coordinators. Methodological materials on 6 topics were developed. The first youth initiatives projects call took place in 2018 (80-85 projects approved), the next call is planned in March 2019. It is planned to organize 5 regional conferences in 2019. In addition, in 2019 the criteria for evaluation of work of education institutions in reducing the number of ESL will be developed.

Within the project "Implementation of initial vocational education programmes as a part of Youth Guarantee", young people aged 17 to 29 (inclusive) can acquire an occupation in accordance with the demand of the labour market needs for a year or a year and a half free of charge in vocational education programmes. The implementation of the project started on 1 July 2014 and it will last until 31 August 2018 and it is planned that 6 500 NEET<sup>6</sup> young people and 1 496 employees will receive support in obtaining second or third level of professional qualification within its scope. 7 452 young people have already obtained professional qualification within the framework of the project by 31 December 2018, 666 students continue studies. The learning process will continue in 2019.

In 2018, the implementation of 8.3.5.SO "Career Guidance in General Secondary and Vocational Education Institutions" project was continued. In 2018, the implementation of career guidance and support measures in education institutions involved participation of 94 cooperation partners - 77 local governments (local governments, local governments associations, education boards) and 17 vocational education competence centers. There were 385 teachers - career counsellors employed in the project, whereas career support measures to learners of general secondary schools and vocational schools were provided in 430 education institutions. Additional education (A programme courses "Effective Career Development Support System in an Education Institution") was provided to 519 teachers - career counsellors or career specialists of general secondary education or vocational education institutions on topics providing career development support. Two seminars and 24 supervisions on organization of career development support measures were organized for teachers' career counsellors in 2018. Methodological guidance materials - 3 templates of activity plans and 100 methodological materials prepared during the project were piloted in certain number of schools. Annual conference "Purposeful Career Development Support in Educational Institution" was organized in Riga on October 12, 2018. Information about 50 new occupations was prepared and uploaded in [www.profesijupasaule.lv](http://www.profesijupasaule.lv) and information updated about 152 occupations previously published on this website. National scale competition for young professionals in *SkillsLatvia 2018* was organized for 20

---

<sup>6</sup> NEET youth - youth who are not involved in employment, education or training

occupations, as well as publicity campaign of the event was organized. Preparation of 12 participants for the international competition of young professionals *EuroSkills2018* (held on September 26 -28,2018 in Budapest, Hungary) was carried out. In 2019, all relevant project activities are envisaged to be continued.

(2) In 2019, the piloting of new competency based curriculum and teaching approach will continue in 98 pilot schools under the SO 8.3.1. “Develop the competence based approach in general Education curriculum” within the framework of measure 8.3.1.1. “Piloting and implementation of competence based curriculum in general education”.

By the end of 2019, professional development activities for management teams of all general and vocational education institutions will be provided, as well as professional development activities for teachers of pre-school education institutions. On September 1, 2019, the introduction of new curriculum in pre-school educational institutions will be started. Work is proceeding with subject programme development, which will be published in September 2019. Teaching tools for the implementation of the new competence based curriculum in pre-schools will be ready by spring 2019 and for primary and secondary schools in summer 2020 to start gradual implementation of new curriculum at the primary and secondary stage on 1 September 2020. New teaching aids are being developed for students with special needs, including materials in Braille for visually impaired students. In order to ensure the transition to the Latvian language of instruction in minority schools from September 1<sup>st</sup>, 2020, the support measures for the improvement of teachers' professional competence and state language skills for teachers working in a linguistically heterogeneous environment will be continued.

The support continues within the SO “To Increase Support for General Education Institutions to Develop Students’ Individual Competences” measures „Support to the Implementation of National and International Measures for the Development of the Students’ Talent” and „ Support to the development of students’ individual competences”. Since 2018, there has been notified significant increase of students participating in olympiads of school subjects and students scientific work. In 2019, these activities are supported by availability of teachers’ trainings for 150 school teachers in early identification of talents and development of these talents. Measures are also provided in 352 schools that diverse and develops educational programme’s availability and adaptability to individualized learning at schools with significant attention to learners with learning disabilities and difficulties.

(3) In the result of the adjustment of the network of vocational education institutions the number of secondary vocational education institutions under the MoES decreased from 60 institutions in 2010 to 22 in 2018.

In 2018, the implementation of 23 modernisation projects of vocational education institutions has been continued, including the modernisation of learning equipment and improvement of the infrastructure of vocational education institutions for the implementation of vocational education programmes that was started in the previous programming period of EU funds. It is planned to provide support to 24 vocational

education institutions, in particular VECC, by 2023. Total amount of planned eligible funding is 105.7 million EUR, including ERDF funding of 88.6 million EUR, and state budget funding 17.1 million EUR. In order to optimise the number and locations of vocational education institutions in the regions, obtaining the status of a vocational education competence centre (VECC) was encouraged. From 1 September 2017, in total 23 vocational education institutions had been granted VECC status, where 17 vocational education competence centres were established in vocational education institutions under MoES.

