

DRAFT BUDGETARY PLAN OF THE REPUBLIC OF LATVIA 2021

RIGA, 2020

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Abbreviations

ALTUM	Joint Stock Company “Development Finance Institution Altum”
CIT	Corporate income tax
CoM	Cabinet of Ministers
EC	European Commission
ERDF	European Regional Development Fund
ESA	European System of Accounts
EU	European Union
FDL	Fiscal disciplin law
Framework Law	Medium- Term Budget Framework Law
GDP	Gross domestic product
GHG	Greenhouse gas
KNAB	The Corruption Prevention and Combating Bureau
MET	Micro - enterprise tax
MoE	Ministry of Economics
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MoW	Ministry of Welfare
MSSSC	Mandatory State social security contributions
OECD	Organisation of Economic Cooperation and Development
PIT	Personal income tax
SGP	Stability and growth pact
SJSC	State joint stock company
SRS	State Revenue Service
SSC	Social security contributions
SSIA	State Social Insurance Agency
STEM	Science, technology, engineering and mathematics
VAT	Value added tax

Introduction

The Republic of Latvia hereby submits the Draft Budgetary Plan for 2021.

The Draft Budgetary Plan for 2021 has been prepared based on the macroeconomic development scenario developed in June, which in 2021 foresees a GDP growth of 5.1%. The fiscal development scenario for 2021 includes no-policy change scenario as well as policy scenario incorporating the newly adopted discretionary revenue and expenditure measures of the CoM. The budget for 2021 has been prepared forecasting the headline deficit for general government in 2021 of 3.9% of GDP.

The Draft Budgetary Plan for 2021 has been approved by the CoM on October 13, 2020.

Macroeconomic Development Scenario

The medium-term macroeconomic growth scenario for 2020-2023 has been developed in June 2020, based on conservative assumptions and taking into account GDP data for the first quarter of 2020 and actual short-term statistical information available up to June, 2020, as well as the adopted government support measures aimed at mitigating the economic consequences of the Covid-19 crisis.

During preparation of the medium-term macroeconomic growth scenario, MoF held consultations with experts from the International Monetary Fund and EC. Macroeconomic indicators' forecasts have been discussed with the Bank of Latvia and MoE followed by signing of an agreement protocol by these institutions. Forecasts were approved by the Fiscal Discipline Council on June 15, 2020.

According to the updated macroeconomic development scenario, Latvia's GDP will decrease by 7.0% this year. Such a decline equals the GDP fall projected in the scenario developed by the MoF in April for the Latvia's Stability Programme for 2020-2023, however the forecasts for GDP components from the expenditure approach, as well as from income approach have been changed. In 2021, Latvia's GDP will increase by 5.1%, which is by 4.1 percentage points larger growth than in the previous forecast. In both 2022 and 2023, GDP will increase by 3.1%, which is by 0.4 percentage points less and 0.7 percentage points more than in the previous forecast, respectively.

The macroeconomic development scenario is based on assumption that the Covid-19 pandemic will be contained in the first half of 2020 and the economic activity will gradually recover thereafter. This assumption underlied the macroeconomic projections of all major international institutions, based on the latest data on the prevalence of Covid-19. The scenario assumes that GDP decline of 1.5% in the first quarter of 2020, is followed by a sharp fall, reaching the lowest point in the second quarter, and thereafter the economic activity begins to recover. In the third and fourth quarters, the GDP decline is projected to be about half as low as in the second quarter in annual terms. It is expected that sectors most affected by the crisis - transportation, accommodation and catering, arts, entertainment and recreation, professional services, by the end of 2020 will not return to the level of 2019.

In the coming years, economic growth will gradually recover, with GDP growth reaching 5.1% in 2021, however not yet returning to the level of 2019. Only in 2022, when similarly to 2023 GDP will expand by 3.1%, Latvia's economy will exceed its pre-crisis level.

The annual average inflation in 2020 is forecasted at 0.2% and in 2021 at 1.2%. Compared to the Latvia's Stability Programme for 2020–2023 forecasts, the inflation projection for 2020 has been reduced by 0.2 percentage points and for 2021 - by 0.5 percentage points, mainly due to the sharp decline in energy prices, as well as the slowdown in service price growth. In the following two years, consumer price inflation is expected to return to 2%.

Macroeconomic development scenario assumes that, due to the spread of the virus and measures to control it, the number of employed persons will decrease by 40 thousand or 4.4% in 2020, mainly in sectors directly affected by the Covid-19 crisis, including transportation, trade, accommodation and catering, professional and administrative services, as well as slight decrease in employment in other, indirectly affected sectors. Accordingly, the unemployment rate in 2020 compared to 2019 is expected to increase by 4.2 percentage points to 10.5%. In 2021 and 2022, as economic growth resumes, the number of employed will slightly increase, stabilising at 883 thousands by 2023, while the unemployment rate will decrease to 9.8% in 2021.

According to the macroeconomic development scenario, the average monthly gross wage will decline by 1.0% in 2020 as wage growth still remained strong in the first quarter of the year, but after that companies will no longer be able to maintain the existing wage level

under the circumstances of steep economic downturn. In the coming years, the wage growth will gradually recover, with the average monthly wage increasing by 3.0% and after that stabilising at a level close to overall productivity growth in the economy.

Table 0i. Basic assumptions

	2019	2020	2021
Short-term interest rate (annual average)	-0.4	-0.3	-0.4
Long-term interest rate (annual average)	-0.3	-0.4	-0.3
USD/EUR exchange rate (annual average)	1.12	1.09	1.09
Nominal effective exchange rate	-1.2	1.5	0.5
World excluding EU, GDP growth	3.0	-3.0	5.0
EU GDP growth	1.5	-7.4	6.1
Growth of relevant foreign markets	0.4	-11.8	6.2
World import volumes, excluding EU	0.1	-10.3	6.7
Oil prices (Brent, USD/barrel)	64.1	40.8	44.8

Table 1a. Macroeconomic prospects

	ESA Code	2019	2019	2020	2021
		Levels	Rate of change, %		
1. Real GDP	B1*g	27.6	2.1	-7.0	5.1
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		27.1	2.8	2.4	2.5
Contributions					
Potential GDP contributions:Labour			0.1	0.0	0.0
Potential GDP contributions:capital			0.7	0.7	0.7
Potential GDP contributions: total factor productivity			2.0	1.7	1.8
3. Nominal GDP	B1*g	30.5	4.5	-7.5	6.5
Components Of real GDP					
4. Private consumption expenditure	P.3	16.2	5.2	-7.5	5.8
5. Government consumption expenditure	P.3	4.9	10.6	3.2	1.6
6. Gross fixed capital formation	P.51	6.3	4.8	-10.2	12.2
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1.5			
8. Exports of goods and services	P.6	17.4	2.3	-14.8	7.7
9. Imports of goods and services	P.7	18.8	2.4	-16.3	9.0
Contribution to real GDP growth					
10. Final domestic demand			2.2	-6.3	5.0
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		0.5	-2.0	0.5
12. External balance of goods and services	B.11		-0.7	1.3	-0.4

Table 1b. Price developments

	ESA Code	2019	2019	2020	2021
		Levels	Rate of change		
1. GDP deflator			2.4	-0.5	1.3
2. Private consumption deflator			3.0	0.0	1.2
3. HICP			3.0	0.0	1.2
4. Public consumption deflator			7.8	0.6	-1.6
5. Investment deflator			2.7	0.0	4.0
6. Export price deflator (goods and services)			0.2	-5.0	1.1
7. Import price deflator (goods and services)			-0.5	-5.5	2.0

Table 1c. Labour market developments

	ESA Code	2019	2019	2020	2021
		Levels	Rate of change		
1. Employment, persons ('000)		910.0	0.1	-4.4	0.6
2. Employment, hours worked, per employee		1623.6	0.9	0.0	0.0
3. Unemployment rate (%)			6.3	10.5	9.8
4. Labour productivity, per person			2.0	-2.7	4.5
5. Labour productivity, per hours worked			2.0	-2.7	4.5
6. Compensation of employees, bln euro	D.1	15.2	8.6	-5.4	3.6
7. Compensation per employee (Gross wage)		1076	7.2	-1.0	3.0

Table 1d. Sectoral balances

	ESA Code	2019	2020	2021
		% of GDP		
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	0.5	1.5	0.9
of which				
- Balance on goods and services		-0.8	0.3	-0.4
- Balance of primary incomes and transfers		-0.6	-0.5	-0.3
- Capital account		1.9	1.7	1.6
2. Net lending/borrowing of the private sector	B.9	0.7	9.1	4.8
3. Net lending/borrowing of general government	EDP B.9	-0.2	-7.6	-3.9
4. Statistical discrepancy		0.0	0.0	0.0

Fiscal strategy and the structural balance objective

This draft budgetary plan is being prepared at a time when the Latvian economy and public finances have been affected by the Covid-19 pandemic, which has led to significant changes in the fiscal policy implemented so far, which is based on the balanced budget in the economic cycle. Two important areas of impact can be identified as follows:

- Changes in the application of SGP and FDL fiscal discipline conditions;
- Government financial support for mitigating the effects of the Covid-19 crisis.

In 2020, the general escape clause of the SGP was activated at the EU level, which allows EU Member States to increase the general government budget deficit in 2020 as necessary to reduce the economic damage caused by the Covid-19 pandemic. Consequently, the EU fiscal policy framework in 2020 allows to deviate from the previously set deficit targets. Section 12 of the Fiscal Discipline Law provides for a similar possibility to deviate from the 0.5% structural deficit during a severe economic downturn. The activation of the general escape clause of the SGP was the basis for activating the derogation provided for in Article 12 of the FDL.

Regarding the support provided by the CoM in the context of the Covid-19 crisis, it should be noted that the most significant decisions and support measures related to the Covid-19 crisis were taken this year before the start of the current budget cycle and were described in Latvia's Stability Program 2020-2023, including those support measures approved before 17 April this year. However, taking into account that since April 17 certain support measures have been updated and new measures have been adopted, this draft budgetary plan includes information on the current situation regarding the support measures adopted by the CoM.

However, it should be noted that the economic shock caused by the Covid-19 pandemic will diminish in the next year and in the coming years, according to the current macroeconomic forecasts of the EC and EU Member States. Therefore, while maintaining the actual ability of the Latvian government to respond to the further development of the Covid-19 pandemic in the event of a scenario worse than expected and to adopt appropriate support measures to reduce the impact of the Covid-19 crisis on the Latvian economy, it is still necessary to ensure planning of the medium-term fiscal policy. The overall objective of Latvia's fiscal policy, which is to continue a sustainable increase of Latvian citizens's quality of life, is implemented with the following policy priorities of the medium-term budget:

- 1) promotion of the competitiveness of enterprises and development of an investment-friendly environment by reducing the tax burden on labor and reorganizing the MET regime;
- 2) provision of adequate state social insurance services by determining the appropriate object of mandatory contributions for employees in the general tax regime and alternative tax regimes;
- 3) maintaining and strengthening the human capital capacity of the health and education sector by increasing public funding for the remuneration of medical practitioners and teachers.
- 4) reduction of income inequality by raising the income threshold up to which the PIT non-taxable minimum is applied, as well as by increasing the guaranteed minimum income, minimum pension and benefits for socially vulnerable groups of society.

Policy priorities of the medium-term budget outline country's key challenges which need and can be addressed through consistent policy over a number of years. Policy priorities of the medium-term budget do not include issues that can be considered as resolved. Similarly, policy priorities for the medium-term budget are not directly correlated with the amount of funding allocated to a sector from the fiscal space, for example, when additional funding is allocated for the implementation of existing policies but not related to policy change.

During the preparation of the 2021 budget, the CoM adopted decisions on discretionary revenue and expenditure measures to ensure the financing of the priorities set by the government.

Additional resources for financing of priorities were also provided through the implementation of the revision of the state budget base expenditures.

The fiscal data provided in Table 3 have been prepared under a no-policy change scenario, which includes the discretionary revenue and expenditure measures for 2021 included in the Law “On the Medium-Term Budget Framework for 2020, 2021 and 2022”, as well as policy decisions that were adopted in the context of the Covid-19 crisis. During the preparation of the budget, new decisions related to the Covid-19 crisis were not taken in substance, but were technically reinforced in the budget documents and therefore are not reflected as discretionary measures.

Discretionary revenue and expenditure measures adopted by the CoM are set out in table 5. At the same time, Table 5, as a separate section, contains such adjustments in the fiscal scenario which were required to correctly reflect the fiscal impact of decisions taken by the CoM, both at general government budget level and at the level of the subsectors of general government budget. This ensures that the changes between the no-policy change and policy scenario in 2021 could be evidently observed.

In view of the above-mentioned, the budget for 2021 has been prepared by:

- (1) continuing to secure funding for the priorities defined in the previous Framework Law and the national budget law for 2020;
- (2) allocating additional funding for the new policy priorities of the medium-term in the new budget cycle;
- (3) projecting that the nominal deficit of general government in 2021 is 3.95% of GDP;
- (4) revising of the state budget base expenditure and developing additional discretionary revenue and expenditure measures to provide funding for new priorities of the CoM;
- (5) implementing tax policy decisions to promote the competitiveness of enterprises and an investment-friendly environment, ensure an adequate level of public social insurance services, as well as further reduce income inequality.

As general escape clause of the SGP is preserved in 2021, in this budget cycle the structural balance target for 2021 is determined based on the nominal balance, taking into account no-policy change fiscal forecasts, decisions made by the CoM with fiscal impact in the current budget cycle and MoF forecasts on cyclical economic developments. Accordingly, Latvia's structural balance target in 2021 is 2.06% of GDP. According to the draft budget law of 2021, the structural deficit is planned at 1.96% of GDP. The difference of 0.1% of GDP is a fiscal security reserve and is designed to take into account fiscal risks. It should be noted that together with the budget law of 2021, the Framework Law for 2021, 2022, and 2023 has been prepared, which envisages the reduction of the general government budget structural deficit from 2% in 2021 to 1% in 2022 and return to the national medium-term objective of 0.5% of GDP.

