

DRAFT BUDGETARY
PLAN OF THE
REPUBLIC OF LATVIA
2020

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Abbreviations

CIT	Corporate income tax
CoM	Cabinet of Ministers
EC	European Commission
ESA	European System of Accounts
ESF	European Social Fund
ETS	Emissions Trading Scheme
EU	European Union
Framework Law	Medium- Term Budget Framework Law
GDP	Gross domestic product
GHG	Greenhouse gas
GRTDI	Guidelines on Research, Technology Development, and Innovation for 2014–2020
KNAB	The Corruption Prevention and Combating Bureau
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MTO	Medium-term objective of budget balance in structural terms
NRP	National Reform Programme
OECD	The Organisation for Economic Co-operation and Development
PIT	Personal income tax
SJSC	State joint stock company
SSC	Social security contributions
STEM	Science, technology, engineering and mathematics
VAT	Value added tax

Introduction

The Republic of Latvia hereby submits the Draft Budgetary Plan for 2020.

The Draft Budgetary Plan for 2020 has been prepared based on the macroeconomic development scenario developed in June, which in 2020 foresees a GDP growth of 2.8%. The fiscal development scenario for 2020 includes no-policy change scenario as well as a changing policy scenario incorporating the newly adopted discretionary revenue and expenditure measures of the CoM. The budget for 2020 has been prepared forecasting the headline deficit for general government of 0.34% of GDP.

The Draft Budgetary Plan for 2020 has been approved by the CoM on October 11, 2019.

Macroeconomic Development Scenario

The medium-term macroeconomic growth scenario for 2019-2022 has been developed in June 2019 taking into account GDP data for the first quarter of 2019 and actual short-term statistical information available up to June, 2019. GDP growth forecast for 2019 remained unchanged at 3.2%, if compared to the Latvia's Stability Programme for 2019-2022, developed in February 2019, while growth forecast for 2020 has been revised down by 0.2 percentage points to 2.8%.

More moderate economic expansion than in the previous two years is determined by stabilisation of EU funds investment inflows and weakening of external demand. For 2020 the projected GDP growth is weaker due to lower investment activity as well as rising external uncertainty and risks, including global protectionism trends, US-China trade conflict, prolonged uncertainty about UK decision to leave the EU and geopolitical instability in the conflicting regions.

Annual average inflation is projected to be 2.8% in 2019 and 2.5% in 2020. Inflation forecast for 2019 has been revised up by 0.3 percentage points, if compared to the Latvia's Stability Programme for 2019-2022 forecasts, mainly due to higher electricity and natural gas price hikes than previously projected. The inflation forecast for 2020 has also been raised by 0.3 percentage points to 2.5%.

Rapid wage growth, which constituted 8.4% last year, continued also in the first half of 2019. Hence, the average monthly gross wage growth forecast for 2019 has been raised by one percentage point to 7.5%, and for 2020 - by 0.5 percentage points to 6.0%. Along with steady economic growth, the number of employed persons is expected to increase by 0.5% to 914 thsd this year, while the unemployment rate will decline to 7.0%. In 2020, the number of employed persons will remain stable, while the unemployment rate will continue to decline - to 6.6%.

Macroeconomic indicators' forecasts are agreed with the Bank of Latvia and Ministry of Economics by signing an agreement protocol, and were approved by the Fiscal Discipline Council on June 20, 2019. During preparation of the medium-term macroeconomic growth scenario, MoF held consultations with experts from the International Monetary Fund and EC. Framework Law 2019-2022 was developed based on these macroeconomic indicators' forecasts.

The macroeconomic growth scenario takes into account EC Summer 2019 forecasts regarding economic development of Latvia's trade partners. Overall, uncertainty remains high in Latvia's main trade partner countries. Although GDP in the EU in the first quarter of 2019 grew faster than previously projected that was determined by strong domestic demand, growth is expected to decline in the second half of the year as EU export activity remains weak due to the current state of global manufacturing cycle. According to the latest EC forecasts, GDP in the EU countries will grow by 1.4% in 2019 and 1.6% in 2020, slowing down from 2.5% in 2017.

At the same time, energy prices have declined noticeably since May 2019 and low interest rates also remain beneficial for the global demand growth and economic expansion. In its forecasts, MoF assumed that prices for Brent crude oil will be 70 USD/bbl in 2019 and 65 USD/bbl in 2020 on average, while EC technical assumptions foresee average EUR/USD exchange rate at 1.13 in 2019 and 2020. Interest rates will remain low, with short-term interest rates negative at -0.3% in 2019 and -0.5% in 2020, as the European Central Bank continues its accommodative monetary policy.

Table 0.i) Basic assumptions

	2018	2019	2020
Short-term interest rate in euro area (annual average)		-0.3	-0.5
Long-term interest rate in euro area (annual average)		-0.2	-0.2
USD/EUR exchange rate (annual average)	1.18	1.13	1.13
Nominal effective exchange rate	4.8	-0.9	0.3
World excluding EU, GDP growth	3.8	3.4	3.6
EU GDP growth	2.0	1.4	1.6
Growth of relevant foreign markets	4.0	1.8	2.8
World import volumes, excluding EU	4.7	1.6	3.1
Oil prices (Brent, USD/barrel)	71.5	70.0	65.0

Table 1a: Macroeconomic prospects

	ESA Code	2018	2018	2019	2020
		Level	Rate of change		
1. Real GDP	B1*g	23.9	4.8	3.2	2.8
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		23.5	3.5	3.5	3.4
Contributions:					
labour			0.4	0.2	0.1
capital			1.2	1.3	1.3
total factor productivity			1.9	2.0	2.0
3. Nominal GDP	B1*g	29.5	9.2	6.4	5.6
Components of real GDP					
4. Private consumption expenditure	P.3	14.6	4.5	3.4	3.3
5. Government consumption expenditure	P.3	4.0	4.0	3.3	3.2
6. Gross fixed capital formation	P.51	5.6	16.4	8.2	5.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53				
8. Exports of goods and services	P.6	14.8	1.8	2.9	3.2
9. Imports of goods and services	P.7	15.8	5.1	0.9	2.8
Contribution to real GDP growth					
10. Final domestic demand			6.9	4.6	3.8
11. Changes in inventories and net acquisition of value	P.52 + P.53		0.1	-2.6	-1.2
12. External balance of goods and services	B.11		-2.2	1.2	0.2

Table 1b: Price developments

	ESA Code	2018	2018	2019	2020
		Level	Rate of change		
1. GDP deflator			4.2	3.1	2.7
2. Private consumption deflator			2.8	2.8	2.5
3. HICP			2.5	2.8	2.5
4. Public consumption deflator			3.5	3.8	2.9
5. Investment deflator			2.3	2.4	2.2
6. Export price deflator (goods and services)			3.4	1.9	2.0
7. Import price deflator (goods and services)			1.3	1.0	2.5

Table 1c: Labour market developments

	ESA Code	2018	2018	2019	2020
		Level	Rate of change		
1. Employment, persons ('000)		909.4	1.6	0.5	0.1
2. Employment, hours worked		1 608.8	-4.7	0.0	0.0
3. Unemployment rate (%)			7.4	7.0	6.6
4. Labour productivity, persons			3.1	2.7	2.7
5. Labour productivity, hours worked			6.7	2.7	2.7
6. Compensation of employees, bln.euro	D.1	14.0	10.9	7.2	6.1
7. Compensation per employee (Gross wage), euro		1 004	8.4	7.5	6.0

Table 1d: Sectoral balances

	ESA Code	2018	2019	2020
		% GDP		
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	0.7	2.5	2.1
of which				
- Balance on goods and services		-0.6	1.0	1.0
- Balance of primary incomes and transfers		-0.5	-0.2	-0.4
- Capital account		1.8	1.6	1.5
2. Net lending/borrowing of the private sector	B.9	1.7	3.0	2.4
3. Net lending/borrowing of general government	EDP B.9	-1.0	-0.5	-0.3
4. Statistical discrepancy		0.0	0.0	0.0

Fiscal strategy and the structural balance objective

The principles of Latvian fiscal policy, the MTO and the applied derogations from the MTO have not been altered and are described in the Stability programme 2019-2022.