The improvement of professional competence of teachers was started within the framework of SO 8.5.3 for the work with adult students. On 22.08.2017, a seminar on the promotion of involvement of Vocational education competence centres was organised to promote the supply of adult education and strengthening of cooperation with employers. In 2018, a methodological material (manual) “Practical guidelines for working with adults in vocational education institutions” has been developed.

The ESF project on the work-based learning (WBL) and learning practice was continued, increasing the number of qualified students in vocational education institutions after their participation in WBL and learning practice in an enterprise. It is expected that 3 150 students will be engaged in WBL and 11 025 students will be engaged in learning practice in an enterprise by the end of the project in 2023. Total planned funding is 21.9 million EUR, including ESF funding of 18.6 million EUR and state budget co-funding –3.3 million EUR. WBL has been implemented in 329 enterprises in 13 (out of 15) sectors. The main sectors involved in WBL are Beauty Sector, Tourism Sector and Metal Sector.

SO 8.4.1. “To Develop Professional Competence of Employees” project was started at the end of 2016 and will be implemented until the end of 2022. The main aim is to develop professional competence of employed persons in order to reduce the mismatch with the needs of the labour market, promote competitiveness and productivity. Until the end of 2018, 17 000 persons have engaged in training and 8 800 have already completed it.

(4) See information provided in table “6.a Country-specific recommendations”

(5) Starting from the beginning of 2016, a collegial advisory institution – convent, is active in all of the vocational education institutions under MoES. The convent includes the head of vocational education institution, representatives of the ministry, local government, as well as employers and associations thereof, and may also include a representative of the respective planning region. The aim of this convent is to facilitate development of vocational education institutions setting the strategic direction of their operation in accordance with market demands.

The implementation of ESF project “Efficient management of vocational education establishments and raising the staff competence” that started in 2016 continues, and support is provided to the improvement of professional qualifications of staff of vocational education institutions in the context of organisation of studies, methodical matters, development of technologies, including improving and promoting cooperation with employers. 5 691 persons have participated in trainings within the framework of the project. Total

		planned funding is 6.49 million EUR, including ESF funding of 5.52 million EUR and state budget co-funding – 0.97 million EUR.
<b>National target for tertiary education [34-36%]</b>	<ol style="list-style-type: none"> <li>1. Modernisation of higher education — implementation of a new financing model of higher education;</li> <li>2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use;</li> <li>3. Ensuring equal access to higher education;</li> <li>4. Establishment of a national institution for quality assurance;</li> <li>5. Reducing fragmentation of study programmes, joint use of resources;</li> <li>6. Internationalization of the higher education.</li> </ol>	<p>Significant reforms have been made to the field of higher education, introducing principles of allocation of funding according to policy guidelines in the new higher education financing model. At the same time, Latvian state budget funding per student is one of the lowest among the EU countries, which limits the possibilities of attracting competitive academic staff and ensuring sustainability of investment of EU Structural Funds being made.</p> <p>(1). By making a contribution to modernisation of higher education and implementing a new model of financing of higher education budget sub-programmes 03.01.00 “Higher education institutions” and 03.11.00 “Colleges” finance pillar I of the new financing model – financing of study places. Budget sub-programme 03.03.00 “Development of scientific activity in higher education institutions and colleges” finances pillar II stimulating research as a basis for qualitative higher education, replacement of academic and scientific personnel and raising of funding from merchants, international projects and other sources. Pillar III is innovation-oriented funding, which promotes the development of specialisations and profiles of institutions, is implemented with funding of EU Structural Funds (for example, the implementation of activities 8.1.1 and 1.1.1.4 has started) (NDP 56).</p> <p>In addition to these indicators of performance funding for the second pillar of the AI funding model, at the end of 2018, the MoES allocated for the first time performance (2nd pillar) funding to universities that successfully trained teachers for work in educational institutions. This element of performance funding is received by those higher education institutions whose graduates of the thematic group Education program continue or start work in educational institutions as pedagogical staff. In 2019, total performance funding for higher education institutions will be twice as high as the result for teachers, amounting to EUR 156 275.</p> <p>(2). In 2018, the modernization of the material and technical base of higher education institutions and the improvement of resource efficiency continued in order to provide a modern study and research environment for STEM (science, technology, engineering, mathematics), incl. for the implementation of medical and creative industries, study programs and to promote the conformity of higher education with the needs of economic development and labour market. EU Fund 2014-2020 It is planned to provide support for the development of study and scientific work infrastructure during the planning period of 2007 (total indicative financing of 44.6 million euros, including ERDF financing of 37.9 million euros). Simultaneously with the support of the EU funds, STEM 1 professional higher education is being improved, incl. to improve the medical and creative industry and study environment in colleges (total indicative funding of 14.2 million euro, including ERDF funding of 12 million euro).</p> <p>Implementation of 4 EU funds programs was started, ensuring investment in the development of universities in the next five years. The allocation of investments will be based on the institution development</p>

strategies developed by the higher education institutions, which involved representatives of the relevant professional sectors.