The general government budget deficit, under the draft budget law of 2021, is projected at 3.95% of GDP.

Although it is possible to launch measures to be financed by the European Recovery and Resilience Facility in 2021, neither the draft 2021 budget nor this draft budgetary plan currently includes potential expenditures and revenues related to this instrument. Latvia's budget management procedures allow these expenditures and corresponding revenues from the EU to be made after the adoption of the budget, increasing the appropriations needed for these needs. This approach is implemented because at the time of preparation of this draft budgetary plan, it

is not possible to reliably forecast expenditures for 2021 from this instrument, and it has a neutral fiscal impact on the general government budget balance and debt.

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

	ESA Code	2020	2021
		% of GDP	
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-7.6	-3.9
2. Central government	S.1311	-6.8	-3.6
3. State government	S.1312		
4. Local government	S.1313	-0.3	-0.2
5. Social security funds	S.1314	-0.6	-0.2
6. Interest expenditure	D.41	0.9	0.8
7. Primary balance		-6.7	-3.2
8. One-off and other temporary measures ¹		0.2	0.1
9. Real GDP growth (%) (=1. in Table 1a)		-7.0	5.1
10. Potential GDP growth (%) (=2 in Table 1.a)		2.4	2.5
contributions:			
- labour		0.0	0.0
- capital		0.7	0.7
- total factor productivity		1.7	1.8
11. Output gap (% of potential GDP)		-7.7	-5.4
12. Cyclical budgetary component (% of GDP)		-2.9	-2.0
13. Cyclically-adjusted balance (1 - 12) (% of GDP)		-4.7	-1.9
14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)		-3.8	-1.2
15. Structural balance (13 - 8) (% of GDP)		-4.9	-2.0

¹ Revenue share 18.7 mln. euro or 0.06% of GDP from the auction of emission allowances allocated to Latvia, which took place in November 2018 and is attributable to the revenue of 2020, and the revenue of 33 mln. euro or 0.12% of GDP from confiscation of criminal assets can be considered as a one-off measure in 2020. In 2021, a part of a one-time emission allowance transaction performed in 2018 (impact is distributed in 2019–2021) is reflected as a one-off measure in the amount of 15.1 mln. euro.

Table 2.b: General government debt developments

	ESA Code	2020	2021
		% of GDP	
1. Gross debt		47.3	46.0
2. Change in gross debt ratio		10.4	-1.3
Contributions to change in gross debt			
3. Primary balance		-6.7	-3.2
4. Interest expenditure	EDP D.41	0.9	0.8
5. Stock-flow adjustment		2.8	-5.3
Implicit interest rate on debt		2.2	1.7
Other relevant variables			
6. Liquid financial assets			
7. Net financial debt (7=1-6)			
8. Debt amortization (existing bonds) since the end of the previous year		4.5	4.9
9. Percentage of debt denominated in foreign currency		3.7	1.1
10. Average maturity		7.96 years	

Table 2.c: Contingent liabilities

% of GDP	2020	2021
Public guarantees	1.5	1.4

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

	ESA Code	2020	2021
		% of GDP	
1. Total revenue at unchanged policies	TR	39.7	38.4
of which			
1.1. Taxes on production and imports	D.2	14.7	14.7
1.2. Current taxes on income, wealth, etc.	D.5	7.0	7.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.3	10.0
1.5. Property income	D.4	0.7	0.3
1.6. Other		7.0	6.3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		32.2	32.0
2. Total expenditure at unchanged policies	TE	47.3	42.4
of which			
2.1. Compensation of employees	D.1	12.1	11.5
2.2. Intermediate consumption	P.2	6.1	5.9
2.3. Social payments	D.62; D.632	14.5	13.8
of which Unemployment benefits		0.9	0.7
2.4. Interest expenditure	D.41	0.9	0.8
2.5. Subsidies	D.3	1.5	1.3
2.6. Gross fixed capital formation	P.51	6.0	5.5
2.7. Capital transfers	D.9	1.3	0.0
2.8. Other		4.9	3.5

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

	ESA Code	2020	2021
		% of GDP	
1. Total revenue target	TR	39.8	39.2
Of which			
1.1. Taxes on production and imports	D.2	14.7	14.9
1.2. Current taxes on income, wealth, etc.	D.5	7.0	7.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.3	10.1
1.5. Property income	D.4	0.7	0.6
1.6. Other		7.0	6.3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		32.2	32.5
2. Total expenditure target	TE	47.4	43.2
Of which			
2.1. Compensation of employees	D.1	12.1	11.8
2.2. Intermediate consumption	P.2	6.1	5.9
2.3. Social payments	D.62 D.632	14.5	14.0
of which Unemployment benefits		0.9	0.7
2.4. Interest expenditure (= Table 2.a.9.)	D.41	0.9	0.8
2.5. Subsidies	D.3	1.5	1.3
2.6. Gross fixed capital formation	P.51	6.0	5.3
2.7. Capital transfers	D.9	1.3	0.0
2.8. Other		4.9	4.1

Table 4.c General government expenditure by function

4.c.i) General government expenditure on education, healthcare and employment

	2020		2021	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.0	10.7	4.7	10.8
Health	5.2	11.1	5.4	12.5
Employment	0.1	0.3	0.1	0.3

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

	COFOG Code	2020	2021
		% of GDP	
1. General public services	1	6.2	5.7
2. Defense	2	2.6	2.4
3. Public order and safety	3	2.4	2.3
4. Economic affairs	4	8.7	6.4
5. Environmental protection	5	0.3	0.3
6. Housing and community amenities	6	0.8	0.7
7. Health	7	5.2	5.4
8. Recreation, culture and religion	8	1.4	1.3
9. Education	9	5.0	4.7
10. Social protection	10	14.8	14.0
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	47.4	43.2

Implementation of the medium-term budgetary policy priorities

Reducing citizens ' income inequality

Reducing income inequality by raising the income threshold below which the PIT non-taxable minimum applies, as well as increasing the guaranteed minimum income, minimum pension and benefits for vulnerable groups. The quality of life of the population is determined by both absolute indicators and relative indicators - the average quality of life of the population and differences in the quality of life of the population with different income. An important indicator for assessing the average quality of life is the amount of GDP per capita, which, according to Eurostat data, in Latvia is the fourth lowest in the EU (GDP per capita after PPS (purchasing power parity) in 2019). In its turn, the Gini coefficient, which characterizes income inequality, in Latvia is one of the highest in the EU, surpassing only Lithuania and Bulgaria according to 2019 Eurostat data.

The current Framework Law provides the following main policy measures to reduce the income gap in the population:

- raising the income threshold to 1,800 euro per month, up to which the differentiated non-taxable minimum applies (currently 1,200 euro per month)
- increasing the guaranteed minimum income, minimum pension and benefits for vulnerable groups.

Increasing national human capital

Maintaining and strengthening the capacity of human capital in the health and education sectors by increasing public funding for the remuneration of medical practitioners and teachers.

Healthcare. Improving the quality of life is possible through rapid long-term growth of the economy, or relatively high potential GDP growth. In the context of adverse demographic trends, the contribution of the labour force component in total potential GDP growth will be close to zero. In such circumstances, the contribution of the labour force component may be increased by reducing the time spent by the working-age population outside work due to illness. Strengthening public health by providing better quality and more accessible health care directly impacts potential GDP growth and is therefore one of the indicators in the national human capital. It should be noted that better quality and more accessible healthcare has a direct positive impact on the overall objective of fiscal policy: the quality of life of citizens. Consequently, public financial investment in healthcare both directly improves the quality of life of the population and creates preconditions for economic growth, which in turn ensures the sustainability of the improved quality of life.

In this Framework Law, one of the decisions of the CoM in the medium term includes 183.0 mln. the allocation of the euro to ensure an increase in the salaries of medical practitioners.

An important aspect for the successful functioning of the health sector is the availability of educated and motivated medical staff, which is also determined by adequate remuneration.

Eurostat data indicate that in 2018 the number of medical personnel in Latvia per 1000 inhabitants was lower than the EU average, incl. the number of nurses was only 4.4 per 1000 inhabitants, one of the lowest in the EU, while the number of doctors was 3.3 per 1000 inhabitants, which is also below the EU average (3.8). Accordingly, it is reasonable to assess how remuneration potentially influences the decision of medical graduates to work in the medical sector in Latvia (state or municipal hospitals) or abroad.

According to the MoW analysis, in 2019 only 4% (9 persons) of all residency graduates (210) did not report a job in the medical sector, compared to 2018, when even 18% of residency

graduates did not report a job. The improvement of the situation is particularly positive, given how much the state has paid for residency studies (the cost of training per resident per year is about 24 thousand euros).

In turn, the statistics on nurses indicate that in 2019, 516 nurses graduated from educational institutions, of which only 202 registered in the Register of Medical Practitioners and Medical Support Persons, but only 126 of them started working in the health care system (or 24% of all graduates). In the period from 2010 to 1st September 2020, 1261 professional qualification certificates for work abroad were issued to medical practitioners and medical support persons, of which 1011 were nurses and 141 medical assistants.

Of the 159 graduates (doctors) of the surveyed 2018/2019 academic year, 25% have indicated that they plan to leave Latvia. Every year, Latvian doctors are issued certificates for recognition of qualifications abroad - in 2016 - 102, in 2017 - 85; in 2018 - 75.

OECD data indicate that the number of doctors employed in hospitals providing emergency medical care, secondary and tertiary health care in Latvia is lower than the OECD average - in Latvia about 59%², in OECD countries more than 75% (only 25% work outside hospital sector)³. In principle, these data suggest that too few doctors work in hospitals, i.e. in the stationary segment.

Policy changes in the health sector in recent years have contributed to an increase in funding for improvements in hospital equipment and infrastructure, as well as for the remuneration of medical staff and further efforts to increase funding, incl. remuneration is one of the potential solutions to promote both the generation of medical staff in the sector and the increase of motivation of those currently working in the health sector.

Education and science. Taking into account the constraints on the size of the labor force, increasing the total-factor productivity in Latvian conditions is the main factor to secure growth in potential GDP. The knowledge, skills and ability of the Latvian population to be innovative and the creation of conditions for the possibility to implement innovative ideas in life are the preconditions necessary for the growth of potential GDP. Education and science play a key role here.

According to Eurostat's COFOG classification of general government expenditure, funding in the field of education in Latvia (5.8% of GDP according to 2018 data) is the fifth highest in the EU, exceeding both the EU average (4.6% of GDP) and being ahead of Lithuania (4.6% of GDP), while lagging behind Estonia (6.2% of GDP). This indicates that funding for education in Latvia is at an adequate level, but issues related to the optimization of the school network and increasing the number of pupils per teacher need to be addressed. It should be noted that a significant increase in the number of students per teacher, as well as significant progress in the reorganization of the school network is not possible in a short period of time without endangering the quality of education. Thus, one of the solutions is to invest additional funds in the education system in order to increase the remuneration of teachers, which has also been one of the decisions of the CoM in the development of this Framework Law. Accordingly, in 2021, the CoM has allocated additional funding of 40.6 mln. euro both for the implementation of the schedule of increase of teachers' salaries in pre-school education, general education, vocational education, vocational guidance and interest education, as well as for the increase of the minimum remuneration rates for academic staff. In turn, both in 2022 and 2023, 56.3 million euro have been allocated for this purpose.

² OECD data base (viewed at 02.10.2020.)

³ The Health Care Facilities Master Plan for 2016–2025 (p.8), World Bank

Promoting the competitiveness of enterprises

In order for Latvian companies to be able to invest in human capital, ensuring employee education and salary increase, as well as investments in productive capital, they need to ensure a sufficient level of profit, which is affected by both the country's tax policy and competition conditions at the national and regional level. With regard to regional competitiveness, an important indicator that determines the competitive position of Latvian entrepreneurs in relation to the Baltic States and other EU Member States is labor costs, in which labor taxes make up a significant share. Labor costs are well characterized by the labor tax burden or tax wedge, which shows total labour cost for the employer to employ an employee. It is calculated as the ratio of the amount of labour taxes paid by employer to the employer's total labor costs. According to the data of the EC tax and benefits database, in 2019 the tax wedge in Latvia, using the indicator for a single worker without dependents who receives the average salary in the country, was 42.6%, which exceeds both the EU average (40.2) and Lithuania and Estonia (both 37.2).

At the same time, alongside the promotion of the international competitiveness of Latvian entrepreneurs, an important factor determining fair competition in the Latvian domestic market is the conditions of tax policy regarding labor costs for employees in different tax regimes. One such regime is the MET regime, which, although tending to decrease, still employs 8% of all employees in the economy, according to the data on the 4th quarter of 2019. According to the SRS, the burden of SSC on MET payers is almost three times lower than on employers working under the general tax regime (based on the report "On downtime benefits for companies affected by the Covid-19 crisis" reviewed at the CoM meeting on April 23, 2020) thus putting MET payers in a much more competitive position.

Taking into account the above, in the current cycle of preparation of the Framework Law, the CoM has decided to solve the above-mentioned issues both by reducing the SSC rate by one percentage point, including 0.5% employer rate and 0.5% employee rate, and reorganizing the MET regime, so that the MET is not used as a tax model with a significantly lower labor tax burden, thus distorting competition.

Provision of adequate state social insurance services

Provision of adequate state social insurance services by determining the appropriate object of mandatory contributions to the employees of the general tax regime and alternative tax regimes. One of the indicators of social welfare in the country is not only the level of average wage, but also the state's ability to ensure the social security and welfare of the population when leaving the labor market temporarily, retiring, and in situations of significant economic turmoil. According to Eurostat data, in 2018, the aggregate level of income replacement rate in Latvia when a person retired was the third lowest in the EU, reaching only 40%. According to the data of the SSIA, in 2019 about 111 thousand of socially insured persons, employees and self-employed persons⁴, income or SSC object was just up to 430 euros per month; the average object of these persons' SSC object or the income earned was 219 euro per month (for comparison, in the general regime, the average income per employee in 2019 was 796 euro per month).