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) Reducing the income gap of the population by increasing the minimum monthly wage, increasing the annual differentiated non-taxable minimum for PIT, raising the minimum income level and approximating the increase in pensions to increase in wage insurance contributions
- 2) Increasing national human capital through increased public funding and reforms in the health, education and science sectors;
- 3) Restoring the country's assets by providing finance for the purchase of new passenger trains, the construction of a new prison, and the restoration of roads;
- 4) Increasing the efficiency of public finance spending through administrative territorial reform.

Policy priorities of the medium-term budgetary outline country's key challenges facing 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.

The drafting of the 2020 budget started with a negative fiscal space of -25.0 mln euro. This was largely due to the anticipated reclassification of Riga Municipality SJSC "Rīgas Satiksme" to the general government sector in April 2020. CoB adopted decisions on discretionary revenue and expenditure measures to ensure the elimination of the negative fiscal space and to provide funding for the new priorities.

Additional resources for financing the priorities were also provided by reviewing the state budget base expenditure, which allowed to reallocate additional resources to the sector's own priorities and for financing new government priorities.

The fiscal data provided in Table 3 are prepared under no-policy change scenario that includes discretionary measures for 2020 that are included in the Framework Law 2018-2020, as well as policy priorities for 2020 that are included in the budget of 2019. Discretionary revenue and expenditure measures adopted by the CoM are set out in table 5. Additional revenue and expenditure discretionary measures are depicted 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 level and at the level of the subsectors of general government. This ensures that the changes made between the no-policy change and changing policy scenario in 2020 could be evidently observed.

In view of the above-mentioned, the budget for 2020 has been prepared by:

- (1) continuing to secure funding for the priorities defined in the previous Framework Law and the national budget law for 2019;
- (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 2020 is 0.34% of GDP;

- (4) revising the general government budget expenditure and developing additional discretionary revenue and expenditure measures to provide funding for new priorities of the CoM.

Latvia's structural budget balance target in 2020, according to national methodology, is set at -0.46% of GDP. According to the draft budget law for 2020, the structural deficit is projected to be 0.36% of GDP. The difference of 0.1% of GDP accounts for fiscal reserve margin and is included within the target to ensure the compliance with the structural budget balance target even in case where fiscal risks materialise.

The general government budget deficit, under the draft budget law of 2020, is projected at 0.34% of GDP, which according to the EU methodology corresponds to a structural deficit of 0.83% that falls within the MTO even if fiscal reserve margin is added.

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

	ESA Code	2019	2020
		% of GDP	
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-0.5	-0.3
2. Central government	S.1311	-1.3	-0.9
3. State government	S.1312		
4. Local government	S.1313	-0.2	-0.1
5. Social security funds	S.1314	0.9	0.7
6. Interest expenditure	D.41	0.8	0.7
7. Primary balance		0.2	0.4
8. One-off and other temporary measures ¹		0.2	
9. Real GDP growth (%) (=1. in Table 1a)		3.2	2.8
10. Potential GDP growth (%) (=2 in Table 1.a)		3.5	3.4
contributions:			
- labour		0.2	0.1
- capital		1.3	1.3
- total factor productivity		2.0	2.0
11. Output gap (% of potential GDP)		1.4	0.8
12. Cyclical budgetary component (% of GDP)		0.5	0.3
13. Cyclically-adjusted balance (1 - 12) (% of GDP)		-1.1	-0.7
14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)		-0.3	0.1
15. Structural balance (13 - 8) (% of GDP) ²		-1.3	-0.7

¹ Revenue of 60.7 mln euro from the allocation of the emission allowances granted to Latvia in November 2018 is included in this draft budgetary plan as a one-off measure.

² To facilitate comparability of data, the structural balance is shown along with a tax reform net revenue reduction of 0.51% of GDP in 2019 and 0.3% of GDP in 2020, which is temporary and recognised as a one-off measure within the fiscal framework of Latvia, while the EC include this effect in the structural balance, as the revenue-reducing/ expenditure-increasing measures are not recognised as a one-off/short-term measure by the EC as a rule.

Table 2.b: General government debt developments

	ESA Code	2019	2020
		% of GDP	
1. Gross debt		36.6	37.0
2. Change in gross debt ratio		0.7	0.4
Contributions to change in gross debt			
3. Primary balance		0.2	0.4
4. Interest expenditure	EDP D.41	0.8	0.7
5. Stock-flow adjustment		0.1	0.0
Implicit interest rate on debt		2.3	2.1
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		1.2	4.0
9. Percentage of debt denominated in foreign currency		10.4	4.4
10. Average maturity		9.44 years	

Table 2.c: Contingent liabilities

% of GDP	2019	2020
Public guarantees	1.3	1.2

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

	ESA Code	2019	2020
		% of GDP	
1. Total revenue at unchanged policies	TR	36.5	36.1
of which			
1.1. Taxes on production and imports	D.2	14.1	14.2
1.2. Current taxes on income, wealth, etc.	D.5	6.4	6.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.5	9.6
1.5. Property income	D.4	0.7	0.5
1.6. Other		5.7	5.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.3	30.5
2. Total expenditure at unchanged policies	TE	37.1	36.5
of which			
2.1. Compensation of employees	D.1	10.1	9.8
2.2. Intermediate consumption	P.2	5.4	5.3
2.3. Social payments	D.62; D.632	11.5	11.7
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	0.8	0.8
2.5. Subsidies	D.3	1.6	1.5
2.6. Gross fixed capital formation	P.51	5.5	4.9
2.7. Capital transfers	D.9	0.1	0.1
2.8. Other		2.0	2.3

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

	ESA Code	2019	2020
		% of GDP	
1. Total revenue target	TR	36.5	36.3
Of which			
1.1. Taxes on production and imports	D.2	14.1	14.2
1.2. Current taxes on income, wealth, etc.	D.5	6.4	6.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.5	9.6
1.5. Property income	D.4	0.7	0.6
1.6. Other		5.7	5.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.3	30.5
2. Total expenditure target	TE	37.1	36.6
Of which			
2.1. Compensation of employees	D.1	10.1	10.1
2.2. Intermediate consumption	P.2	5.4	5.1
2.3. Social payments	D.62 D.632	11.5	11.7
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure (= Table 2.a.9.)	D.41	0.8	0.7
2.5. Subsidies	D.3	1.6	1.6
2.6. Gross fixed capital formation	P.51	5.5	4.9
2.7. Capital transfers	D.9	0.1	0.1
2.8. Other		2.0	2.5

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

	ESA Code	2018	2018	2019	2020
		mln. euro	% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue		465.0	1.6	1.5	1.5
1.a of which capital expenditure (gross fixed capital formation) corresponding to revenue received from foreign financial assistance received		282.0	1.0	1.0	1.0
2. Cyclical unemployment benefit expenditure		-10.8	0.0	0.0	0.0
3. Effect of discretionary revenue measures		-11.9	0.0	0.1	-0.2
4. Revenue increases mandated by law					

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

	2019		2020	
	% of GDP	% general government expenditure	% of GDP	% general government expenditure
Education	5.3	14.3	5.2	14.1
Health	4.2	11.3	4.1	11.3
Employment	0.1	0.3	0.1	0.4

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

	COFOG Code	2019	2020
		% of GDP	
1. General public services	1	3.7	3.6
2. Defense	2	2.0	2.0
3. Public order and safety	3	2.1	2.1
4. Economic affairs	4	5.1	5.0
5. Environmental protection	5	0.5	0.5
6. Housing and community amenities	6	1.0	1.0
7. Health	7	4.2	4.1
8. Recreation, culture and religion	8	1.5	1.5
9. Education	9	5.3	5.2
10. Social protection	10	11.5	11.7
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	37.1	36.6

Implementation of the medium-term budgetary policy priority development

Reducing citizens' income inequalities

The quality of life of citizens is determined by both absolute and relative indicators, the average quality of life of citizens and differences in the quality of life for citizens with different incomes. An important indicator of the average quality of life is the per capita GDP, where Latvia, according to Eurostat, has one of the lowest rankings in the EU (GDP per capita in purchasing power parities were 15 300 euro in 2018). Whereas, Latvia's Gini coefficient of income inequality is one of the highest in the EU (in 2018 35.6).