(3). In 2018, the MoES created a working group for the improvement of the study and student loan system, which consists of representatives from the Treasury, the MoF, the Administration of Studies and Science, the Latvian Financial Industry Association, the JSC “Development Finance Institution“ Altum”, the Latvian Student Associations and the Rector councils. The aim of the working group is to develop a new system of study and student lending, promoting greater access to studies.

At the end of 2018, amendments to Section 12, Paragraph one, Clause 4 of the Disability Law were made in order to ensure by the CoM Order No. 802 of 16 December 2015 “On the Implementation of the United Nations Convention on the Rights of Persons with Disabilities 2014-2020 for the implementation plan for 2015-2017” included in the measures foreseen in the approved guidelines plan 3.3.2. performance of the task, which envisages the necessity to improve support measures for persons with disabilities by obtaining higher education.

(4). Work continued on developing the quality assurance system for higher education. The existing accreditation agency - Academic Information Center (AIC) - was included in the European Register of Quality Assurance Agencies (EQAR). It is a testimony to the functioning of the Latvian Higher Education Quality Assurance Agency in accordance with European Standards and Guidelines for Quality Assurance in the European Higher Education Area, as well as to promote the recognition and credibility of Latvian higher education institutions / colleges and their diplomas internationally. In 2018, AIC also became a full member of the European Association for Quality Assurance in Higher Education (ENQA).

New accreditation and licensing rules have been approved by the Government, which provide systematic assessment of all study directions, providing individual assessment for each study program. Higher Education Quality Assessment employers are involved in the licensing and accreditation process. The new regulation ensures the implementation of a system of quality assessment of higher education in line with international standards and the reduction of fragmentation of study programs by promoting qualitative preparation of human capital necessary for the development of the Latvian economy and increasing the international competitiveness of Latvian higher education.

(5). At the beginning of 2018, the rules for EU programs, where the implementation of projects started in the second half of the year and their implementation at universities, were approved by December 2022, including the reduction of the fragmentation of study programs and the strengthening of resource sharing (SAM 8.2.1.) invest in ESF funding for the development of new, strong and internationally competitive study programs, incl. doctoral level programs. This program will contribute to the development of the new content of teachers by preparing teachers of a new quality who will work with students in line with the new curriculum and approach. Total indicative financing of EUR 10.8 million, incl. ESF funding of EUR 9.2 million.

		<p>(6). 2017/2018 there were 8 806 foreign students, which is 11% of all students, the growth has been significant (in the academic year 2009/2010 there were 1 715 foreign students, which was only 2% of the total number of students).</p> <p>Latvian state scholarships are one of the tools for attracting foreign students. In 2018/2019, 28 state scholarships were awarded to 28 researchers (out of 80 applicants) and 90 students (from 331 applicants), as well as 7 summer schools, which were held at Latvian universities, giving 71 scholarships to foreigners. Along with all types of scholarships, 189 Latvian state scholarships have been granted to foreigners.</p> <p>The MoES has developed conditions for good practice in attracting foreign students and providing studies. Conditions prescribe the quality of education as a key principle of good practice. With this agreement, higher education institutions will commit to providing quality study experience to all students, to strengthen the reputation of Latvian higher education. Only those higher education institutions that will sign and adhere to the agreement will continue to be able to take part in government-funded education export promotion activities, including foreign visits, as well as in exhibitions and marketing activities and in the acquisition of external markets. The agreement on good practice in attracting foreign students has been signed by leading Latvian universities.</p>
<p><b>National poverty target [21,0%]</b></p>	<p>1. Reducing income inequality; 2. Encouraging people at risk of poverty and social exclusion to participate in the labour market; 3. Eliminating discrimination threats and stereotypes, as well as fostering participation of the civil society.</p>	<p>See NRP and CSR2.</p> <p>To reduce the risk of poverty and social exclusion for children living in institutions and to promote the growth of children in the family, the draft budget for 2019 foresees a new form of support for those who have adopted a child, until a child reaches the age of 18 - a monthly minimum subsistence allowance (EUR 107.50 per month for a child up to 6 years (including) and EUR 129 per month for a child aged 7-18). Granting of benefit is foreseen from 1 July 2019.</p> <p>Additional public budget funding planned: EUR 927 225 in 2019, EUR1.854 450 in 2020 and annually thereafter.</p>

The MoF has updated the general government budget balance estimate for 2018, taking into account the Treasury's data on last year's general budget execution. In 2018, the general government deficit was 0.7% of GDP. The estimated deficit is significantly lower than the permissible general government deficit at 1.0% of GDP, which was set in the Framework Law for 2018-2020, and lower than projected in the Latvia's Stability Programme for 2018-2021 (0.9% of GDP).