These data indicate that the level of social welfare of a significant part of the population will be significantly endangered in the future upon retirement or in case of social insurance events. The Covid-19 crisis has also shown that the amount of state social benefits received by

⁴ data of the SSIA for April 2019 on the average number of employees (excluding those working in the micro-enterprise regime) and self-employed persons (including patent payers and royalty recipients), whose average contribution object was from 0.01 to 429.99 euro per month

workers is low due to insufficient SSC contributions. This is indicated by statistics on the government support mechanism for companies and the self-employed who have become idle. The maximum amount of downtime benefit per person per month is set at 700 euro (75% of the average amount of compensation for the previous six months). Until July 10, 2020, support has been granted during the Covid-19 infection, paying:

- 127925 downtime benefits after applications from 18435 companies with an average downtime benefit in the amount of 404 euros, of which 56.3% of the granted benefit was less than the amount of the minimum monthly salary set by the CoM;
- 6,309 downtime benefits according to the applications of the self-employed with the average downtime benefit in the amount of 353 euros, of which 63.6% of the granted benefit was less than the minimum monthly salary set by the CoM (SRS information as of 13 July 2020).

Taking into account the above, starting from 2021, the CoM has decided to introduce a minimum amount of MSSSC, the purpose of which is to ensure a sustainable state social insurance policy, providing that for all taxpayers who actively participate in economic life MSSSC payments are made at least at the minimum level of SSC, and to prevent the use of the exemption model for different tax regimes for tax optimization purposes. At the same time, according to the calculations of the MoF, a positive fiscal impact on the state budget in 2021 is forecasted from the implementation of this initiative, reaching 64.3 million euro, in 2022 135.5 mln. euro and in 2023 137.2 mln. euro.

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		
						2021	2022	2023
						% of GDP		
Simplification of VAT application rules in the field of e-commerce	Simplification of VAT application rules in the field of e-commerce: from 2021, the scope of application of the special VAT regime will be extended, creating the possibility to register in one Member State and pay VAT for any transactions performed in the e-environment within the framework of the special VAT regime; in addition, from 2021, the VAT exemption for shipments of low value goods in the amount of 22 euros will be abolished.	VAT	D.2	Accrual	Partly approved by government	0.03		
Decrease of social insurance contributions' rate by 1 percent point (from 35.09% to 34.09%)	Decrease of social insurance contributions' rate by 1 percent point (from 35.09% to 34.09%)	PIT	D.5	Accrual	Partly approved by government	0.02		
		SSC	D.61	Accrual	Partly approved by government	-0.27		
Increase of threshold to which DNTM is applied up to 1800 euro	Increase of threshold to which DNTM is applied up to 1800 euro	PIT	D.5	Accrual	Partly approved by government	-0.14		
Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	PIT	D.5	Accrual	Partly approved by government	0.06		
		SSC	D.61	Accrual	Partly approved by government	0.20	0.22	
		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.01	0.01	

Increase of excise duty rates on all tobacco products and liquids used in e-cigarettes	Increase of excise duty rates on all tobacco products and liquids used in e-cigarettes	Excise duty	D214	Accrual	Partly approved by government	0.02	0.02	0.01
		VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in Vehicle Operation Tax rates	Changes in Vehicle Operation Tax rates	Vehicle Operation Tax	D.5; D.29	Accrual	Partly approved by government	0.02		
The draft order of the CoM "On Ministry of Transport Long-Term Commitment to the Country's Main Highway E67/A7 Kekavas Bypass for the Implementation of a Public-Private Partnership Project".	The draft order of the CoM "On Ministry of Transport Long-Term Commitment to the Country's Main Highway E67/A7 Kekavas Bypass for the Implementation of a Public-Private Partnership Project".	VAT	D.2	Cash flow	Partly approved by government	0.03	0.01	-0.02
Increase of the forecasted revenues from the dividends of "Latvenergo"	Increase of the forecasted revenues from the dividends of "Latvenergo"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.02	0.01	0.00
		CIT	D.5	Cash flow	Partly approved by government	0.01	0.00	0.00
Prediction of dividends of "Latvenergo" in accordance with the conceptual report "Complex measures for solving the problem of the mandatory procurement component and development of the electricity market"	Prediction of dividends of "Latvenergo" in accordance with the conceptual report "Complex measures for solving the problem of the mandatory procurement component and development of the electricity market"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.24	-0.04	-0.04
		CIT	D.5	Cash flow	Partly approved by government	0.06	-0.01	-0.01
Increase of the forecasted revenues from the dividends of "Latvijas valsts meži"	Increase of the forecasted revenues from the dividends of "Latvijas valsts meži"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.05	-0.04	
		CIT	D.5	Cash flow	Partly approved by government	0.01	-0.01	
Spillover effects of wage increase	Spillover effects of wage increase	PIT	D.5	Cash flow	Partly approved by government	0.11	0.01	0.01

		VAT	D.2	Cash flow	Partly approved by government	0.09	0.01	0.01
		SSC	D.61	Cash flow	Partly approved by government	0.19	0.02	0.02
No compensation is envisaged for Rīga Municipality due to the fiscal impact on the general government budget balance caused by its controlled capital company "Rīgas satiksme" (state budget revenue classificatio code 12.3.9.9.)	No compensation is envisaged for Rīga Municipality due to the fiscal impact on the general government budget balance caused by its controlled capital company "Rīgas satiksme" (state budget revenue classificatio code 12.3.9.9.)	Non-tax revenue	P.13	Cash flow	Partly approved by government	-0.03	0.03	
Other tax measures						0.01	0.01	0.01
Other non-tax measures						0.00	0.00	0.00
Total:						0.71	0.27	-0.01

Other changes in the budget preparation process (% of GDP)	2021
Other changes in budget taxes and own revenues	0.01

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

List of measures	ESA	Accounting principle	Adoption Status	2021	2022	2023
				% of GDP		
Ministry of Economics						
Increase of funding for a support of electricity users	D.3	Cash flow	Approved by government	0.11	0.03	-0.04
Increase of funding for the housing guarantee support program	D.7	Cash flow	Approved by government	0.00	0.02	0.00
Increase of funding for a priority measure "Housing guarantee support program"	D.7	Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Finance						
Reduction of funding in line with the results of the expenditure review		Cash flow	Approved by government	-0.07	0.00	0.00
Increase of funding for the information systems of the State Revenue Service in accordance with the requirements specified in regulatory enactments	P.51	Cash flow	Approved by government	0.01	0.01	0.00
Ministry of the Interior						
Increase of expenditure (redistribution from the program 80.00.00) to ensure the continuation of the Internal Security Fund - Border / Visa project "Implementation of the Entry / Exit System and ETIAS" launched in 2020		Cash flow	Approved by government	0,02	-0,01	-0,01
Ministry of Education and Science						
Increase of funding for a priority measure "Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education"	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of funding for a priority measure "Increasing the minimum remuneration rates of the academic staff in accordance with the schedule of increasing the salaries of teachers"	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of funding for a priority measure "XII Provision of Latvian School Youth Song and Dance Festival"		Cash flow	Approved by government	0.01	-0.01	0.00
Increase in funding for ERDF project implementation		Cash flow	Approved by government	0.03	-0.03	0.00

Increase in funding for ESF project implementation		Cash flow	Approved by government	0.06	-0.06	0.00
Ministry of Agriculture						
Increase of funding for state aid for the entry of breeding animals in herdbooks, as well as for the determination of their genetic quality and the evaluation of productivity data	D.3	Cash flow	Approved by government	0.03	-0.03	0.00
Ministry of Transport						
Increase of funding for the implementation of the Çekava bypass project (for the design, construction, financing and maintenance of the Çekava bypass)	P.51	Cash flow	Approved by government	0.03	0.01	0.00
Reduction of funding for the maintenance and renovation of state roads, in accordance with the decision of the CoM	P.51	Cash flow	Approved by government	-0.17	0.17	0.00
Increase of funding for a priority measure “Compensation for losses caused by the delivery of subscribed press publications in 2021 and support for deliveries of subscribed press publications in 2022, 2023 and subsequent years”	D.9	Cash flow	Approved by government	0.01	0.02	-0.01
Increase of funding for a priority measure “Compensation for losses caused by the delivery of subscribed press publications”	D.9	Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Welfare						
Basic budget						
Increased resources and expenditures to ensure the implementation of the priority measure “Review of the Assistant Service” by improving the procedure for providing the assistant service in the municipality, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	0.03	0.04	0.00
Increased resources and expenditures to ensure the implementation of the priority measure “Doubling the amount of the guardian's allowance for child maintenance” as of July 1, 2021, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	0.01	0.01	0.00
Increase of resources and expenditures for a sub-measure “Review of the amount of the state social security benefit” of a priority measure “Execution of Constitutional Court Judgments in the Field of Welfare”	D.6	Cash flow	Approved by government	0.03	0.00	0.00
Special budget						
Reduction of expenditure on old-age pensions related to the average benefit projected monthly decline	D.6	Cash flow	Approved by government	-0.04	-0.01	0.00

Reduction in expenditure on unemployment benefits due to the projected monthly decline in the average number of beneficiaries, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	-0.06	-0.03	0.00
Reduction in expenditure on unemployment benefits due to the projected monthly decline in the average number of beneficiaries	D.6	Cash flow	Approved by government	-0.03	0.02	0.01
Reduction in expenditure on sickness benefits due to the projected monthly reduction in the average number of beneficiaries	D.6	Cash flow	Approved by government	-0.03	-0.02	0.00
Increase of resources and expenditures for a sub-measure “Raising the minimum pension” of a priority measure “Execution of Constitutional Court Judgments in the Field of Welfare” by receiving a transfer from the MoW basic budget	D.6	Cash flow	Approved by government	0.17	0.00	0.00
Increase of resources and expenditures for a sub-measure “Support for children in the event of the death of a survivor” of a priority measure “Execution of Constitutional Court Judgments in the Field of Welfare” by receiving a transfer from the MoW basic budget	D.6	Cash flow	Approved by government	0.02	0.00	0.00
Ministry of Justice						
Increase of funding for a priority measure “Increasing the monthly salaries of court employees”	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Culture						
Increase of funding for a priority measure “Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education”	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Health						
Increase of funding for a priority measure “Ensuring an increase in the salaries of medical personnel”	D.1	Cash flow	Approved by government	0.57	-0.02	-0.02
Radio and television						
Increase of funding for a priority measure “Development of Public limited liability company “Latvijas Televīzija” after exiting the advertising market”	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Targeted grants to municipalities						
Redistribution of funding according to the changes in the number and structure of learners	D.7	Cash flow	Approved by government	-0.01	0.00	0.00

Increase of funding for a priority measure “Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education”	D.1	Cash flow	Approved by government	0.09	0.03	0.00
Grant to municipalities						
Increase of local government special grant by 10% compared to the previous year	D.7	Cash flow	Approved by government	-0.08	0.06	0.03
Funding to be reallocated in the annual State budget implementation process						
Reduction of funding in accordance with the decisions adopted by the CoM		Cash flow	Approved by government	0.01	-0.04	0.04
Redistributed funding to Corruption Prevention and Combating Bureau, MFA, MoF, MoI, MoF and Prosecutor's Office for prevention of money laundering and terrorist financing (Moneyval)		Cash flow	Approved by government	-0.01	0.00	0.00
Funding for the Covid-19 crisis management and economic recovery measure “Demography”		Cash flow	Approved by government	0.04	-0.04	0.00
Redistribution of funding for the implementation of EU policy instruments and other foreign financial assistance projects from or to budget units		Cash flow	Approved by government	-0.15	0.14	0.00
Other priority measures		Cash flow	Approved by government	0.28	-0.11	-0.02
Total:				1.01	0.09	-0.04

Other changes to the budget preparation process (% of GDP)	2021
Reduction of expenditures in local government budgets due to reduction of revenues	-0.26

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		
						2021	2022	2023
						% of GDP		
Simplification of VAT application rules in the field of e-commerce	Simplification of VAT application rules in the field of e-commerce: from 2021, the scope of application of the special VAT regime will be extended, creating the possibility to register in one Member State and pay VAT for any transactions performed in the e-environment within the framework of the special VAT regime; in addition, from 2021, the VAT exemption for shipments of low value goods in the amount of 22 euros will be abolished.	VAT	D.2	Accrual	Partly approved by government	0.03		
Decrease of social insurance contributions` rate by 1 percent point (from 35.09% to 34.09%)	Decrease of social insurance contributions` rate by 1 percent point (from 35.09% to 34.09%)	PIT	D.5	Accrual	Partly approved by government	0.01		
		SSC	D.61	Accrual	Partly approved by government	-0.27		
Increase of threshold to which DNTM is applied up to 1800 euro	Increase of threshold to which DNTM is applied up to 1800 euro	PIT	D.5	Accrual	Partly approved by government	-0.03		
Redistribution of PIT between local government/state budgets to 75%/25% (in 2020 80%/20%)	Redistribution of PIT between local government/state budgets to 75%/25% (in 2020 80%/20%)	PIT	D.5	Accrual	Partly approved by government	0.30		
Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	PIT	D.5	Accrual	Partly approved by government	0.01		
		SSC	D.61	Accrual	Partly approved by government	0.20	0.22	