The current Framework Law 2020-2022 provides the following main policy measures to reduce the income gap in the population:

- Increase of the minimum monthly wage in 2021 to 500 euro per month;
- Increase of the maximum differentiated non-taxable minimum in 2020 to 300 euro per month and it will be applied to income up to 500 euro per month;
- Increased minimum income by providing additional funding for old-age pensions (increase in the calculation base for the minimum old-age pension), reimbursement of disability and invalidity pensions. Overall, for this purpose within the Framework Law 2020-2022 9.8 mln euro were allocated in 2020, 9.9 mln euro in 2021 and 10.0 mln euro in 2022 (5.6%; 5.5%; 4.5% from the total funding available to finance new priorities in 2020, 2021 and 2022 respectively).

Increasing national human capital

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 to 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 measures 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.

Within the Framework Law 2020-2022 for the next three years health sector has gained an additional 50 mln euro per year, where 42.11 mln euro are allocated to increase wage for workers in hospital medical treatment facilities, emergency rooms and for other workers; also to increase wage for medical workers in the Ministry of Justice's imprisonment places and other staff, as well as for medical workers who work within the psychiatric plan and for an increase of captivating money for the general practitioners; 4.27 mln euro were allocated to fund innovative medicine in oncology and cardiology as well as 3 mln euro for the treatment of rare diseases.

Education and science. Due to the limitations of available labour force, the increase in productivity of common factors in Latvian conditions is a key factor for the growth of potential GDP. The knowledge, skills and ability of the people in Latvia to be innovative, as well as, the creation of conditions that give an opportunity to implement innovative ideas in real life are necessary prerequisites for the growth of potential GDP. Here, education and science have a

key role to play. In line with Eurostat data on COFOG (general government sector-based expenditure classification), general government expenditure on education in Latvia (5.8% of GDP after 2017) is the fourth highest in the EU, going beyond both the EU average (4.6% of GDP) and neighbouring countries, e.g. Estonia (5.8% of GDP) and Lithuania (4.9% of GDP). This indicates that funding for education in Latvia is adequate, but there is a need to address school network optimisation and to increase the ratio of pupil numbers per one teacher. It should be noted that a significant increase in the number of pupils per teacher, as well as the achieving a significant progress in the reorganization of school networks, in a short period is not possible without compromising the quality of education. Thus, one solution is to invest additional resources in the education system to raise the pay of teachers, which has also been one of the decisions of the CoM in the development of The Framework Law 2020-2022. Consequently, starting from September 1, 2019, and onwards, an additional envelope of 23.0 million is allocated (13.2%; 12.7%; 10.4, 5% from the total funding available to finance new priorities in 2020, 2021 and 2022 respectively) to increase the lowest monthly salary rate of teachers to 750 euros per month.

In addition to foster the capacity in the field of science, the CoM decided to increase funding for R&D, with additional resources 7.0 million euro (4.0%; 3.9%; 3.2, 5% from the total funding available to finance new priorities in 2020, 2021 and 2022 respectively), which is the largest additional allocation of resources in this area in recent budget cycles. Funding is intended to ensure the provision of scientific activities (implementation of projects of fundamental and applied research, participation in the European Organization for Nuclear Research in the status of an associated Member State (CERN)); International cooperation (membership in the European Space Agency as a state of cooperation or the associated member state); Support mechanisms for youth organisations, and other activities.

Restoration of the country's assets

Fiscal policies must ensure that public assets are maintained in a condition that ensures that the State can provide adequate public services. Infrastructure facilities depreciate and it is inevitable that the state should allocate public resources for the restoration of these assets. The Framework Law 2020-2022 has respected an optimal balance between the expenditure increase for current expenditure and capital expenditure. There are two areas where the CoM intends to provide additional funding. The first is the transport sector, the purchase of new passenger trains and the provision of financing for the further reconstruction of roads. The second area concerns the area of internal security and justice, by providing additional funding for the construction of a new prison in Liepaja.

In the period after the adoption of the Framework Law 2018-2020, the CoM has decided on the new model for passenger trains and the incorporation of this investment project in the 2020, 2021 and 2022 base expenditure. In particular, on November 5, 2018, the CoM supported the procurement of 32 electric trains, their spare parts for 5 years and the purchase of electric train maintenance facilities, along with the decision on the building of a train repair centre. The project is planned to be financed from the State budget with the total estimated cost of 259 mln euro in period from 2019 to 2023. However, at the meeting on July 16, 2019, the CoM adopted an informative report prepared by the Ministry of Transport, which projected to schedule the deliveries of electric trains for 2022 and 2023.

When drafting the Framework Law 2020-2022 and taking decisions on measures to increase the fiscal space, the CoM decided on changes in the financing model of the passenger trains allocating parts of the EU funds to finance the project. The redistribution of funds was done in order to ensure the performance indicators of EU funds programmes are met when screening the possibility to reallocate financing from EU reserve funding and other unused

funding to high-readiness, priority infrastructure projects originally fully planned to be funded from the State budget. Taking into account the availability of the EU funds (reserves and unused resources in the EU programmes) the CoM adopted the decision to finance 113.6 mln euro of the SJSC “Pasažieru vilciens” train acquisition from the EU funds. At the same time, it should be noted that the funding of the “Pasažieru vilciens” project from the EU funds is conditional on the approval by the EC on the amendments to the programme "Growth and employment" and approval of a specific project co-financing. Assuming that there would be a positive EC decision to redirect EU funding to the project, a decision by the CoM does not only address the issue of the EU funds performance indicators, but also increases the fiscal space for 2022 for that amount.

Latvian road maintenance has been one of the previous policy priorities medium-term budget areas and is defined as a policy priority also in the Framework Law 2020-2022. From the available fiscal space additional funding of 7,7 mln euro in 2020 (4,5% from the total funding available to finance new priorities in 2020) and 7.0 mln euro in 2021 and 2022 (3.9%; 3.2% from the total funding available to finance new priorities in 2021 and 2022 respectively) was allocated to road restoration.

In addition, the CoM has allocated 45.0 mln euro in 2022 (20.3% from the total funding available to finance new priorities in 2022) for the construction of a new prison in Liepaja, based on a number of factors, including the reduction of public security threats, the creation of an appropriate environment for redeployment of prisoners and the reduction of repeated crimes, as well as, financial factor, the construction of a new prison will result in the reorganisation of existing detention facilities, which are annually maintained and secured contributing significant financing from the State budget.

Administrative territorial reform

Nevertheless, within the Framework Law 2020-2022 administrative territorial reform has been allocated only 1.1 mln euro in 2020 (0.6% of the total funding for the new priorities) and 8.2 mln euro in 2021 (4.5% of the total funding for the new priorities), it is an important policy priority of the medium-term that will result in a more efficient use of public resources.

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		
						2020	2021	2022
						% of GDP		
Increase in budget revenue from dividends, because of increase in SJSC "Latvijas valsts meži" payments	Increase in budget revenue from dividends, because of increase in SJSC "Latvijas valsts meži" payments	Non-tax revenue	D.421	Accrual	Partly approved by government	0.12	-0.11	0.00
		CIT	D.5	Accrual	Partly approved by government	0.03	-0.03	0.00
Gambling tax increase and change in revenue split between budgets	Gambling tax increase to 28 080 euro per year for a table for roulette (cylindrical game), cards and dice games and to 5 172 euro per year for a slot machine as of January 1, 2020. Change in revenue split between budgets - as of January 1, 2020 90% of revenue to be included in central government budget and 10% of revenue in local government budgets (in exception of tax revenue from interactive gambling)	Gambling tax	D.21	Accrual	Partly approved by government	0.02	0.00	0.00
In 2020 increase of differentiated non-taxable minimum	In 2020 increase of differentiated non-taxable minimum up to 500 euro/monthly and increase of highest margin to which max amount is applied	PIT	D.5	Accrual	Partly approved by government	-0.11	0.00	0.00
		VAT	D.2	Accrual	Partly approved by government	0.01	0.00	0.00
From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	VAT	D.2	Accrual	Partly approved by government	0.00	0.01	0.00
		PIT	D.5	Accrual	Partly approved by government	0.00	0.03	0.00
		SSC	D.61	Accrual	Partly approved by government	0.00	0.06	0.00
		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.00	0.00	0.00

Payments for government loans and guarantees that were previously deposited in State treasury accounts as of 2020 will be included in Central government budget	Payments for government loans and guarantees that were previously deposited in State treasury accounts as of 2020 will be included in Central government budget	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.02	0.00	0.00
Other tax measures						0.03	0.01	0.00
Other non-tax measures						0.00	0.00	0.00
Total						0.13	-0.03	0.00