Despite a significant increase in budget spending for EU funds, including local government budgets, a smaller than planned budget deficit was mainly driven by higher tax revenues. The largest over-performance of the plan in 2018 was observed in CIT revenues, which is explained by a more rapid increase in contributions based on the declaration data of the 2017 results. Though to a lesser extent, the plan was also over-performed by revenue from SSC, VAT and excise tax. It should be noted that in 2018 the state special budget expenditures were less than planned, mainly taking into account that the actual number of sickness, unemployed and parental benefit recipients was smaller than planned.

In addition, the general government budget deficit in 2018 was slightly lower than expected at the end of September 2018 (0.8% of GDP), while elaborating the Draft Budgetary Plan for 2019 for submission to the EC on 15.10.2018. It was mainly driven by slightly higher tax revenues in the last months of the year than projected before, as well as their reflection according to the ESA methodology.

It has to be noted that in April 2019 the Central Statistical Bureau of Latvia will publish the full actual data on the general government budget deficit of 2018, preparing the General government deficit and debt notification for submission to *Eurostat*. Then all transactions of the general government sector will be summarized, including the results of activity of reclassified general government enterprises, as well as data on claims and liabilities accrued in the general government consolidated budget.

In 2019, the permissible general government deficit was set at 0.6% of GDP. Taking into account the planned fiscal reserve, the general government deficit is projected at 0.5% of GDP in 2019.

The general government budget forecasts for 2019 are based on forecasts included in the Draft Budgetary Plan for 2019, submitted to the EC and the Eurogroup on 15.10.2018, which are based on the macroeconomic development scenario prepared in September 2018. Budget revenue and expenditure forecasts were updated taking into account the decisions taken between October 2018 and January 2019.

Compared to the Draft Budgetary Plan for 2019 version of October 2018, the general government budget expenditure for 2019 has increased, mainly taking into account the following: decisions taken at the end of 2018 on increasing the remuneration of health care system employees, enforcement of the Constitutional Court judgements regarding remuneration of judges and prosecutors, as well as the payment of benefits after every five years of service to the interior system officials. Defense spending is secured at 2% of GDP and included in the state budget expenditure forecast for 2019.

In turn, the budget revenue forecast was adjusted taking into account the additional tax revenue - the reversible effect from the increase in remuneration in the aforementioned sectors, additional dividends from State company "*Latvijas valsts meži*", as well as taking into account the revenue received in the state budget in November 2018 from Latvia's emission quota trading, which according to the ESA principles is attributed to the revenue of 2019.



**Table 7: Divergence from Stability Programme 2018-2021**

	ESA Code	2017	2018	2019
		% GDP		
<b>Target general government net lending/ net borrowing</b>	B.9			
Stability Programme		-0.5	-0.9	-0.9
Draft Budgetary Plan		-0.6	-0.7	-0.5
Difference		-0.1	0.3	0.4
<b>General government net lending projection at unchanged policies</b>	B.9			
Stability Programme		-0.5	-0.9	-1.0
Draft Budgetary Plan		-0.6	-0.7	-0.7
Difference		-0.1	0.3	0.3

## **Annex: Methodological aspects**

Macroeconomic forecasts are developed by applying the medium-term macro-economic model, which ensures proper macroeconomic relationships within the forecasts and employs short-term and medium-term results of econometric models as well as expert assessment.

In the preparation of tax revenue projections, widely known forecasting methods and assumptions are applied, however the most used is a specially developed tool, i.e. the model LATIM-F. The most frequently used tax revenue forecasting techniques are as follows:

- using detailed tax revenue estimations;
- forecasting of tax revenue share in GDP, %;
- forecasting the actual taxable base/base modelled relationships;
- using expert assessment;
- using other techniques.

In order to project tax revenue, as stated above, the MoF applies the tax revenue forecast model LATIM-F, the main components of which are a data base of macroeconomic indicators, actual tax revenue and legislative changes (including tax rates, etc.). Moreover, in the process of analysis the information from the State Treasury, the State Revenue Service, the Central Statistics Bureau and other sources is used.