		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.01	0.01	
Increase of excise duty rates on all tobacco products and liquids used in e-cigarettes	Increase of excise duty rates on all tobacco products and liquids used in e-cigarettes	Excise duty	D214	Accrual	Partly approved by government	0.02	0.02	0.01
		VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
Changes in Vehicle Operation Tax rates	Changes in Vehicle Operation Tax rates	Vehicle Operation Tax	D.5; D.29	Accrual	Partly approved by government	0.02		
The draft order of the CoM "On Ministry of Transport Long-Term Commitment to the Country's Main Highway E67/A7 Kekavas Bypass for the Implementation of a Public-Private Partnership Project".	The draft order of the CoM "On Ministry of Transport Long-Term Commitment to the Country's Main Highway E67/A7 Kekavas Bypass for the Implementation of a Public-Private Partnership Project".	VAT	D.2	Cash flow	Partly approved by government	0.03	0.01	-0.02
Increase of the forecasted revenues from the dividends of "Latvenergo"	Increase of the forecasted revenues from the dividends of "Latvenergo"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.02	0.01	0.00
		CIT	D.5	Cash flow	Partly approved by government	0.01	0.00	0.00
Prediction of dividends of "Latvenergo" in accordance with the conceptual report "Complex measures for solving the problem of the mandatory procurement component and development of the electricity market"	Prediction of dividends of "Latvenergo" in accordance with the conceptual report "Complex measures for solving the problem of the mandatory procurement component and development of the electricity market"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.24	-0.04	-0.04
		CIT	D.5	Cash flow	Partly approved by government	0.06	-0.01	-0.01

Increase of the forecasted revenues from the dividends of "Latvijas valsts meži"	Increase of the forecasted revenues from the dividends of "Latvijas valsts meži"	Non-tax revenue	D.421	Cash flow	Partly approved by government	0.05	-0.04	
		CIT	D.5	Cash flow	Partly approved by government	0.01	-0.01	
Spillover effects of wage increase	Spillover effects of wage increase	PIT	D.5	Cash flow	Partly approved by government	0.02	0.00	0.00
		VAT	D.2	Cash flow	Partly approved by government	0.09	0.01	0.01
		SSC	D.61	Cash flow	Partly approved by government	0.19	0.02	0.02
No compensation is envisaged for Rīga Municipality due to the fiscal impact on the general government budget balance caused by its controlled capital company "Rīgas satiksme" (state budget revenue classificatio code 12.3.9.9.)	No compensation is envisaged for Rīga Municipality due to the fiscal impact on the general government budget balance caused by its controlled capital company "Rīgas satiksme" (state budget revenue classificatio code 12.3.9.9.)	Non-tax revenue	P.13	Cash flow	Partly approved by government	-0.03	0.03	
Other tax measures						0.01	0.00	0.00
Other non-tax measures						0.00	0.00	0.00
Kopā:						0.97	0.25	-0.03

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

List of measures	ESA	Accounting principle	Adoption Status	2021	2022	2023
				% of GDP		
Ministry of Economics						
Increase of funding for a support of electricity users	D.3	Cash flow	Approved by government	0.11	0.03	-0.04
Increase of funding for the housing guarantee support program	D.7	Cash flow	Approved by government	0.00	0.02	0.00
Increase of funding for a priority measure “Housing guarantee support program”	D.7	Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Finance						
Reduction of funding in line with the results of the expenditure review		Cash flow	Approved by government	-0.07	0.00	0.00
Increase of funding for the information systems of the State Revenue Service in accordance with the requirements specified in regulatory enactments	P.51	Cash flow	Approved by government	0.01	0.01	0.00
Ministry of the Interior						
Increase of expenditure (redistribution from the program 80.00.00) to ensure the continuation of the Internal Security Fund - Border / Visa project “Implementation of the Entry / Exit System and ETIAS” launched in 2020		Cash flow	Approved by government	0,02	-0,01	-0,01
Ministry of Education and Science						
Increase of funding for a priority measure “Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education”	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of funding for a priority measure “Increasing the minimum remuneration rates of the academic staff in accordance with the schedule of increasing the salaries of teachers”	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of funding for a priority measure “XII Provision of Latvian School Youth Song and Dance Festival”		Cash flow	Approved by government	0.01	-0.01	0.00
Increase in funding for ERDF project implementation		Cash flow	Approved by government	0.03	-0.03	0.00
Increase in funding for ESF project implementation		Cash flow	Approved by government	0.06	-0.06	0.00

Ministry of Agriculture						
Increase of funding for state aid for the entry of breeding animals in herdbooks, as well as for the determination of their genetic quality and the evaluation of productivity data	D.3	Cash flow	Approved by government	0.03	-0.03	0.00
Ministry of Transport						
Increase of funding for the implementation of the Çekava bypass project (for the design, construction, financing and maintenance of the Çekava bypass)	P.51	Cash flow	Approved by government	0.03	0.01	0.00
Reduction of funding for the maintenance and renovation of state roads, in accordance with the decision of the CoM	P.51	Cash flow	Approved by government	-0.17	0.17	0.00
Increase of funding for a priority measure “Compensation for losses caused by the delivery of subscribed press publications in 2021 and support for deliveries of subscribed press publications in 2022, 2023 and subsequent years”	D.9	Cash flow	Approved by government	0.01	0.02	-0.01
Increase of funding for a priority measure “Compensation for losses caused by the delivery of subscribed press publications”	D.9	Cash flow	Approved by government	0.02	-0.02	0.00
Ministry of Welfare						
Basic budget						
Increased resources and expenditures to ensure the implementation of the priority measure “Review of the Assistant Service” by improving the procedure for providing the assistant service in the municipality, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	0.03	0.04	0.00
Increased resources and expenditures to ensure the implementation of the priority measure “Doubling the amount of the guardian's allowance for child maintenance” as of July 1, 2021, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	0.01	0.01	0.00
Increase of resources and expenditures for a sub-measure “Review of the amount of the state social security benefit” of a priority measure “Execution of Constitutional Court Judgments in the Field of Welfare”	D.6	Cash flow	Approved by government	0.03	0.00	0.00
Special budget						
Reduction of expenditure on old-age pensions related to the average benefit projected monthly decline	D.6	Cash flow	Approved by government	-0.04	-0.01	0.00
Reduction in expenditure on unemployment benefits due to the projected monthly decline in the average number of beneficiaries, ensuring it as a fiscally neutral measure	D.6	Cash flow	Approved by government	-0.06	-0.03	0.00

Reduction in expenditure on unemployment benefits due to the projected monthly decline in the average number of beneficiaries	D.6	Cash flow	Approved by government	-0.03	0.02	0.01
Reduction in expenditure on sickness benefits due to the projected monthly reduction in the average number of beneficiaries	D.6	Cash flow	Approved by government	-0.03	-0.02	0.00
Increase of resources and expenditures for a sub-measure "Raising the minimum pension" of a priority measure "Execution of Constitutional Court Judgments in the Field of Welfare" by receiving a transfer from the MoW basic budget	D.6	Cash flow	Approved by government	0.07	0.00	0.00
Increase of resources and expenditures for a sub-measure "Support for children in the event of the death of a survivor" of a priority measure "Execution of Constitutional Court Judgments in the Field of Welfare" by receiving a transfer from the MoW basic budget	D.6	Cash flow	Approved by government	0.02	0.00	0.00
Reduction of expenditure on old-age pensions related to the average benefit projected monthly decline	D.6	Cash flow	Approved by government	0.10	0.00	0.00
Ministry of Justice						
Increase of funding for a priority measure "Increasing the monthly salaries of court employees"	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Culture						
Increase of funding for a priority measure "Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education"	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Health						
Increase of funding for a priority measure "Ensuring an increase in the salaries of medical personnel"	D.1	Cash flow	Approved by government	0.57	-0.02	-0.02
Radio and television						
Increase of funding for a priority measure "Development of Public limited liability company "Latvijas Televīzija" after exiting the advertising market"	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Targeted grants to municipalities						
Redistribution of funding according to the changes in the number and structure of learners	D.7	Cash flow	Approved by government	-0.01	0.00	0.00

Increase of funding for a priority measure “Implementation of Teachers' Salary Increase Schedule in Pre-School Education, General Education, Vocational Education, Vocational Orientation and Interest Education”	D.1	Cash flow	Approved by government	0.09	0.03	0.00
Grant to municipalities						
Increase of local government special grant by 10% compared to the previous year	D.7	Cash flow	Approved by government	-0.08	0.06	0.03
Funding to be reallocated in the annual State budget implementation process						
Reduction of funding in accordance with the decisions adopted by the CoM		Cash flow	Approved by government	0.01	-0.04	0.04
Redistributed funding to Corruption Prevention and Combating Bureau, MFA, MoF, MoI, MoF and Prosecutor's Office for prevention of money laundering and terrorist financing (Moneyval)		Cash flow	Approved by government	-0.01	0.00	0.00
Funding for the Covid-19 crisis management and economic recovery measure “Demography”		Cash flow	Approved by government	0.04	-0.04	0.00
Redistribution of funding for the implementation of EU policy instruments and other foreign financial assistance projects from or to budget units		Cash flow	Approved by government	-0.15	0.14	0.00
Other priority measures		Cash flow	Approved by government	0.28	-0.11	-0.02
Total:				1.01	0.09	-0.04

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		
						2021	2022	2023
						% of GDP		
Decrease of social insurance contributions' rate by 1 percent point (from 35.09% to 34.09%)	Decrease of social insurance contributions' rate by 1 percent point (from 35.09% to 34.09%)	PIT	D.5	Accrual	Partly approved by government	0.02		
Increase of threshold to which DNTM is applied up to 1 800 euro	Increase of threshold to which DNTM is applied up to 1 800 euro	PIT	D.5	Accrual	Partly approved by government	-0.10		
Redistribution of PIT between local government/state budgets to 75%/25% (in 2020 80%/20%)	Redistribution of PIT between local government/state budgets to 75%/25% (in 2020 80%/20%)	PIT	D.5	Accrual	Partly approved by government	-0.30		
Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	Introduction of minimum social contribution payments and reorganization of alternative tax regime (including Micro-enterprise tax)	PIT	D.5	Accrual	Partly approved by government	0.04		
Spillover effects of wage increase	Spillover effects of wage increase	PIT	D.5	Cash flow	Partly approved by government	0.09	0.01	0.01
Total:						-0.26	0.01	0.01

Other changes to the budget preparation process (% of GDP)	2021
Reduction of expenditures in local government budgets due to reduction of revenues	-0.26

Table 6.a CSR recommendations

CSR Nr.	Measures	Description
1	<p>In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.</p> <p>Strengthen the resilience and accessibility of the health system including by providing additional human and financial resources.</p>	<p>In response to the economic turmoil caused by the Covid-19 crisis, in the spring of this year a significant package of decisions and support measures related to the Covid-19 crisis was adopted by CoM, which was described in the Latvian Stability Program for 2020–2023, including those support measures that were approved by 17 April this year. However, taking into account that since April 17 some support measures have been updated and new measures have been adopted, this draft budgetary plan includes information on the current situation regarding support measures adopted by the CoM (see the table “Economic support measures to overcome Covid-19 and their impact on the general government budget balance”). It should also be noted that the decisions made by the CoM on the financing of government priorities during the budget preparation were made in a fiscally neutral manner, ensuring appropriate compensatory measures for expenditure-increasing measures and revenue-reducing measures, thus keeping general government budget balance at the level of no-policy chane scenario(3.95% of GDP).</p> <p>The health reform launched in 2017 and continued in 2018 – 2020 is ongoing in further years 2021 – 2023, including:</p> <ul style="list-style-type: none"> • provision of healthcare services, • provision the availability of well-timed diagnosis and treatment of oncological diseases (including continuing developed activities), • reducing the prevalence of infectious diseases, • improving the quality and accessibility of the primary healthcare system, • provision of cardiovascular disease treatment, • reform of the levels of medical institutions and improvement of the model of hospital cooperation, • making strategic procurement of health care services by increasing the number of public-paid healthcare services that are purchased in the frame of strategic procurement, <p>To strengthen the resilience and accessibility of the health system including by providing additional human and financial resources, in addition to the above-mentioned measures under the health reform, the main measures in 2021 will be the following:</p> <ol style="list-style-type: none"> 1) the provision of human resources in the sector, including: <ul style="list-style-type: none"> • ensuring the increase of pay • developing and implementing a competitive model of pay for medical practitioners, • attracting medical practitioners to regions, improving, and maintaining qualifications for medical practitioners through EU funding, • revising and updating the doctors' proficiency according to recent trends in the health sector, • conceptual solutions for further development of the nurse profession,

		<ul style="list-style-type: none"> • developing the concept of the development model of the medical education system (including the development of database, and simulations at all levels of education), 2) to continue the development of the eHealth system, including by using EU funds, 3) to continue the activities for health promotion and disease prevention, including by using EU funds, 4) to continue the implementation of the concept of quality development of the healthcare system and of patient safety, 5) provision of quality and accessibility of medical rehabilitation services, 6) provision of the availability of medicines and pharmaceutical care for citizens, 7) to continue work on the establishment of a patient experience monitoring system in Latvia, 8) complete the work on public health and health care policy for 2021-2027 and the investment planning of the EU funds for the programming period 2021-2027, 9) to implement measures to limit antimicrobial resistance. <p>At the meeting of the CoM on 2 June 2020 (Protocol No 38 49 §) the information report on measures to overcome the Covid-19 crisis and economic recovery was approved, at the meeting of the CoM on 11 August 2020 (Protocol No 47 84 §) the information report on the use of over-commitments for Covid-19 mitigation measures in the implementation of the EU Funds Operational Program “Growth and Employment”, and at the meeting of the CoM on 2 September 2020 (Protocol No 51 55 §) the information report on measures to overcome the Covid-19 crisis and economic recovery for 2020 and 2021, was approved, as a result, measures for 2021 to overcome the Covid-19 crisis and economic recovery to strengthen the infrastructure of the health sector was supported to the MoH in amount of 111.7 mln euro (including 26 mln euro for the construction (renovation) and provision of functionality of the Oncology Centre of Latvia, 16.4 mln euro to purchase of emergency medical vehicles for the State Emergency Medical Service un 69.3 mln euro for construction and provision of functionalities for hospitals, including expansion of intensive care units, creation of isolation boxes and separation of patient flows).</p> <p>At the meeting of the CoM on 22 September 2020 (Protocol No 55 38 §) the information report on proposals for state budget revenues and expenditures for 2021 and budget framework 2021-2023 was approved, supporting financing for 2021 – 2023 for the MoH in amount of 183 mln euro each year for the implementation of the norms of the Health Care Financing Law, providing state funding for increase of pay for medical practitioners.</p>
2	<p>Provide adequate income support to the groups most affected by the crisis and strengthen the social safety net. Mitigate the employment impact of the crisis, including through flexible working arrangements, active labour market measures and skills.</p> <p>Increase the accessibility, quality and cost-effectiveness of the healthcare system.</p>	<p>9/22/2020 the government approved proposals for state budget revenue and expenditure for 2021 and a framework for 2021-2023, which also includes initiatives to raise the minimum income thresholds. It is planned to set the minimum income thresholds as a percentage of the median income and use the equivalence scale (1; 0.7; 0.7). It is envisaged that the minimum income threshold cannot be lower than 20% of the median income. There is also a procedure for regular review of minimum income thresholds.</p> <p>As of 1st January, 2021, is planned to:</p>