Other changes to the budget preparation process (% of GDP)	
Reallocation of resourced from own revenue to non-tax revenue	-0.01
Other foreign financial assistance revenue and reassessment of the EU fund revenues	0.03
ESA tax adjustments	0.00
ESA EU funds adjustments	0.04
Additional non-tax revenue in the special budget of the State Social Insurance Agency	0.00
Total	0.05

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

List of measures	ESA	Accounting principle	Adoption Status	2020	2021	2022
				(% of GDP)		
KNAB						
Funding for the priority measure "The new financing model for political organisations (parties)"	D.7	Cash flow	Approved by government	0.02	0.00	0.00
MoF		Cash flow				
Reduction of expenditures in the construction project "Jaunais Rīgas teātris"	P.51	Cash flow	Approved by government	-0.02	0.04	0.00
Changes in funding in line with the results of the expenditure review		Cash flow	Approved by government	-0.09	0.03	-0.07
MoI		Cash flow	Approved by government			
Increase of expenditure for a priority measure in order to ensure an increase in remuneration for officials of the institutions of the Interior System with a special level of service	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of expenditure for priority measure to ensure an increase in remuneration for officials of the institutions of the Home Affairs System with a special level of service	D.1	Cash flow	Approved by government	0.02	0.00	0.00
MoES			Approved by government			
Reduction of expenditures in the financing of the provision of catering function (Classes 1-4)		Cash flow	Approved by government	-0.03	0.00	0.00
Increase in funding for the priority measure on participation in the status of the Cooperation State or Associated Member State of the European Space Agency	D.7	Cash flow	Approved by government	0.01	0.00	-0.01
Increase in funding for ERDF, ESF, Erasmus + and European Solidarity Corps for project implementation		Cash flow	Approved by government	0.10	-0.08	-0.01
Ministry of Agriculture		Cash flow	Approved by government			
State aid for entering breeding livestock in a herd-book, as well as for determining their genetic quality and evaluating productivity data	D.3	Cash flow	Approved by government	0.05	-0.05	0.00
State aid for the promotion of investment for agricultural producers	D.99	Cash flow	Approved by government	0.02	-0.01	0.00

Income support for small-producing farmers under de minimis support	D.7	Cash flow	Approved by government	0.01	-0.01	0.00
Additional financing for EAFRD technical assistance	D.7	Cash flow	Approved by government	0.01	-0.01	0.00
Ministry of Transport		Cash flow	Approved by government			
Increased expenditure on compensation for the delivery of the subscribed press and the fulfilment of obligations	D.99	Cash flow	Approved by government	0.01	-0.01	0.00
Increased expenditure for the priority measure for the implementation of the Road Reformation Programme 2014-2023	P.51	Cash flow	Approved by government	0.02	0.00	0.00
Additional funding for KF project No 6.1.5.0/18/I/002 (Reconstruction of the National Main Road A2 Rīga-Sigulda-Veclaicene and the National Main Road A3 Inčukalns-Valmiera-Valka)	P.51	Cash flow	Approved by government	0.02	-0.01	0.00
Ministry of Welfare			Approved by government			
Basic budget			Approved by government			
Increased resources and expenditure to ensure the review of the national social security allowance for persons with disabilities	D.6	Cash flow	Approved by government	0.01	0.00	0.00
Special budget		Cash flow	Approved by government	0.00	0.00	0.00
Reduction of expenditure for the implementation of the measure “Review of the Procedures for Receiving and Paying out the Unemployment Benefit”	D.6	Cash flow	Approved by government	-0.04	0.00	0.00
Increase of expenditure to ensure the increase of minimum pension and the review of the national social security allowance for persons with disabilities	D.6	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Justice		Cash flow				
Reduction of expenditures in the construction project of a new prison in Liepāja	P.51	Cash flow	Approved by government	-0.02	0.01	0.12
Ministry of Environmental Protection and Regional Development		Cash flow	Approved by government			
Increased expenditure for “An integrated approach to resource management, Stage I”		Cash flow	Approved by government	0.01	0.00	0.00
Increased expenditure for priority measure on the implementation of the Administrative Territorial Reform		Cash flow	Approved by government	0.00	0.02	-0.02
Ministry of Culture			Approved by government			

Increased funding to raise salaries for employees in the cultural sector	D.1	Cash flow	Approved by government	0.03	0.00	0.01
Ministry of Health		Cash flow	Approved by government			
Increased grant to ensure the financing of residency		Cash flow	Approved by government	0.00	0.01	-0.01
Additional expenditure to provide innovative medicines in oncology and cardiology	D.3	Cash flow	Approved by government	0.01	0.00	0.00
Additional expenditure in order to ensure an increase in the cost of medical care professionals	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Additional expenditure in order to ensure an increase in the remuneration of medical practitioners	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Additional expenditure in order to ensure an increase in the remuneration of medical practitioners working in hospital medical institutions	D.1	Cash flow	Approved by government	0.05	0.00	0.00
Additional expenditure in order to ensure an increase in the remuneration of medical practitioners working in hospital medical institutions	D.1	Cash flow	Approved by government	0.03	0.00	0.00
Additional expenditure to ensure the planned increase in wages of medical practitioners and other employees, who work in emergency services	D.1	Cash flow	Approved by government	0.02	0.00	0.00
Radio and television		Cash flow	Approved by government			
Additional expenditure to ensure the the exit of that public media services exit advertising market	D.7	Cash flow	Approved by government	0.01	0.00	0.00
Targeted grants to municipalities		Cash flow				
Additional expenditure to ensure an increase in the lower salary rate for teachers up to 750 euro/per month	D.1	Cash flow	Approved by government	0.06	0.00	0.00
Grant to municipalities		Cash flow	Approved by government			
Reduction of initial special grant to municipalities	D.7	Cash flow	Approved by government	-0.24	0.00	0.00
Funding to be reallocated in the annual State budget implementation process			Approved by government			
Technical specifications			Approved by government	0.01	0.00	0.00

Redeployment of funding to the Ministry of Health for the funding for residency		Cash flow	Approved by government	0.00	-0.01	0.01
Additional expenditure to ensure the provision of a priority measure for the prevention of money laundering and terrorism financing		Cash flow	Approved by government	0.03	0.00	0.00
Additional expenditure to ensure the implementation of demographic measures		Cash flow	Approved by government	0.02	0.00	0.00
Redeployed funding for the implementation of EU policy instruments and other foreign financial assistance projects from/to budget departments		Cash flow	Approved by government	-0.13	0.12	0.01
Other priority measures				0.14	0.00	0.01
Other CoM decisions during budgeting				0.07	-0.03	0.01
Other technical specifications				0.00	0.00	0.00
			Total	0.27	-0.01	0.05

Other changes to the budget preparation process (% of GDP)	
Compensation for the negative fiscal impact of the Riga Municipality SJSC "Rīgas Satiksme"	-0.11
Compensation of the fiscal impact by SJSC "Pasažieru vilciens"	-0.01
Reassessment of EU funds expenditure	-0.03
Total	-0.16

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		
						2020	2021	2022
						% of GDP		
Increase in budget revenue from dividends, because of increase in SJSC "Latvijas valsts meži" payments	Increase in budget revenue from dividends, because of increase in SJSC "Latvijas valsts meži" payments	Non-tax revenue	D.421	Accrual	Partly approved by government	0.12	-0.11	0.00
		CIT	D.5	Accrual	Partly approved by government	0.03	-0.03	0.00
Gambling tax increase and change in revenue split between budgets	Gambling tax increase to 28 080 euro per year for a table for roulette (cylindrical game), cards and dice games and to 5 172 euro per year for a slot machine as of January 1, 2020. Change in revenue split between budgets - as of January 1, 2020 90% of revenue to be included in central government budget and 10% of revenue in local government budgets (in exception of tax revenue from interactive gambling)	Gambling tax	D.21	Accrual	Partly approved by government	0.04	0.00	0.00
In 2020 increase of differentiated non-taxable minimum	In 2020 increase of differentiated non-taxable minimum up to 500 euro/monthly and increase of highest margin to which max amount is applied	PIT	D.5	Accrual	Partly approved by government	-0.02	0.00	0.00
		VAT	D.2	Accrual	Partly approved by government	0.01	0.00	0.00
From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	VAT	D.2	Accrual	Partly approved by government	0.00	0.01	0.00
		PIT	D.5	Accrual	Partly approved by government	0.00	0.01	0.00
		SSC	D.61	Accrual	Partly approved by government	0.00	0.06	0.00
		SSC for the Health payment	D.61	Accrual	Partly approved by government	0.00	0.00	0.00

Increase of natural resources tax rates on several objects (sand, CO ₂ emission, coal) and changes of the tax revenue allocation between budgets, increasing revenue share to the state basic budget	Increase of natural resources tax rates on several objects (sand, CO ₂ emission, coal) and changes of the tax revenue allocation between budgets, increasing revenue share to the state basic budget	Natural resources tax	D.29	Accrual	Partly approved by government	0.02	0.00	0.00
Compensation of the negative fiscal impact created by giving out a loan to Riga city owned/controlled corporation "Rīgas Satiksme"	Compensation of the negative fiscal impact created by giving out a loan to Riga city owned/controlled corporation "Rīgas Satiksme"	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.11	-0.08	-0.03
Payments for government loans and guarantees that were previously deposited in State treasury accounts as of 2020 will be included in Central government budget	Payments for government loans and guarantees that were previously deposited in State treasury accounts as of 2020 will be included in Central government budget	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.02	0.00	0.00
Other tax measures						0.03	0.00	0.00
Other nontax measures						0.00	0.00	0.00
Total						0.36	-0.14	-0.03

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

List of measures	ESA	Accounting principle (% of GDP)	Adoption Status	2020	2021	2022
KNAB						
Funding for the priority measure "The new financing model for political organisations (parties)"	D.7	Cash flow	Approved by government	0.02	0.00	0.00
MoF		Cash flow	Approved by government			
Reduction of expenditures in the construction project "Jaunais Rīgas teātris"	P.51	Cash flow	Approved by government	-0.02	0.04	0.00
Changes in funding in line with the results of the expenditure review		Cash flow	Approved by government	-0.09	0.03	-0.07
MoI		Cash flow	Approved by government			
Increase of expenditure for a priority measure in order to ensure an increase in remuneration for officials of the institutions of the Interior System with a special level of service	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Increase of expenditure for priority measure to ensure an increase in remuneration for officials of the institutions of the Home Affairs System with a special level of service	D.1	Cash flow	Approved by government	0.02	0.00	0.00
MoES		Cash flow	Approved by government			
Reduction of expenditures in the financing of the provision of catering function (Classes 1-4)		Cash flow	Approved by government	-0.03	0.00	0.00
Increase in funding for the priority measure on participation in the status of the Cooperation State or Associated Member State of the European Space Agency	D.7	Cash flow	Approved by government	0.01	0.00	-0.01
Increase in funding for ERDF, ESF, Erasmus + and European Solidarity Corps for project implementation		Cash flow	Approved by government	0.10	-0.08	-0.01
Ministry of Agriculture		Cash flow	Approved by government			
State aid for entering breeding livestock in a herd-book, as well as for determining their genetic quality and evaluating productivity data	D.3	Cash flow	Approved by government	0.05	-0.05	0.00
State aid for the promotion of investment for agricultural producers	D.99	Cash flow	Approved by government	0.02	-0.01	0.00
Income support for small-producing farmers under de minimis support	D.7	Cash flow	Approved by government	0.01	-0.01	0.00
Additional financing for EAFRD technical assistance	D.7	Cash flow	Approved by government	0.01	-0.01	0.00
Ministry of Transport						
Increased expenditure on compensation for the delivery of the subscribed press and the fulfilment of obligations	D.99	Cash flow	Approved by government	0.01	-0.01	0.00

Increased expenditure for the priority measure for the implementation of the Road Reformation Programme 2014-2023	P.51	Cash flow	Approved by government	0.02	0.00	0.00
Additional funding for KF project No 6.1.5.0/18/I/002 (Reconstruction of the National Main Road A2 Rīga-Sigulda-Veclaicene and the National Main Road A3 Inčukalns-Valmiera-Valka)	P.51	Cash flow	Approved by government	0.02	-0.01	0.00
Ministry of Welfare		Cash flow	Approved by government			
Basic budget		Cash flow	Approved by government			
Increased resources and expenditure to ensure the review of the national social security allowance for persons with disabilities	D.6	Cash flow	Approved by government	0.01	0.00	0.00
Special budget		Cash flow	Approved by government	0.00	0.00	0.00
Reduction of expenditure for the implementation of the measure “Review of the Procedures for Receiving and Paying out the Unemployment Benefit”	D.6	Cash flow	Approved by government	-0.04	0.00	0.00
Increase of expenditure to ensure the increase of minimum pension and the review of the national social security allowance for persons with disabilities	D.6	Cash flow	Approved by government	0.01	0.00	0.00
Ministry of Justice		Cash flow	Approved by government			
Reduction of expenditures in the construction project of a new prison in Liepaja	P.51	Cash flow	Approved by government	-0.02	0.01	0.12
Ministry of Environmental Protection and Regional Development		Cash flow	Approved by government			
Increased expenditure for “An integrated approach to resource management, Stage I”		Cash flow	Approved by government	0.01	0.00	0.00
Increased expenditure for priority measure on the implementation of the Administrative Territorial Reform		Cash flow	Approved by government	0.00	0.02	-0.02
Ministry of Culture		Cash flow	Approved by government			
Increased funding to raise salaries for employees in the cultural sector	D.1	Cash flow	Approved by government	0.03	0.00	0.01
Ministry of Health		Cash flow	Approved by government			
Increased grant to ensure the financing of residency		Cash flow	Approved by government	0.00	0.01	-0.01
Additional expenditure to provide innovative medicines in oncology and cardiology	D.3	Cash flow	Approved by government	0.01	0.00	0.00
Additional expenditure in order to ensure an increase in the cost of medical care professionals	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Additional expenditure in order to ensure an increase in the remuneration of medical practitioners	D.1	Cash flow	Approved by government	0.01	0.00	0.00

Additional expenditure in order to ensure an increase in the remuneration of medical practitioners working in hospital medical institutions	D.1	Cash flow	Approved by government	0.05	0.00	0.00
Additional expenditure in order to ensure an increase in the remuneration of medical practitioners working in hospital medical institutions	D.1	Cash flow	Approved by government	0.03	0.00	0.00
Additional expenditure to ensure the planned increase in wages of medical practitioners and other employees, who work in emergency services	D.1	Cash flow	Approved by government	0.02	0.00	0.00
Radio and television		Cash flow	Approved by government			
Additional expenditure to ensure the the exit of that public media services exit advertising market	D.7	Cash flow	Approved by government	0.01	0.00	0.00
Targeted grants to municipalities		Cash flow	Approved by government			
Additional expenditure to ensure an increase in the lower salary rate for teachers up to 750 euro/per month	D.1	Cash flow	Approved by government	0.06	0.00	0.00
Grant to municipalities		Cash flow	Approved by government			
Reduction of initial special grant to municipalities	D.7	Cash flow	Approved by government	-0.24	0.00	0.00
Funding to be reallocated in the annual State budget implementation process		Cash flow	Approved by government			
Technical specifications		Cash flow	Approved by government	0.01	0.00	0.00
Redeployment of funding to the Ministry of Health for the funding for residency		Cash flow	Approved by government	0.00	-0.01	0.01
Additional expenditure to ensure the provision of a priority measure for the prevention of money laundering and terrorism financing		Cash flow	Approved by government	0.03	0.00	0.00
Additional expenditure to ensure the implementation of demographic measures		Cash flow	Approved by government	0.02	0.00	0.00
Redeployed funding for the implementation of EU policy instruments and other foreign financial assistance projects from/to budget departments		Cash flow	Approved by government	-0.13	0.12	0.01
Other priority measures				0.14	0.00	0.01
Other CoM decisions during budgeting				0.07	-0.03	0.01
Other technical specifications				0.00	0.00	0.00
			Total	0.27	-0.01	0.05