- increase guaranteed minimum income (GMI) level from euro 64 to euro 109 for the first or only person in the household (20% of median income) and euro 76 for each subsequent person in the household (coefficient 0.7 from the first person);
- the income threshold of a needy person has been raised to 50% of the median income by applying an equivalence scale. As a result, the income threshold for a needy household will be euro 272 for the first or only person in the household and euro 190 for each subsequent person in the household (so far euro 128.06 per person per month);
- it is planned to establish a unified legal framework for the provision of housing benefit, determining the expenditure items that will be used to calculate the amount of housing benefit;
- the amount of the minimum old-age pension has been increased - the basis for calculating the minimum old-age pension will be euro 136 (25% of the median income) instead of the current euro 80, but for persons with disabilities euro 163 (30% of the median income) instead of euro 122.69. The amount of the minimum old-age pension will be calculated considering each year of insurance record, applying a coefficient 1.1 to the basis of the minimum old-age pension and increasing the amount by 2% of the base for each subsequent year exceeding required minimum insurance period for granting the old age pension. This will guarantee that the minimum pension will not be less than euro 149.60. Increasing the amount of the minimum old-age pension will increase the amount of funeral benefits and benefits for the surviving spouse. The changes will affect about 31 thousand person per month;
- increased amount of the minimum disability pension. The amount of the III group disability pension will be set at 25% of median income, but for persons with disabilities from childhood – at 30% of median income. The minimum amount of I and II group disability pension will be calculated applying a coefficient of 1.6 - in case of I group disability and coefficient 1.4 - in case of II group disability to the level of 25% of the median income or to the 30% of the median income for persons with disabilities from childhood:

	<i>Coef.</i>	Current amount, euro	Planned amount, euro
Persons with disabilities from childhood			
I group	<i>1,6</i>	196,30	260,80
II group	<i>1,4</i>	171,77	228,20
III group	<i>Base</i>	122,69	163
Persons with disabilities			
I group	<i>1,6</i>	128	217,60
II group	<i>1,4</i>	112	190,40
III group	<i>Base</i>	80	136

Increasing the amount of the minimum disability pension will increase the amount of benefits for the surviving spouse in the event of the death of the recipient of the disability pension. The changes will affect an average of 45 thousand. person per month;

- increased support for children in the event of the death of a breadwinner - children under the age of six will receive euro 136 (25% of the median income) instead of the current euro 92.5 or euro 106.72 for children with disabilities from childhood, while children from the age of seven will receive euro 163 (30% of the median income) in the event of the death of the breadwinner instead of the current euro 111;
- increased amount of state social security benefit for seniors and people with disabilities:

	Coef.	Current amount, euro	Planned amount for those in employment, euro	Planned amount for unemployed/inactive, euro (+30% supplement for the I gr., +20% for the II gr.)
Persons with disabilities				
I group	1,3 (in 2020) 1,4 (as of 2021)	104	152,60 (+48,60)	198,38 (+94,38)
II group	1,2	96	130,80 (+34,80)	156,96 (+60,96)
III group	Base	80	109 (+29)	
Persons with disabilities from childhood				
I group	1,3 (2020.g), 1,4 (ar 2021.g)	159,50	190,40 (+30,90)	247,52 (+88,02)
II group	1,2	147,23	163,20 (+15,97)	195,84 (+48,61)
III group	Base	122,69	136 (+13,31)	

Persons reached pensionable age	64,03	109
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The changes will affect about 31 thousand person per month.

Additional funding needed to raise the minimum income thresholds, euro

	2021	2022	2023
State budget	70 662 394	70 998 851	71 014 751
Municipal budget	25 041 101	23 060 234	21 175 496
Total	95 703 495	94 059 085	92 190 247

In order to provide the necessary support to orphans and children left without parental care, starting independent living, and to promote inclusion in society and education, it is planned to increase:

- 1) a lump-sum benefit for starting independent living, set at 40% of the median income, i.e. euro 218 (currently – euro 128.06), while for young people with disabilities since childhood in the amount of 60%, i.e. euro 327 (currently – euro 245.38);
- 2) a monthly allowance of 20% of the median income, i.e. euro 109 (currently – euro 64.03), while for young people with disabilities since childhood in the amount of 30%, i.e. euro 163 (currently – euro 122.69);
- 3) allowance for the purchase of household items and soft equipment, determined in full and adjusted according to the increase in inflation, i.e. euro 820.05 (currently – euro 249.71).

Additional necessary financing from the local government budget in 2021 and in the following years – euro 1263,637.

In 2020 - to provide more effective job search support to the unemployed and better and more targeted support in general - new ALMP measures were implemented – “Development of work skills in higher education institutions” and “Short-term wage subsidy support measure”. Also, existing support measures - Paid temporary public works, remote learning opportunities, as well as online learning opportunities have been expanded. The State Employment Agency (SEA) continues to improve the process of matching labour market demand and supply, including by organising online job fairs to attract employees for specific economic sectors.

For more detailed information please see 2020 NRP of Latvia.

One of the most important prerequisites for the development and deployment of new technologies and innovative products and services is investment in R&D. In order to encourage such investments in Latvia, the ERDF specific support target 1.2.1 programmes are implemented:

3	Ensure access to liquidity support by firms and in particular small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on research and
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<p>innovation, clean and efficient production and use of energy, sustainable transport and digital infrastructures.</p>	<ul style="list-style-type: none"> • Measure 1.2.1.1. “<i>Support for the development of new products and technologies within the Competence Centers</i>” (63.1 million euro) funds implementation of private sector research projects for solving practical problems of economy, including fostering cooperation between scientific institutions and enterprises. By June 2020 324 research projects have been approved with private co-financing of 30.7 million euro. Implementation period of the research projects is 30 of June 2022. • <i>Introduction of new products in production</i> programme (1.2.1.4; 60 million euro) aims to promote the productivity and competitiveness of economic operators by providing support for the production or purchase of experimental production equipment. As part of the 1st round of project selection, 17 projects were approved, out of which 5 projects were completed, 8 projects were continuing, and 4 were discontinued by 25 September 2020. In turn, 29 projects were supported in the 2nd round of project applications – 6 projects were completed, 20 projects were continuing, while 3 projects were discontinued by 25 September 2020. It is planned to support at least 30 enterprises by 2022, involving at least euro 10.5 million of private sector investment in R&D activities. • <i>Technology transfer programme</i> (1.2.1.2; 35.3 million euro) aims to promote the commercialisation of research results, the use of innovative ideas, products or processes in economic activity. Within the programme 100 commercialisation projects for scientific ideas were approved and 144 agreements with economic operators for granting innovation vouchers were signed by 25 September 2020. <p>As part of the Norwegian Financial Instrument 2014-2021, the programme <i>Business development, innovation and small and medium-sized enterprises</i> (euro 14,8 million) is expected to support the development and deployment of innovative products and technologies that contribute to the development of digital and ICT solutions, support more environmentally friendly and inclusive societies. The programme will be launched at the end of 2020 and will be finalised by the end of 2024.</p> <p>CoM Order No 46 of 4 February 2020 approved the “<i>National Energy and Climate Plan of Latvia for 2021-2030</i>”⁵ (NECP), which sets out the directions for support and investment for green transition, for the production and use of clean and efficient energy, and for sustainable transport. The EU Operational Programmes for the period after 2021, as well as the Latvian Recovery and Resilience Plan and the Just Transition Plan, are being developed on the basis of the NECP.</p> <p>In S3 monitoring was carried out in 2019 RIS3 and it was approved by the CoM on March 10th 2020 in the report “Monitoring the Smart Specialisation Strategy. Second report”. This report showed the clear need for a more thematic approach to be set out in the 2021 – 2027 R&D investment programmes of MoES based on specific individual challenges and thematic priorities defined in each S3 specialization area. These investments have a strong impact and these main thematic specialization will also potentially be the ones that</p>
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⁵ <http://polsis.mk.gov.lv/documents/6645>

		<p>will have the greatest links with the proposed development of strategic S3 ecosystems in the next programming period.</p> <p>This level of thematic detail in the field of smart energy and the bioeconomy is inevitably linked to address the challenges of climate neutrality and for ICT with they are linkged with the promotion of digital transition and transformation.</p> <p>For the planned investments for 2021-2027 in these S3 fields covered by the approved National Development Plan for 2021-2027 (NAP 2027) these R&D thematic issues are related to the following activities covered by NAP 2027 2. Priority “Knowledge and skills for personal and national growth” by:</p> <ul style="list-style-type: none"> • Creating centres of excellence to address climate neutrality challenges • S3 centres of excellence • Digital tranformation of research and participation in the European Open Science Cloud • These activities also have adequate in this NAP 2027 plan. <p>R&D investment priority in climate, green challanges and digital transformation is also defined as one of the key challenges, defined in the proposed Research, Technology Development and guidelines for 2021-2027 prepared by the MoES. They define a clear need for 'Providing training for highly-skilled, professional and skills driven adaptive specialists, in particular in the context of digital transformation, industrial transformation and transition to a climate neutral economy'.</p>
4	Continue progress on the anti-money laundering framework.	<p>The implementation of recommendations issued by international organisations within Latvia's evaluation processes (OECD Working Group on Bribery in International Business Transactions Phase 3 evaluation and MONEYVAL/FATF evaluation), will be ensured to promote the prevention of money laundering, as well as to ensure effective combating of money laundering.</p> <p>In accordance with the Anti-Money Laundering Plan for 2020-2022 the Ministry of Justice will ensure the coordination of tasks envisaged within IO2. 5, 7 and 8.</p> <p>Latvian Government has adopted action plan to prevent AML/CFT for the period of 2020-2022. Plan measures are based on international, national, and sectoral risk assessments; recommendations from international organisations; and results and learnings taken from the previous plan. The plan aims to strengthen Latvia's capacity to fight ML/TF, reduce various risks in order to promote public security, increase the competitiveness of the economic environment, and improve trust in Latvia's jurisdiction. The plan is divided into 11 actions, which align with the effectiveness indicators used by the Moneyval during the fifth round of evaluation. Also more effective public and private partnership in exchanging information and combating financial crime was introduced.</p> <p>According to the planned, the KNAB capacity will be strengthened both with extra human resources, as well as material resources, allocating funding for additional 9 posts in 2021 budget and 10 posts in 2022.. The additional posts will not only strengthen KNAB capacity and ability to work and investgate fully the increasing amount of incoming information and growing numbers of criminal processes in AML framework (recommendations 7.1. and 7.2. in MoneyVal), but also promote the investigation of especially complicated, serious and especially serious crimes of interregional and international character – crimes that are in the exclusive KNAB investigation competence.</p>

		<p>OECD WGB 3rd Phase report, that was published on 10th October 2019 concluded that Latvian LEAs, especially those which combat corruption, lack state financing for both an adequate remuneration of staff and for technical support. The OECD experts suggested Latvia to take specific steps in order to achieve better results in the fight against foreign bribery and anti-money laundering, including providing for enough resources and expertise to the respective institutions. The OECD WGB recommendation 4(a) foresees that Latvia must provide adequate resources to KNAB for fight against bribery and that KNAB prioritizes foreign bribery investigation. That way the extra posts will directly promote the implementation of recommendations from several international organizations that Latvia is member of.</p>
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Table 6.b Targets set by the Union's Strategy for growth and jobs

National 2020 target	Measures	Description
Employment rate (population aged 20–64) [73,0%]	<ol style="list-style-type: none"> 1. Improving training measures for the unemployed; 2. Implementing support measures to reduce youth unemployment; 3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility; 4. Retaining the working ability and fostering employment among the elderly residents; 5. Improving the efficiency of the work of the State Employment Agency; 6. Promoting self-employment and entrepreneurship. 	<p>For more detailed information please see 2020 NRP of Latvia.</p> <p>The training system for the unemployed has been improved by strengthening quality and monitoring criteria, making the training voucher system more inclusive, especially for target groups. Vocational training measures were supplemented with such opportunities as study modules offered by universities, including, online courses. Additionally, Massive Open Online Courses are now being provided to unemployed free of charge, thus giving access to skills certification via online platform learning courses.</p> <p>In 2020, the following new ALMP measures were introduced:</p> <ul style="list-style-type: none"> • Development of work skills in higher education institutions: full-time students who have acquired the status of unemployed students have an opportunity to develop their research, organizational, IT skills and acquirements in the place of studies. At the same time, the capacity of the educational institution will be strengthened. • Short-term wage subsidy support measure: 50% wage subsidy that not exceed the amount of the minimum monthly salary (430 euro) during the period not longer than 4 months, with obligation to maintain labour relations with unemployed person at least 3 months after termination of the subsidy period. It is planned to involve 15000 unemployed people in the wage subsidy support measure. <p>In order to support economic activity and opportunities to enter the labour market in the post-crisis period, as well as income to reduce the risks of poverty, the period for participation of the unemployed in the ALMP measure “Paid temporary public works” has been extended.</p> <p>For the improvement of business and workforce skills in Latvia, ERDF SO 1.2.2 is implemented. programs:</p> <p>In order to increase entrepreneurial and labour skills, the ERDF specific support target 1.2.2. programmes are implemented:</p> <p>Measure 1.2.2.1. “<i>Technology training</i>” and 1.2.2.3. “<i>Non-technology training and training to attract investors</i>” (24,9 million euro). Training programmes for employees based on the needs of the employer are provided in 18 training areas, including STEM, language skills, product, process, marketing or organization innovations, ICT skills, training to attract investors. Until August 2020 more than 19 383 employees (non-unique persons) from more than 1969 enterprises have been trained to increase entrepreneurial and labour skills. The implementation period of both programmes is 31.12.2022.</p>
GHG emissions [12,2 Mt CO₂]	<ol style="list-style-type: none"> 1. Limiting non-ETS sector emissions; 2. Research, innovations, raising public awareness. 	<ol style="list-style-type: none"> 1. Latvia’s total GHG emissions in 2005-2018 are increased by 2,7% and in 2018 were 11,7 Gg CO₂ eq., and this amount is 7,9% lower than the target that Latvia has set – 12,2 Gg CO₂ eq.

		<p>Latvia is allowed to increase its non-ETS emissions in the period 2005-2020 by 17% comparing to the non-ETS emissions in 2005. In 2017 Latvia's non-ETS emissions have been increased by 6,4% and in 2018 Latvia's GHG emissions that are not covered by EU ETS were 9,1 Gg CO₂ eq. This amount is 7% lower than the 2017 target set for Latvia in Decision No 406/2009/EC of European Parliament and Council.</p> <p>It is projected that Latvia will fulfil the targets set in national and EU level by 2020.</p> <p>2. In this September the Minister of MoEPRD took part in a high level online discussion, hosted by the discussion festival "LAMPĀ", where they discussed the "Green Deal", the EU plan for the economic recovery and how Latvia will use forthcoming changes for growth and modernization of economics. Also Parliamentary Secretary of the MoEPRD attended discussions "Politicians' green grill, "Does the promises made by politicians hold up?". Their attendance increased society's knowledge and interest of climate change mitigation and promoted the necessity of reducing GHG emissions.</p> <p>To ensure successful implementation of climate policy, also multiple research projects were carried out, for example, "Evaluation of tax policy's impact on GHG emissions target reaching in Latvia", "Development of possible scenarios of Latvia's national economic development until 2050 in accordance with the long-term vision of the EU".</p>
<p>Share of renewable energy in the final consumption of gross energy [40,0%]</p>	<ol style="list-style-type: none"> 1. Adjusting the legal basis; 2. Ensuring availability of financial resources for the production of renewable energy; 3. Promoting the use of biofuels in the transport sector; 4. Measures for achievement of 10% renewable energy resources within the transport sector. 	<p>For more detailed information please see 2020 NRP of Latvia.</p> <p>Latvia currently has binding overall renewable energy targets and sub-sectoral targets for renewable electricity, renewable heat and cooling, as well as renewable transport energy for 2020⁶ and 2030⁷.</p> <p>Latvia is expected to meet its overall renewable energy target in 2020.</p> <p>1. On January 31, 2020 Amendments to the Electricity Market Law were adopted by the National Parliament (came into force on February 15, 2020), which foresee several improvements to the state support mechanism for electricity producers within mandatory procurement system. To comply with the Electricity Market Law, the Ministry of Economic Affairs is working on further amendments to the related Regulations of the CoM.</p> <p>The MoE has developed and will forward for approval amendments to the Energy Law in 2019-2020 in order, inter alia, to lay down the conditions for renewable energy, energy communities, guaranties of origin for different types of energy, the stability for provided financial support.</p> <p>2. In the context of ensuring the availability of financial resources for renewable energy production, the MoE is responsible for the EU fund programme 4.3.1 "Promote energy efficiency and the use of RES in district heating". As part of this support programme, support is provided to operators of district heating systems in support of the transition to renewable energy sources, as well as by improving energy efficiency in heating sources where renewable energy sources are already in use.</p> <p>Similarly, the MoE is responsible for the EU fund programme 4.1.1 "Promoting efficient use of energy resources, reducing energy consumption and switching to RES in the manufacturing industry". As</p>

⁶ <http://polsis.mk.gov.lv/documents/5499>

⁷ <http://polsis.mk.gov.lv/documents/6645>

		<p>part of this support programme, aid is provided to economic operators in industrial production for the transition to renewable energy sources, as well as to improve the energy efficiency of industrial production and combustion installations used in their production, thereby contributing to the reduction of the national primary energy consumption and the national mandatory target of cumulative energy savings in final energy consumption.</p> <p>3. In 2018, the share of renewable energy in total final transport energy consumption reached 4.7% and could reach 5% in 2019.</p> <p>The share of renewable transport energy in 2020 is increased by Regulation No 640 of 10 December 2019 “Amendments to Cabinet Regulation No. 332 of 26 September 2000 “Regulations on the Assessment of the Conformity of Petrol and Diesel””, which ensures an increase the minimum blending of biofuel to diesel from 4,5% to 6,5% (arctic diesel fuel without biofuels can only be marketed during the winter period) and to petrol (95) from 4,5% to 9,5%. The share is also increased by significantly improving the statistical data gathering on the volume of electricity used in final consumption, it ensured that the 2019 data on electricity use in transport showed >50% increase compared to the 2018 figures.</p> <p>In order to further contribute to the growth of renewable energy use in transport, the MoE has been developed and will forward for approval in 2020-2021 the Transport Energy Law, with the aim of establishing a mechanism for the renewable energy obligation (participating mechanism) for fuel suppliers by setting specific targets for the renewable transport energy binding on fuel suppliers.</p>
<p>Energy efficiency (gross domestic energy consumption) [0,670 Mtoe]</p>	<ol style="list-style-type: none"> 1. Improving energy efficiency in households and industrial production; 2. Improving energy efficiency in public buildings; 3. Introducing efficient lighting infrastructure in public territories of municipalities; 4. Improving energy efficiency in heat energy production; 5. Support for energy-intensive merchants. 	<p>For more detailed information please see 2020 NRP of Latvia.</p> <ol style="list-style-type: none"> 1. In 2020, the MoE will carry out an impact assessment of electricity costs and the state aid mechanism on energy-intensive manufacturing companies and an assessment of the state aid mechanism, as well as an assessment of the effectiveness and continuation of state aid to energy-intensive processing companies after 2020. 2. In 2020, the implementation of 5 projects under the Emissions Auctioning Financial Instrument (EAAI) open project tender "Reduction of GHG emissions - Low Energy Consumption Buildings" (EKII-2) have been completed. Total amount of euro 2 636 289 finance of EAAI under EKII-2 has been disbursed until 30 August 2020. In 2020, the implementation of the 3 projects under EAAI open tender for projects "Reducing GHG emissions in the national protected architectural monuments of national importance" (EKII-1) will continue. Total amount of euro 251 871 finance of EAAI under EKII-1 has been disbursed until 30 August 2020. <p>By CoM Regulations No. 426 of 30 June 2020 “Amendments to CoM Regulations No. 426 of 15 March 2016 160 Operational Program “Growth and Employment” 4.2.1. specific objective “To promote the increase of energy efficiency in public and residential buildings 4.2.1.1. Rules for the implementation of the specific support objective measure "Promoting energy efficiency in residential buildings", which has provided the program with additional funding of euro 35 million to support more projects already submitted to increase energy efficiency in apartment buildings".</p> <p>A new support program has been developed to promote energy efficiency and the use of RES in private homes. The program is regulated by the CoM Regulations No. 473 “Regulations on the Support</p>

		<p>Program for Improving the Energy Efficiency of Residential Houses”. Program has been financed by partly from the state budget and Development Finance Institution Altum from its unused profits.</p> <p>Taking into account the consequences of the Covid-19 and in order to reduce its impact, on the basis of the CoM Protocol No. No. 34 Section 33 (TA-882) 4.2.1.2. The financing of the program of the measure "To promote the increase of energy efficiency in public buildings" has been reduced from euro 115,127,027 to euro 109,832,909, based on the CoM Regulations of 28 July 2020 No. 483 “Amendments to the Regulations of the CoM of 9 August 2016 No. 534 “Operational Programs” Growth and Employment 4.2.1. of the specific support objective “To promote the increase of energy efficiency of public and residential buildings” 4.2.1.2. Regulations for the Implementation of the First Project Application Selection Round of the Measure “Promote Energy Efficiency Improvement in Public Buildings”.</p> <p>3. In 2020, the implementation of the EAAI open project tender “Reduction of GHG emissions by smart urban technologies” (EKII-3) will continue, within the framework of which the implementation of three projects has already been completed. Total amount of euro 62947 finance of EAAI under EKII-3 has been disbursed until 30 August 2020.</p> <p>It is expected to reduce CO2 emissions by 598 tonnes under this project tender.</p> <p>MoE has developed and will forward for approval Amendments to the Energy Efficiency Law in 2020-2021, to transpose Directive (EU) 2018/2002 of the European Parliament and the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency.</p> <p>2020 – 2021 is planned to research the possibilities of expanding the energy efficiency obligation scheme.</p> <p>4.The changes in the Energy Law suggested by the MoE envisage the deletion of Local Heat Supply, thus there would be District Heating and Individual Heat Supply in the country. The aim is to promote the efficiency of heating networks and boilers. The current regulation does not provide for efficiency requirements in local heating. Some merchants that provide Local heating services essentially correspond to the status of a district heating company.</p> <p>5.To determine that the local government within its administrative territory or a part thereof is entitled to determine in the binding regulations the types of heat supply solutions, including the obligation to connect to the central heating system, where economically and technically justified, or use other RES or emission-free heat supply technology / source. The aim is to achieve a more efficient (price, quality of service and emissions neutral) use of CHS. As well as minimizing the number of individual apartment locks from the CHS (except in cases where it is economically justified).</p>
<p>Share of early school leavers among youth (aged 18-24) [13,4% (10,0%)]</p>	<ol style="list-style-type: none"> 1. Ensuring access to primary and secondary education; 2. Introducing modern teaching methods. 3. Implementing structural reforms in vocational education; 4. Implementation of vocational education content reform; 	<ol style="list-style-type: none"> 1. From August 2019 until March 2020, the MoES has organised meetings with representatives of all 119 Latvian municipalities to negotiate on best solutions for further development of network of general education institutions. In order to enable all pupils to obtain quality education, regardless of the place of residence, the development of a network of general education institutions is continued. The MoES has developed a proposal which provides to set the minimum permitted number of students at upper-secondary education level of general upper-secondary education institutions (grades 10-12) according to the territorial division of Latvia, following the administrative territorial reform planned in 2021. The proposal

	<p>5. Strengthening the cooperation with sectoral social partners to improve and develop vocational education.</p>	<p>is based on the breakdown of the territory of Latvia into 4 blocks of regions with different criteria for the minimum number of pupils for the upper-secondary education level in each of them. It is envisaged that the minimum number of pupils at upper-secondary level would enter into force from 1 September 2021, as well the application of quantitative and qualitative criteria to general upper-secondary education institutions will be clarified.</p> <p>2. On September 1, 2020, the implementation of the improved curriculum was started in the 1st, 4th and 7th grades of basic education and in the 10th grade of secondary education. The new curriculum was developed, piloted and improved in the project “Competence approach in general education curriculum” which is implemented under SO 8.3.1. “To develop the content of general education based on the competence approach”. During preparatory stage, seminars and webinars on the implementation of the new content were provided for basic and secondary education teachers in all fields of study. Webinars are available for all teachers on the Project YouTube page. The project has prepared and published samples of all subject programs in the study resources repository. The teaching resource repository is being supplemented with teaching aids for 1st, 4th, 7th and 10th grades. It is planned to finalize development and publishing of teaching aids and subject program samples for secondary education profound study courses in 2021.</p> <p>Measures for professional development of teachers to support the introduction of new curricula with both project and state budget funding are ongoing. Support measures for improvement of teachers' professional competence and state language skills for those teachers who work in a linguistically heterogeneous environment continue. Seminars for study field coordinators, who provide support to educational institutions in planning new content, continue.</p> <p>The development of test items and exams in accordance with the improved study content has been started, it is planned to be completed in 2021.</p> <p>This year the Projects plans to start filming and broadcasting support materials for educators “Your Classroom”, as well as to create a learning platform for educators “Virtual Classroom”, using open access online tools. EU Structural Funds specific objective No 8.3.2. „To Increase Support for General Education Institutions to” implementation of measure No 8.3.2.2. „Support to the development of students’ individual competences” has cooperation agreements with 116 local governments, 358 general education institutions which have been implementing support measures to develop students’ individual competences since 2017. These support measures aim to diversify the teaching methods used both in the learning process and in extracurricular activities, thus enabling both students with learning difficulties and students with high achievements to improve their learning. In total, almost 7,000 teachers are involved in the implementation of support measures. The event provides courses for improving the professional competence of teachers in STEM field (robotics, electronics, programming, environment/ chemistry), as well as teachers who work with students with behavioural problems/ improvement of reading skills and teachers who acquired specific diagnostic tools to diagnose students’ needs early. In order to purposefully diversify the learning process within the measure, more than 100 educational institutions are gradually equipped with teaching materials for the implementation of innovative educational programs of interest (robotics kits, physics sensors).</p>
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<p>Higher education (percentage of the population aged 30-34 with tertiary education) [34-36%]</p>	<ol style="list-style-type: none"> 1. Modernisation of higher education — implementation of a new financing model of higher education; 2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use; 3. Ensuring equal access to higher education; 4. Establishment of a national institution for quality assurance; 5. Reducing fragmentation of study programmes, joint use of resources; 6. Internationalization of the higher education. 	<ol style="list-style-type: none"> 1. In 2015 substantial reforms have been made in the field of higher education, introducing the principles for funding in the new financing model of higher education that are in line with the policies. Implementing the new funding model for higher education, funding for study places is provided under the first pillar of the new funding model; performance funding, which stimulates research as a basis for qualitative higher education, stimulates hiring of the new young academic and scientific staff, and stimulates attraction of the funding from enterprises, international projects and other sources, is provided under the second pillar. The third pillar, innovation-oriented funding, which contributes to the development of institutions' specializations and profiles, and it is implemented through the EU Structural Funds financing At the same time, the Ministry plans to review the funding model and update its components: to renew the first pillar funding principles and to propose actual cost items for study places; to introduce new quality criteria in the second pillar, including the creation of innovation.