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		
						2020	2021	2022
						% of GDP		
Gambling tax increase and change in revenue split between budgets	Gambling tax increase to 28 080 euro per year for a table for roulette (cylindrical game), cards and dice games and to 5 172 euro per year for a slot machine as of January 1, 2020. Change in revenue split between budgets - as of January 1, 2020 90% of revenue to be included in central government budget and 10% of revenue in local government budgets (in exception of tax revenue from interactive gambling)	Gambling tax	D.21	Accrual	Partly approved by government	-0.02	0.00	0.00
In 2020 increase of differentiated non-taxable minimum	In 2020 increase of differentiated non-taxable minimum up to 500 euro/monthly and increase of highest margin to which max amount is applied.	PIT	D.5	Accrual	Partly approved by government	-0.08	0.00	0.00
A measure to fight against the shadow economy - responsibility expansion for members of the board	A measure to fight against the shadow economy - responsibility expansion for members of the board	PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	From 2021 increase of minimum monthly wage from 430 euro/monthly to 500 euro/monthly	PIT	D.5	Accrual	Partly approved by government	0.00	0.03	0.00
Increase of natural resources tax rates on several objects (sand, CO ₂ emission, coal) and changes of the tax revenue allocation between budgets, increasing revenue share to the state basic budget	Increase of natural resources tax rates on several objects (sand, CO ₂ emission, coal) and changes of the tax revenue allocation between budgets, increasing revenue share to the state basic budget	Natural resources tax	D.29	Accrual	Partly approved by government	-0.02	0.00	0.00
Compensation of the negative fiscal impact created by giving out a loan to Riga city owned/controlled corporation "Rīgas Satiksme"	Compensation of the negative fiscal impact created by giving out a loan to Riga city owned/controlled corporation "Rīgas Satiksme"	Non-tax revenue	P.13	Cash flow	Partly approved by government	-0.11	0.08	0.03
Total						-0.23	0.11	0.03

Table 6.a CSR recommendations

CSR Nr.	Measures	Description
1	<p>1) Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.5% in 2020, corresponding to an annual structural adjustment of 0.5% of GDP.</p> <p>2) Reduce taxation for low-income earners by shifting it to other sources, particularly capital and property, and by improving tax compliance.</p> <p>3) Ensure effective supervision and the enforcement of the anti-money laundering framework.</p>	<p>1) According to Latvia's own estimates of the output gap (0.83% of GDP) and one-off measures of -0.29% of GDP, which include a temporary fall in net revenue from tax reform, a structural deficit of 0.36% of GDP in 2020 $(-0.34 - 0.83 * 0.38 - (-0.29)) = -0.36$.</p> <p>Under the Fiscal Discipline Law, a fiscal reserve for the 2020 budget is planned 0.1% of GDP. The budget for 2020 is based on the agreed structural balance target for 2020, which is -0.46% of GDP.</p> <p>The preparation of the 2020 draft budget also fulfils the balance sheet condition of the Stability and Growth Pact. Latvia's structural deficit in 2020 should not exceed its MTO -1% of GDP in Latvia. The structural deficit should therefore not exceed -1.0% of GDP. It is followed by a large margin of safety when using the difference between the estimated releases of Latvia and the one-off events recognised by Latvia. Compliance is also respected in the most prudent scenario, which uses the EC margin assessment and the EC approach to one-off measures.</p> <p>In line with the EC Variation margin assessments (EC Spring forecasts), and given that the EC will not recognise the short-term drop in net revenue for the single measure, Latvia still fulfils the structural balance condition $(-0.34 - 1,3 * 0.38 = -0.83)$.</p> <p>2) One of the government's priorities for several years has been to reduce income inequalities by targeting stable tax policies. In 2018, the tax reform increased the differentiated non-taxable minimum, the non-taxable minimum of a pensioner and the benefits of dependants, increased minimum wages and introduced progressive PIT rates. In assessing the impact of the reform on the dynamics of the populations income, there are positive changes in the structure of employment and wages. The number of employed persons increased by 1.4% in the first semester, while the average gross salary increased by 7.7%. In the structure of wage groups, positive changes are in the lowest (including the minimum wage) categories - the share of employees in them decreases, while in the highest - increases. In order to further reduce income inequalities and to provide more support to citizens than planned within the tax reform, a decision has been taken to raise the differentiated non-taxable minimum more rapidly in 2020. Planned target of 3 000 euro per year (250 euro per month) will be raised to 3 600 euro per year (300 euro per month). As well as raising the annual ceiling of 5 280 euro (440 euro per month) to which the maximum annual non-taxable minimum is applied, to 6 000 euro per year (500 euro per month).</p> <p>3) The Ministry of Justice has found funding from internal resources, and in 2020 the financial resources will be invested into:</p> <ul style="list-style-type: none"> - 136,2 thousand euro for the establishment of the court of economic affairs in order to ensure quick and efficient handling of the commercial disputes and economic crime cases; - 2,45 mln euro for increasing the salaries of judicial staff by 10% on average, in order to achieve previously planned 85% of the group of salaries (received by workers of similar tasks and basic obligations), as well as to ensure adequate remuneration for the work and to increase the wage competitiveness; - 70,3 thousand euro for the development of the judicial infrastructure, but 280,8 thousand euro from the additional funding will be invested into this aim in order to ensure the development of the courtrooms for the public purposes and the effectiveness of the judicial work.

		<p>Within the SO No 3.4.1. “To improve the competence of the staff of courts and the law enforcement authorities in order to promote improvement of business environment” the ESF project for “Justice for Development” will be continued by training judicial, law enforcement and judicial authorities staff.</p> <p>Participation will be continued in Latvia's evaluation of international organisations (OECD Working Group on Bribery in International Business Transactions Phase 3 evaluation and MONEYVAL/FATF evaluation), and the timely implementation of the recommendations to promote the prevention of money laundering and counter terrorism and proliferation financing will be ensured.</p>
2	<ol style="list-style-type: none"> 1) Address social exclusion notably by improving the adequacy of minimum income benefits, minimum old-age pensions and income support for people with disabilities. 2) Increase the quality and efficiency of education and training in particular of lowskilled workers and jobseekers, including by strengthening the participation in vocational education and training and adult learning. 3) Increase the accessibility, quality and cost-effectiveness of the healthcare system. 	<ol style="list-style-type: none"> 1) On August 13, 2019 the Plan for Improvement of the Minimum Income Support System (2020-2021) was approved by the government (Order No.408 of the CoM). During 2020 budget preparation process government approved allocation of 10 mln euro for implementation of the Plan (necessary financial amount to ensure implementation of the Plan - 29,5 mln euro). As a result of limited funding, the policy measures set out in the Plan cannot be fully implemented and support would not cover all target groups identified in the Plan. Starting from 2020 there are foreseen the following measures: <ul style="list-style-type: none"> • increase the state minimum pension calculation base from 64 to 80 euro (for persons with disabilities since childhood - 122,69 euro); • increase the amount of state social security benefit for persons with disabilities from 64 to 80 euro (for persons with disabilities since childhood - 122,69 euro); • increase the minimum amount of disability pension by applying state social security benefit in amount of 80 euro (for persons with disabilities since childhood - 122,69 euro); • increase the minimum amount of compensation for loss the work-capacity by applying state social security benefit in amount of 80 euro (for persons with disabilities since childhood - 122,69 euro). 2) See the NRP of Latvia. 3) To implement the key objectives for developing a high-quality, safe and sustainable health services system as it stated in Public Health Guidelines (including reducing patient co-payments, shortening waiting lines to scheduled services, raising pay for health care system workers, availability of medicines for patients), ensuring equal access to services for all residents of Latvia, contributing to reducing the proportion of out-of-pocket payments, improving access to healthcare services and reducing waiting times, as well as improving the availability and quality of healthcare services at all levels of healthcare, the health reform measures launched in 2017 and continued in 2018 and 2019 shall be implemented. <p>Data from the I half-year 2019 show that the actual reduction in line length of secondary outpatient health services, which has resulted in additional direct funding impacts on the demand for health service, is slower because there is a change in patient behavior: Latvian residents who have not received health services due to queues, distances or finances so far entered the line, as well as shifting some patients from paid services to the state-paid health services sector. These two population groups, in addition to the direct impact of funding, increase the demand for publicly funded healthcare, while reducing the number of patients who have so far been unable to receive healthcare services.</p> <p>On July 1, 2019, patient waiting lines for specialist advice have fallen on average to 92.27 days compared to pre-reform times, when the average waiting time was up to 100.48 days. In the first half of 2019, the line reduction was secured by 8.17% of the original line volume, while the line reduction without changing patient behavior was provided at 14.53%.</p> <p>On July 1, 2019, patient waiting lines for daytime inpatient services have fallen on average to 207.22 days compared to pre-reform times, when the average waiting time was up to 407 days. In the first half of 2019, the line reduction was secured by 49.09% of the original line volume, while the line reduction without changing patient behavior was provided at 52.61%.</p>

On July 1, 2019, patient waiting lines for outpatient rehabilitation services have fallen on average to 113.25 days compared to pre-reform times, when the average waiting time was up to 500.2 days. In the first half of 2019, the line reduction was secured by 77.36% of the original line volume, while the line reduction without changing patient behavior was provided at 78.93%.