2. In order to provide a modern study and research environment for STEM, incl. to implement study programs in medicine and creative industries, at the same time ensuring the creation of territorially concentrated study premises and promoting the compliance of higher education with the needs of economic development and the labor market, territorially concentrated study and research infrastructure is developed with the support of EU funds.

Within the framework of the specific support objective 8.1.1. “To increase the number of modernized study programs of STEM, including medicine and creative industries” (total funding euro 44.7 million), the infrastructure of higher education institutions is improved, equipment is purchased, and the study environment is modernized. Out of 14 ERDF projects, 4 projects were completed by 2020, but the implementation of 10 projects continues (of which 5 more projects will be completed by the end of 2020). The most significant completed objects within the projects are the construction of the Science House of the Academic Center of the University of Latvia, as well as the reconstruction of the study building of Riga Technical University at Kipsalas Street 6B, adapting it to the needs of the Faculty of Mechanical Engineering, Transport and Aeronautics.

8.1.4. specific support objective “To improve the learning environment of the first level professional higher education STEM, incl. medicine and creative industry, programs” (total funding 14.1 million euros) the study environment in colleges is being improved. Of the 9 ERDF projects, 5 have been completed (of which 2 projects were completed in 2020), 2 projects will be completed by the end of 2020, and the remaining 2 major projects will be completed by July 2021 (Riga Technical College and Riga Technical University Agency “Riga Technical University Olaine College of Technology”).

Taking into account that at the end of 2019 the CoM supported the allocation of EU funds performance reserve financing to the ongoing 8.1.1 and 8.1.4 projects, as well as the transfer of completed project performance reserve financing and financing balances to a new beneficiary within the framework of 8.1.1. - the Latvian Maritime Academy, it is planned to start implementing a new project at the end of 2020.

3. From August 2020, a new study and student loan guarantee model has been introduced, which aims to ease the conditions for obtaining a state-guaranteed loan (simplified procedures for receiving a study and student loan, possibility to receive a loan without a second guarantor, cancelling the study loan amount limit previously in place). The new model provides for the granting of loans in the form of the *Altum* portfolio guarantee instrument. Students actively apply and use this opportunity.

From September 1, 2019, a state-paid assistant (for mobility support) is also available to university and college students with disabilities.

In order to reduce the risk of students dropping out, taking into account the socio-economic crisis caused by Covid-19, in the academic year 2020/2021., the amount of the minimum monthly scholarships for students is increased from 99.60 euro to 200 euro. The total number of scholarships has also been increased - it is planned that additionally approximately 743 students will be able to receive scholarships.

At the same time, ensuring equal access to higher education remains a priority for the Ministry and work on this issue shall continue.

		<p>4. There is a Higher Education Quality Agency (AIKA) in Latvia, which is a division of the Academic Information Center, whose competence is to organize accreditation of higher education institutions and study fields (areas) and licensing of study programs, as well other higher education quality assurance issues. In accordance with Latvian legislation, AIKA is the recognized higher education quality assurance institution established to improve Latvian higher education external quality assurance systems that would operate in accordance with the standards and guidelines for quality assurance in the European higher education area and promote Latvian higher education, recognition and international recognition. AIKA is also a full member of the European Association for Quality Assurance in Higher Education (ENQA).</p> <p>5.8.2.1. Within the framework of the specific support objective “To reduce the fragmentation of study programs and strengthen the sharing of resources”, the implementation of university projects continued. Within the framework of the first round, 22 new pedagogy study programs and sub-programs and 1 joint doctoral study program “Educational Sciences” have been developed. This year, in the autumn semester, admission to the new pedagogy study programs has already taken place at the University of Latvia, Daugavpils University and Rezekne Academy of Technologies. The work-based 2nd level professional higher education study program “Teacher”, which was accepted in cooperation with the foundation “Mission Possible”, gained a great response - 6 applicants for 1 study place. Admission to the new pedagogy study programs of Jāzeps Vītols Latvian Academy of Music and the Latvian Academy of Sports Pedagogy is also planned until the autumn semester of next year. At the same time, within the framework of the projects, it is planned to close 49 old pedagogy study programs by 2023 (2 programs have been closed so far). Within the second round, it is planned to develop 60 study programs in EU languages and 7 joint doctoral study programs (24 of them are already licensed), at the same time closing 168 study programs by 2023 (29 programs have been closed) so far).</p> <p>6. The number of foreign students has been on the rise since 2005. In 2019, including exchange students, 11 thousand international students studied in Latvian higher education institutions, which is 14% of the total number of students in Latvia. At the same time, due to the restrictions on the spread of Covid-19, it is expected that the number of foreign students in Latvia in academic year 2020/2021 could decline or increase slower than in previous years.</p>
<p>Share of people at risk-of-poverty [21,0%]</p>	<ol style="list-style-type: none"> 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>In order to continue reduce income inequality for employees through tax policy, amendments to regulatory enactments are submitted to the CoM together with the draft law "On the Medium-Term Budget Framework for 2021, 2022 and 2023" and the draft law "On the State Budget for 2021", which envisages the following tax changes from 2021:</p> <ol style="list-style-type: none"> 1) the rate of mandatory state social insurance contributions to reduce by 1 percent point, including the employer's rate by 0.5% (from 24.09% to 23.59%) and the employee's rate by 0.5% (from 11% to 10, 5%); 2) the income threshold to increase from euro 1200 to 1800 per month, up to which the PIT non-taxable differentiated minimum is applied; 3) the PIT rate to reduce from 31.4% to 31%, which is applied to income exceeding euro 62800 per year.

As of July 2021, the guardian's allowance for the maintenance of a child will be doubled (215 euro per month for a child under 6 years and euro258 per month for a child aged 7-17). Additional 2.4 euro million in 2021 and 4.7 euro million in coming years are envisaged for implementation this measure.

In order to improve access to services for persons with very severe and severe functional limitations, the more favourable conditions for the provision of assistant services has planned from mid-2021, including an increase in the remuneration of assistants. It is planned to allocate euro9.5 million for this purpose

Aso 2021 changes in eligibility criteria of the state family benefit for families with a disabled child shall be implemented. In future, the state family benefit for a disabled child will be paid up to his or her 20 years of age, regardless of whether he or she visits an educational institution. The previous arrangements foresee the payment's termination of the state family benefit when a child reaches the age of 15 and does not continue education. Thus, those families with a child with disabilities who, because of their state of health, cannot continue their education after 15 years, had less favourable conditions for receiving state financial support.

Changes have been made to the conditions for the payment of a child's birth allowance, providing the right to a child's birth allowance for any registered child. The current arrangements provide that the right to receive a child's birth allowance arises from the eighth day of the child's life or from the date of establishment of custody

See also information on the CSR2 implementation.

National economy support measures for suppressing Covid-19 and the impact thereof on the general government budget balance
(the impact of support measures on the general government budget balance is reflected as a level and not as a discretionary change)

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
Total support:				3 138.9	-718.4	-1212.4	-149.8	-4.3	-0.5
1. Support in the field of taxes									
- Extensions of the tax payment term	Entrepreneurs affected by the crisis may ask to divide or postpone tax payments for the period of up to 3 years, as well as to grant the extension of the term for those overdue tax payments, the payment term whereof has already been extended in accordance with the law <i>On Taxes and Duties</i> , provided that the delay has occurred as a result of Covid-19.	D.2, D.5, D.61	Approved 20 March, 5 June 2020	139.2	-42.7	-44.9	0.5	-0.2	0.0
- Cancellation of PIT advance payments	The PIT payer does not perform the PIT advance payments with respect to the income from economic activity for the taxation year 2020. The condition is applicable to advance payments starting from 1 January 2020. PIT advance payments for the taxation year 2020 may be made on a voluntary basis.	D.5	Approved 20 March, 5 June 2020	35.0	-35.0	-35.0	35.0	-0.1	0.1
- Overpaid VAT refund within the period of 30 days	The overpaid VAT amounts are reviewed and refunded to all taxpayers within the period of 30 days, without accruing them till the end of the taxation year; the norm takes effect on 1 April 2020.	D.2	Approved 20 March, 5 June 2020	60.0	n/a	-60.0	0.0	-0.2	0.0
- Extension of the RET payment terms	Local governments are entitled to set the real estate tax payment terms that differ from those specified in the law <i>On Real Estate Tax</i> , postponing them for a later time.	D.5	Approved 20 March, 5 June 2020	0.0	-	0.0	0.0	0.0	0.0
2. Support in the field of benefits									
- Benefit to families (person) in the crisis situation	State budget earmarked grants to local governments. The local government will grant to the family (person) the benefit in the crisis situation, based on the emergency situation, where the family (person) has no	D.7	Approved 20 March, 1 April, 16 April 2020	0.4	-0.3	-0.4	0.0	-0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	income, has incurred additional expenses that cannot be covered by the family (person) itself, when being in self-isolation or having been in the quarantine and it has no means of subsistence (in the amount of 50 percent of the benefit disbursed to the family (person) in the crisis situation, but not more than 40 euro per month per person over the period of three months).								
- Payment of sickness benefit from the state budget from the 2nd day	A person who is issued a certificate of incapacity for work for Covid-19 or quarantined from 22 March 2020 to 31 December 2020 is granted and paid sickness benefit for the period from the second day of incapacity for work (80% of the average insurance contribution salary).	D.632, D.62	Approved 20 March, 12 May 2020	1.6	-1.6	-1.6	0.0	-0.0	0.0
- Allowances for idle time	Employee remuneration in case of idle time is compensated from the State budget in the amount of up to 75 % of the amount of the employee's average six months' remuneration (up to 700 euro). Support for the self-employed persons (75%, up to 700 euro) or recipients of royalties, or microenterprise taxpayers (50%, up to 700 euro), who have not gained income from economic activities during the period of idle time.	D.7	Approved 26 March, 31 March, 02 April, 09 April, 23 April, 28 April 2020	53.6	-53.6	-53.6	0.0	-0.2	0.0
- Downtime allowance, Supplement for the employees to the allowance for idle time for children	Downtime allowance for those employees and self-employed persons whose downtime allowance is less than 180 euro per month or who do not qualify for downtime allowance. For the employee receiving the allowance for idle time - supplement in the amount of 50 euro per each dependent child under 24 years of age, for whom the employee receives PIT allowance as on the day of granting of the allowance for idle time.	D.7	Approved 16 April, 30 April 2020	3.3	-3.3	-3.3	0.0	-0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
- Rights to the status of the unemployed for the patent fee payers and microenterprise taxpayers	Up to 31 December 2020, the rights to the status of the unemployed are granted also to a person, who has lost the status of the employed and, on the day of losing the status of the employed, is registered as a patent fee payer, employee of the microenterprise, being the owner of the microenterprise, or the self-employed person, who has opted for the microenterprise tax payment, and whose monthly income in this field of activity does not reach the amount of the minimum monthly wage determined by the CoM.	D.632, D.62	Approved 16 April 2020	1.4	-1.4	-1.4	0.0	-0.0	0.0
- The term for receipt of parental allowances is extended	A person, for whom the term of the granted allowance expires during the time, when the emergency situation is declared, and who cannot return to work, may ask to continue the disbursement of the granted allowance after the child has reached the age of one year or one and a half years. For the period from 12 March 2020 till the day, when a person starts gaining income as an employee or a self-employed person, but not longer than by the end of the emergency situation declared due to Covid-19 (up to 700 euro).	D.7	Approved 09 April 2020	0.7	-0.7	-0.7	0.0	-0.0	0.0
- Unemployment benefit	A person whose unemployment benefit period ends on or after 12 March 2020 and who, due to the consequences of the emergency declared by Covid-19, has not found a job and is not engaged in economic activity, may claim unemployment benefit of 180 euro.	D.7	Approved 05 May, 30 June 2020.	10.1	-2.2	-10.1	0.0	-0.0	0.0
- Childcare allowance and supplement	Pending the declaration of a national emergency due to the prevalence of Covid-19, ensure the payment of a childcare allowance of 171 euro per month to a person caring for a child between one and a half years and two years and a supplement to a childcare	D.7	Approved 20 May 2020	3.4	-3.4	-3.4	0.0	-0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	allowance of 171 euro per month for a person cares for twins or several children born in the same birth from the age of one and a half to two years.								
- Guardian's allowance for child support	For the period when a state of emergency has been declared in the country due to the spread of Covid-19, the SSIA pays a benefit for a child under the age of seven - 161.25 euro per month and for a child from the age of seven - 193.50 euro per month. The amount of the SSIA benefit is calculated for the period from 12 March 2020 and is paid until 30 June 2020.	D.7	Approved 05 May 2020	0.3	-0.3	-0.3	0.0	-0.0	0.0
- Supplement to the state family benefit for a disabled child	For the period while a state of emergency has been declared in the country due to the spread of Covid-19, persons who in this period are entitled to the supplement referred to in Paragraph 3 of these Regulations to the state family benefit for a disabled child, the State Social Insurance Agency until 30 June 2020 a single additional payment of 150 euro shall be paid.	D.7	Approved 14 May, 20 May 2020	1.2	-1.2	-1.2	0.0	-0.0	0.0
- Subsidized jobs	Subsidized jobs in the tourism sector, for exporting companies.	D.7	Approved 14 July, 11 August 2020	70.2	-26.6	-70.2	0.0	-0.2	0.0
- Allowances for new specialists	The allowance shall be paid in the first two months in the amount of 500 euro, in the third and fourth months in the amount of 375 euro to persons who have completed their studies at the university or college where they obtained their higher education during the year preceding the declaration of emergency and have acquired the status of unemployed during an emergency situation or within three months after its end.	D.7	Approved 30 June 2020	6.6	-0.1	-6.6	0.0	-0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
3. Aid in the field of loans and guarantees									
- Working capital loans	Working capital loan: - traders, farmers and fishermen affected by Covid-19; - up to 1 million euro with a term of up to 3 years.	D.7	Approved 24 March 2020	200.0	-50.0	-50.0	0.0	-0.2	0.0
- Credit guarantees	Credit holiday guarantee: - SMEs and large companies that have experienced objective difficulties in making loan payments to banks due to the spread of Covid-19 have access to a credit guarantee that will allow the bank to defer payment of the principal amount; - available to economic operators, farmers and the fisheries and aquaculture sector.	D.7	Approved 24 march 2020	415.0 ⁸	-25.0	-25.0	0.0	-0.1	0.0
-Portfolio guarantees	The aim of the crisis portfolio guarantees is to promote the availability of financing for entrepreneurs in financial services up to 500 000 euro. The guarantee will be provided for new or existing working capital loans if the credit institution defers the principal payments for at least 3 months or extends the term of the contracts for at least 3 months. The guarantee will also be provided for existing investment loans and financial leasing.	D.7	Approved 24 March 2020	300.0 ⁹	-25.0	-25.0	0.0	-0.1	0.0
- Increasing the local governments borrowing limit	A total increase of municipal loans by 150 million euro to ensure the availability of loans to local governments in 2020 in high-readiness projects co-financed by EU funds and other foreign financial assistance with	P.51	Approved 30 April 2020	150.0	-3.3	-50.0	-72.0	-0.2	-0.2

⁸ 160 guarantees with a total amount of 30 536 350 euro were supported on 08.10.2020 (total amount of guaranteed loans – 84 900 021 euro)

⁹ As of 31.08.2020, 33 guarantees were supported, the total amount of which is 1 375 344 euro (the total amount of guaranteed loans is 3 508 715 euro).

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	economic significance, high-readiness investment projects applied by the Ministry of Environmental Protection and Regional Development, and new pre-schools for the construction of an educational institution or the expansion of an existing pre-school educational institution, which are related to the implementation of demographic measures by reducing the queues in pre-school educational institutions, and for the implementation of a nationally significant investment project "Reconstruction of Mežaparks Grand Stage".								
- Investment fund	ALTUM investment fund for modernization.	D.7	Approved 14 July 2020	50.0	0.0	0.0	0.0	0.0	0.0
- Support of large enterprises	Support in terms of loans and guarantees to large enterprises (via financial institution ALTUM).	D.7	Approved/ conceptual 2 June, 14 July 2020	90.0	-20.0	-90.0	0.0	-0.3	0.0
4. Sectoral support									
- Support to the air transport industry	Increase of the share capital of companies in the air transport sector, abolition of dividend payments by SJSC Riga International Airport in 2020.	D.9	Approved/ conceptual 24 March, 25 March, 23 April, 8 May, 14 July 2020	310.4	-256.0	-310.4	0.0	-1.1	0.0
- Health care support	Protective equipment, medicines, etc. purchase of medical equipment. Allowances for medical practitioners and employees for work in conditions of increased risk and load. To cover the costs incurred by the National Health Service in connection with the Covid-19 outbreak and its aftermath.	P.2, D.1, P.51	Approved 3 March, 20 March, 27 March, 09 April, 27 April,	183.6	-65.7	-134.3	-49.3	-0.5	-0.2

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
			5 May, 20 May, 2 June, 9 June, 15 July, 11 August, 4 September, 22 September 2020						
- Support for distance learning	Funds for the creation and distribution of audiovisual content for distance learning. For the purchase of smartphones and tablets required for the distance learning process. Broadband infrastructure 'middle mile', internet for schools, digitization of curricula.	P.2	Approved 12 March, 19 March, 24 March, 2 June 2020	3.8	-0.8	-1.0	-2.8	-0.0	-0.0
- Support for media and public information	SIA "Tet" costs related to the provision of communication and the creation of a website for crisis coordination. "Latvijas Radio", "Latvijas Televīzija" and commercial media in order to ensure the widest possible awareness of the Latvian population and effective informing and educating the public about current events related to Covid-19. The Society Integration Fund, in order to ensure the operation of the Media Support Fund and to provide the public with comprehensive information and views on coping with the Covid-19 crisis, as well as the security of the national information space in the print media and commercial Internet news portals (SJSC "Latvijas Pasts") and the costs of broadcasting electronic media programs. To the National Electronic Media Council to provide the public with comprehensive information and views on overcoming the Covid-19 crisis, as well	P.2, D.7	Approved 19 March, 07 April, 17 April 2020	2.5	-1.8	-2.5	0.0	-0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	as to ensure the security of the national information space in commercial electronic media.								
- For reducing financial difficulties for agriculture, forestry, fishery and food production sectors	Support for the primary agriculture producers, agriculture and food processing enterprises, as well as enterprises and institutions providing catering services in the educational institutions. The support is intended for mitigating financial difficulties occurred under the influence of Covid-19, by supporting the availability of current assets, partially covering the reduction of income, costs of storage of stock of ready-made goods, reduction of turnover, as well as by compensating the value of the destroyed or donated products, which could not be used for provision of catering services in the educational institutions during the emergency situation.	D.3	Approved 17 April 2020	45.5	-12.6	-45.5	0.0	-0.2	0.0
- For construction of state roads and repairs of bridges	Additional funding has been provided for the construction of state roads and bridge repairs.	P.51	Approved 29 April 2020	75.0	-9.3	-75.0	0.0	-0.3	0.0
- For education and science	Funding of 5 000 000 euro for the establishment of a national research program to combat the consequences of Covid-19. National Research Program for Covid-19; Market-oriented research program for 2021; Digitization of higher education; Additional funding for science, universities and other one-time, fixed-term activities of the Ministry of Education and Science.	P.2	Approved 05 May, 02 June 2020	29.1	-5.0	-15.1	-14.0	-0.1	-0.0
- Support for passenger and freight carriers	To compensate for the damage caused by regional bus and train transport as a result of the safety and social distancing measures in public transport during the emergency to limit the spread of Covid-19 and to mitigate the consequences of the emergency. To	D.3, D.7, D.9	Approved 14 July 2020	66.0	-58.9	-66.0	0.0	-0.2	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	compensate for the costs of providing a passenger transport service for persons arriving from abroad on repatriation flights. In order to ensure the reimbursement of expenses specified in regulatory enactments regarding the use of the state public use railway infrastructure for the transportation of railway passengers, which is provided in connection with a public service contract. To ensure the advance payment of the financial balance of the infrastructure manager specified in regulatory enactments. Increase of the share capital of SJSC "Latvijas dzelzceļš" by investing financial resources in the amount of 32 422 016 euro for the maintenance and development of public railway infrastructure, which should be converted into shares in order to ensure stabilization of the financial situation in the sector.								
- Support for the sports sector	In order to reduce the negative consequences of the Covid-19 crisis on the sports sector, including 2.0 million euro for the Latvian Olympic Committee, 1.9 million euro to the Council of Latvian Sports Federations, etc.	D.7	Approved 30 June 2020	5.0	-2.5	-5.0	0.0	-0.0	0.0
- Demography	Measures supporting demography.	D.7	Approved/ conceptual 02 June 2020	15.0	0.0	0.0	-15.0	0.0	-0.0
- Institutions and officials subordinate to the Ministry of the Interior	For the information center of Ministry of Interior. Purchase of uniforms for border guards, firefighters	D.7, P.2	Approved 2 June 2020	8.2	-0.7	-0.7	-7.4	-0.0	-0.0
- Support for the cultural sector	Support for capital companies of Ministry of Culture, LNL, Latvian National Archives, museums to cover	D.7, P.2	Approved 2 June,	32.7	-9.3	-21.4	-11.2	-0.1	-0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	losses, Creative Persons Employment Program. For Cultural infrastructure, development plan. To ensure distance learning and full-time studies and to ensure urgent improvement of cultural infrastructure.		5 June 18 June, 25 September 2020						
- Other	Exemption from or reduction of rent. Support for religious organizations, Latvian Council of Sworn Notaries for the purchase of a server, allowances for prison staff, investments in human capital, repatriation expenses for tour operators, insulation of buildings, for the state social care centers, School of Public Administration for financial stabilization, support for foreign affairs policies.	D.1, D.7, P.2., P.51	Approved 2 April, 8 May, 14 May, 2 June, 18 June, 14 July, 30 July, 13 August, 19 August, 2 September 2020	8.3	-0.1	-2.8	-5.5	-0.0	-0.0
5. Support related to EU funds									
- Short - term loans to farmers	The rules are designed to stabilize the cash flow to agricultural producers by providing short-term loans from the amount of the advance payment for the single area payment or the calculated final payment for the areas approved for the single area payment in the current year.	D.7	Approved 14 May 2020	59.8	0.0	0.0	0.0	0.0	0.0
- Redistribution of EU funds	In response to the proliferation and impact of Covid-19 on health, employment and business, and with a view to facilitating an easier and faster response to the effects of Covid-19 on the most affected areas and their populations, amendments to EU fund regulations allow Member States to restructure investment by eligibility and allowing amendments to Member	-	Approved 19 May 2020	496.0	0.0	0.0	0.0	0.0	0.0

	Description of the measure	ESA code	Status	Amount of total support (as of 20 September 2020) mln euro	Estimate of actual performance (as of 20 September 2020), mln euro	Impact on the General Government Budget Balance			
						2020	2021	2020	2021
						mln euro		mln euro	
	States' operational programs for EU funds before a formal EC decision.								
- Support for the fisheries sector	Additional Redistribution of EU funding to support companies in the fisheries sector.	D.7	Approved 2 June 2020	6.7	0.0	0.0	0.0	0.0	0.0
- Over commitments of EU funds	Additional over-commitment for Cohesion Policy Funds projects.	-	Approved 2 June 2020	141.4	0.0	0.0	0.0	0.0	0.0
- Over commitments for agricultural funds	The Ministry of Agriculture plans over-commitments in the 2014–2020 programming period in the measures of the Rural Development Program with funding in the amount of 58.8 million euro.	P.51	Approved 2 June 2020	58.0	0.0	0.0	-8.0	0.0	-0.0

According to the general government deficit and debt notification of April 2020, the general government deficit in **2019** was 0.2% of GDP. On 30 September 2020, the Central Statistical Bureau has submitted to Eurostat this autumn's notification, the results of which for the deficit and debt levels of 2019 and previous years will be published at the end of October.

The general government deficit for **2020** is projected at 7.6% of GDP, which is significantly higher than planned when drafting the Law on the “Medium-Term Budget Framework for 2020, 2021 and 2022”, when the spread of Covid-19 infection was not yet predictable. At the same time, the deficit is projected to be slightly lower than in the Stability Program, which was prepared under high uncertainty this spring.

Following the easing of restrictions in June, with the resumption of economic activity, there has been a gradual increase in tax revenues, however, it is projected that those will not reach the planned level in the year and could be even lower than in 2019. It should be noted that the Covid-19 support measures approved by the government, which provide tax extensions for taxpayers affected by the crisis, also have a negative impact on revenues. With this in mind, as well as the GDP decline, the tax burden will increase from 31.4% of GDP in 2019 to 32.2% of GDP in 2020.

The fiscal impact of Covid-19 support measures is a large part of the projected deficit. According to the MoF, the amount of economic support measures approved by 20 September this year reached 3.1 billion euros or 11.1% of GDP, including an increase in the general government deficit by 1212 million euro or 4.3% of GDP this year and 149.8 million euro or 0.5% of GDP in 2021. In addition to tax measures, downtime benefits were financed and jobs in tourism and exporting companies continued to be subsidized, support for loans and guarantees, including for investments in local governments, support for the air transport industry and passenger carriers, funds for health care, both medical equipment and improvement of infrastructure, as well as the distance learning process, the cultural and sports sectors to cover losses, the existing EU funds for overcoming the Covid-19 crisis have been restructured.

In **2021**, the general government deficit is projected at 3.9% of GDP, mainly due to a decline in total expenditure, as such large-scale support for overcoming the Covid-19 crisis is no longer expected next year. However, it is intended for additional financing of the government's priorities, the financing is expected to make changes in the tax legislation. Tax revenue growth is projected to recover in 2021 and to increase over the medium term. The increase in tax revenues will be facilitated both by the expected increase in economic activity and by measures approved by the government, such as raising the minimum wage up to 500 euros in 2021 and the introduction of the minimum MSSSC as of July 1, 2021, as well as the feedback effect from the increase in remuneration for medical practitioners, teachers in 5-6 year old education and general education, as well as for academic staff in universities. Also, the general government budget for 2021 envisages a significant increase in funding for the implementation of Constitutional Court judgments in the field of welfare for raising the minimum pension and state social security benefit, financing the GMI and housing benefit, as well as increasing social guarantees for orphans and children left without parental care.

Table 7: Divergence from Stability Programme 2020–2023

	ESA Code	2019	2020	2021
		% of GDP		
Target general government net lending/ net borrowing	B.9			
Stability Programme		-0.2	-9.4	-5.0
Draft Budgetary Plan		-0.2	-7.6	-3.9
Difference		0.0	1.8	1.0
General government net lending projection at unchanged policies	B.9			
Stability Programme		-0.2	-9.4	-5.0
Draft Budgetary Plan		-0.2	-7.6	-3.9
Difference		0.0	1.8	1.0

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.