At the meeting of the CoM on 20 August 2019 (Protocol No 35 23 §) the information report on the State base for the general budget and the State special budget for 2020, 2021 and 2022 was approved, and at the meeting of the CoM on 20 August 2019 (Protocol No 35 26 § 26, paragraph 43) the proposal from the Ministry of Health was supported to redistribute the reserved funding from the budget line “74.Financing to be redistributed in the annual budget execution process” 08.00.00 program “Financing of the implementation of the health care system reform” to the budget of the Ministry of Health to provide financing for years 2020-2022 at amount of 144 mln euro each year to ensure the continuation of the health system reform measures launched in 2017, 2018 and 2019.

On September 13, 2019, the Special Meeting of the CoM (Protocol No 41 1 §) approved the informative report prepared by the MoF entitled “On Fiscal Space Measures and Expenditure for Priority Measures in the 2020 Budget and Budget Framework for 2020-2022”, and at the meeting of the CoM on 17 September 2019 (Protocol No 42 34 §) the informative report on priority measures in the 2020 budget and budget framework 2020-2022 was approved, as a result, the priorities of the Ministry of Health have been supported by fiscal space measures and expenditure for priority measures in the 2020 budget and budget framework 2020-2022, including ensuring an increase in the remuneration of medical practitioners (cross-sectoral), in amount of additional 50 mln euro each year for the 2020-2022 years, including 42.11 mln euro intended for the increase in the remuneration for part of medical practitioners working in hospital medical treatment establishments, Emergency medical practitioners and other staff, Ministry of Justice Prison administration board’s medical practitioners and other staff, medical practitioners within the framework of the Psychiatric Plan and general practitioners' capitation money increase; 4.27 mln euro intended for innovative reimbursement medicines in oncology and cardiology, as well as 3 mln euro for treatment of rare diseases.

To improve the accessibility, quality and cost effectiveness of healthcare system different additional measures are planned to be implemented:

- Continue improving access to medicines and quality of pharmaceutical care. To improve the availability of reimbursable medicines and to reduce patients’ co-payments for reimbursable medicines on July 16, 2019, the government approved the amendments to the CoM ' Regulations on the reimbursement of medicines and medical devices (Regulation of CoM No. 899 (31.10.2006), “Reimbursement Procedure for Purchases of Medicines and Medical Devices for Outpatient Treatment”), initiated by the Ministry of Health. From April 1, 2020, in accordance with the approved amendments, when prescribing the reimbursable medicinal product, the common name (the international non-proprietary name recommended by the World Health Organization, or, if one does not exist, the usual common name) shall be used. A physician may use the brand name only when there are medical conditions, such as the known occurrence of side effects, when using the cheapest equivalent of drug on the list of reimbursable medicines or, for example, when prescribing a narrow therapeutic index drug. The common name of the product should be prescribed in at least 70% of the total amount of the prescribed reimbursable drugs over the year per doctor;

- To ensure more effective use of resources for the pharmaceutical treatment of oncological diseases, starting from January 2019 chemotherapy drugs (intravenous) used for the treatment of oncological diseases re reimbursed form the state budget and purchased centrally by National Health Service;

- Expand the range of health care services which are purchased in a strategic procurement by National Health Service;

- Continue the measures implemented within the support of the EU funds to improve the qualification of medical practitioners and to renew their certificates, thus enabling a practitioner who has not worked in his / her speciality to return to the labor market;

		<ul style="list-style-type: none"> - Continue developing clinical algorithms, clinical patient pathways and quality indicators in the 4 priority health areas; - Continue support measures funded by EU funds to recruit medical practitioners (doctors and nurses, assistant nurses, midwives, physiotherapists and occupational therapists) to work in regions outside Riga. By September 2019, 340 compensation contracts had been signed; - Continue to implement health promotion and disease prevention measures, including those funded by EU; - Develop an efficient, well-functioning hospitals' cooperation model to promote high quality and efficient healthcare; - Implement a patient experience monitoring system in Latvia; - Continuing the reform of hospitals, optimize current hospital network and explore the possibility of obtaining state participation in strategically important regional hospitals.
3	<p>Focus investment-related economic policy on innovation, provision of affordable housing, transport notably on its sustainability, resource efficiency and energy efficiency, energy interconnections and on digital infrastructure, taking into account regional disparities.</p>	<p>See the NRP of Latvia.</p> <p>On 22 May 2019 by issuing order No. 247 CoM approved a plan for business environment development measures for 2019-2022, in which there are determined specific tasks No. 4.12.1-4.12.5 for institutions to complete by 2020 to promote the development of innovation in Latvia.</p> <p>Housing Guarantee Program and its development (for more information see NRP of Latvia)</p> <p>In the summer of 2019, Latvia has launched a bilateral project with the OECD on Housing Affordability in Latvia, within which the OECD will identify individuals and households in need of housing support and develop proposals for an effective housing support package, taking over and adapting foreign best practices. In line with the OECD proposals, Latvia plans to develop housing affordability support measures.</p> <p>During the preparation of the annual state budget, the following decisions aimed at ensuring the sustainability of transport were made in the transport sector:</p> <ol style="list-style-type: none"> 1) The government has approved funding for the supply of passenger electric trains and their maintenance equipment and staff training and has signed a contract for the supply of 32 new electric trains with passenger trains and <i>Škoda Vagonka</i> to deliver all trains by the end of 2023. <p>One of the most important measures to reduce GHG and global warming emissions is to reduce emissions from transport, and in particular to shift as many passengers and freight as possible from road transport to rail transport and to electrify their lines as much as possible. In the long term, the rail should become the backbone of the public transport network.</p> <ol style="list-style-type: none"> 2) The Central Finance and Contracts Agency has approved the project of <i>Latvian Railway</i> for the development of electric train infrastructure, with financing from the Cohesion Fund amounting to more than 318 mln euro. <p>In order to develop and modernize the railway network in Latvia, promoting its safety, quality and capacity, as well as to make it more environmentally friendly, the project will include the construction of the trans-European rail network infrastructure, reconstruction and upgrading of existing infrastructure, for example construction of a new traction power substation and power grids. By reconstructing and modernizing the railway line with a total length of 300 km, it is planned to reduce CO2 emissions by at least a quarter.</p>
4	<p>1) Strengthen the accountability and efficiency of the public sector, in particular with regard to local authorities and state-owned and municipal enterprises and</p>	<p>1) The system of preventing conflicts of Interests has been changed improving the norms of the Law On Prevention of Conflicts of Interest in the Activities of State Officials. The Parliament (Saeima) in the first reading has passed amendments to the law that provide: to improve the procedure of accepting donations; to determine a new terminated restriction to state officials to generate income from persons who have represented public entities at the court; to determine that the Parliament Members imposed the duty of notifying (self-exclusion), and the procedure how the Parliament Members notify of personal or material interest in the</p>

	<p>2)the conflict of interest regime.</p> <p>positions; to determine additional duty to notify of situations of conflict of interest or possible cases of corruption; to expand the group of people who have to be included in the declaration of state official; to determine the duty and procedure of state official's declaration of the Director of the Constitution Protection Bureau; to specify procedure, how the state officials employed by the security and other law enforcement agencies submit their declarations and how the lists of these state officials are submitted; to determine terminated restrictions of commercial activity to a state official who has performed investigative functions; to specify the obligations and action of state official providing additional cases and providing specific deadlines for informing the head of a public institution on the possible conflict of interest of a state official, and other amendments.</p> <p>In order to promote the security and transparency of the business environment, and to prevent money laundering and terrorism financing, the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing was amended in 2019 which conceptually supports the free information availability from the registers of the Enterprise Register to anyone. For these amendments to take full effect, the Law on the Enterprise Register of the Republic of Latvia has been amended and 1,2 mln euro has been allocated from the State budget to ensure the free information availability.</p> <p>As part of the implementation of the Public Administration Reform Plan 2020, the State Chancellery plans:</p> <ul style="list-style-type: none"> • continue the #GovLabLatvia interdisciplinary public administration innovation laboratory, providing support to institutions in the implementation of the “zero bureaucracy” approach - developing solutions to reduce administrative burden; • in cooperation with The State Construction Control Bureau of Latvia and the State Environmental Service, assess pilot projects on the implementation of the intelligent car fleet management system and, in cooperation with ministries, to draw up proposals by 2020 for the implementation of this system in other public administration institutions; • conclude the development of a new regulation on remuneration and commence its gradual implementation by 2020; • continue work on centralization in public administration; • ensure that ministries can request new job positions and additional funding, based on an evaluation of the effectiveness of the institution's functions; • continue the “Human Resource Management Information system for public administration” (CIVIS) to promote more efficient human resource management processes in public administration; • continue work on the modernization of the decision-making processes of the CoM by implementing the "Drafting and Harmonization of Legislative Projects Portal" (TAP). <p>2) Government action plan (approved by Order No. 210 of the CoM dated 7 May 2019) includes the task to strengthen the capacity of KNAB, increasing the financing of KNAB and the number of staff by 23%, as a result of which the analytical, operative and investigative abilities of KNAB would be improved, preventing and combating corruptive criminal offences, increasing the number of prevented and discovered corruptive criminal offences. As well as, since 1 January 2019, the laws and regulations apply that provide additional motivational instruments to the staff of KNAB (a bonus for the term of service and benefit for the term of service).</p>
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Table 6.b Targets set by the Union's Strategy for growth and jobs.

National 2020 target	Measures	Description
National 2020 employment target [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>In order to motivate a faster return of unemployed to the labour market, as well as to ensure a reduction in social benefits expenditure for 2020-2022 annually of 12 336 730 euro (according to the Cabinet meeting of 17 September 2019. No 42, § 34, paragraph 28), the following changes to the arrangements for granting unemployment benefits are proposed:</p> <ol style="list-style-type: none"> 1) reduced duration of unemployment benefit from 9 months to 8 months, 2) reduced the amount of unemployment benefit, depending on the duration of unemployment: <ul style="list-style-type: none"> • the full amount of the granted unemployment benefit shall be paid for first two months (first three months to date); • 75% of the granted unemployment benefit shall be paid from 3rd - 4th month (up to now 4th – 6th month); • 50% of the granted unemployment benefit shall be paid from 5th – 6th month (up to now 7th – 9th month); • 45% of the granted unemployment benefit shall be paid from 7th - 8th month.
National 2020 R&D target [1,5% of GDP]	<ol style="list-style-type: none"> 1. Raising the Competitiveness of GRTDI sector; 2. Connecting the GRTDI Sector with Societal and Economical Needs; 3. Efficient management of GRTDI sector; 4. Supporting development of innovative merchants; 5. Raising Awareness in the Society and Promoting Science and Innovation. 	<p>See the NRP of Latvia. On 22 May 2019 by issuing order No. 247 CoM approved a plan for business environment development measures for 2019-2022, in which there are determined specific tasks No. 4.12.1-4.12.5 for institutions to complete by 2020 to promote the development of innovation in Latvia.</p>
GHG emission reduction target [12,2 Mt CO₂]	<ol style="list-style-type: none"> 1. Limiting non-ETS sector emissions; 2. Research, innovations, raising public awareness. 	<p>See the NRP of Latvia. 1) Latvia is allowed to increase its non-ETS emissions in the period 2005-2020 by 17% comparing to the non-ETS emissions in 2005. It is projected that Latvia will fulfil the targets set in national and EU level by 2020.</p>
Renewable energy target [40,0%]	<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; 	<p>See the NRP of Latvia.</p>

	4. Measures for achievement of 10% renewable energy resources within the transport sector.	
National energy efficiency target [0,670 Mtoe]	<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>See the NRP of Latvia.</p> <ol style="list-style-type: none"> 1) -; 2) 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) continued in 2019. Two projects have been completed within the framework of the open tender. Total amount of 1 316 716 euro finance of EAAI under EKII-2 has been disbursed until 30 August 2019. The implementation of the 7 projects under EAAI open tender for projects "Reducing GHG emissions in the national protected architectural monuments of national importance" (EKII-1) is also ongoing in 2019. One project has been completed and one project contract has been terminated during the reporting period. Total amount of 1 185 981 euro finance of EAAI under EKII-1 has been disbursed until 30 August 2019. Within both above mentioned open tenders (EKII-1 and EKII-2) it is planned to achieve 989 t. CO2 emission reduction. In 2019, the implementation of the EAAI open project tender "Reduction of GHG Emissions by Developing Energy-Efficient Self-Constructing Buildings" (EKII-4) was launched. 3) In 2019, the implementation of the EAAI open project tender "Reduction of GHG emissions by smart urban technologies" (EKII-3) was launched, whereby 18 project implementation contracts were signed (two of them were terminated during the reporting period). Total amount of 221 434 euro finance of EAAI under EKII-3 has been disbursed within reporting period. It is expected to reduce CO2 emissions by 649 tonnes under this project tender. Most of the projects submitted under EKII-3 are related to energy efficiency solutions for street lighting. 4) -; 5) -.
National early school leaving target [13,4% (10,0%)]	<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; 5. Strengthening the cooperation with sectoral social partners to improve and develop vocational education. 	<p>An ESF project "Support to reduce early school leaving" ("PUMPURS") has been implemented by the State Education Quality Centre since March 2017. By June 2019, 110 cooperation agreements have been concluded with municipalities and state vocational education institutions, involving 410 education institutions in total, including 32 state vocational education institutions and 378 general education institutions. 21 858 individual support plans were implemented since March 2017. Total indicative planned funding is 37.5 mln euro, incl. ESF – 31.8 mln euro. Duration of the project is till 2022.</p> <ol style="list-style-type: none"> 1) Continuing the development of network of general education institutions, the MoES has developed a proposal for arrangement of the network of schools (included in the Informative report "On arrangement of network of schools" (discussed at CoM on 21.05.2019.)), planned in the context of the administrative territorial reform in 2021. The proposal provides to set the minimum permitted number of students in class groups at the level of basic education and secondary education in local government, public higher education and private educational institutions, at the same time observing the principles - primary school as close as possible to children's residence and lower-secondary and upper-secondary schools where the offer of teaching programmes is ensured adequate and in high quality. It is planned to determine the number of students according to the territorial division of Latvia, taking into account the number of

		<p>residents and students in the specific territories. MoES in August 2019 has started individual negotiations with each of the 119 Latvian municipalities on the development of the network of education institutions.</p> <p>2) See the NRP of Latvia.</p> <p>Regulations of September 3, 2019 “Regulations on the National Standard of General Secondary Education and Sample General Secondary Education Programs”. Implementation of new curriculum has begun at pre-school level. Teaching – learning programs and teaching aids for pre-school have been developed and published. Teacher professional development activities are ongoing to ensure the implementation of new curriculum and teaching approach and to start transition to Latvian language of instruction in secondary education on September 1, 2020. Alongside with CPD activities support measures are being implemented for teachers in the form of best practice exchange seminars, webinars, e-learning.</p> <p>For information on paragraphs 3) and 4) please see: Table 6a "Country Specific Recommendations", paragraph 2.</p> <p>5) The Employers' Confederation of Latvia and the Agricultural Organization Cooperation Council continue to coordinate work of Sectoral expert councils (SEC) with involvement of sectoral experts in the development, implementation of vocational education curriculum and evaluation of qualification examinations, as well as in the implementation of reforms in vocational education. In 2019 the MoES has ensured financing for the SEC co-ordination function performing. It is planned to provide similar support in 2020. In addition the draft amendments to the Law on Vocational Education foresee an obligation for the state to further finance the implementation of the mentioned function.</p>
<p>National target for 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) Since July 2015 a new model of financing higher education is in place, which was created in consultations with the World Bank experts and the sector. In ministry's opinion the three pillars model of financing the higher education, which foresees 1) stability (basic), 2) performance- based and 3) development funding is still optimal for the goals of the Latvian higher education policy. 2) In 2019 continues the modernization of the material and technical base of higher education institutions and the improvement of resource efficiency continued in order to provide a modern study and research environment for STEM (science, technology, engineering, mathematics), incl. for the implementation of medical and creative industries, study programs and to promote the conformity of higher education with the needs of economic development and labour market. EU Fund 2014-2020 it is planned to provide support for the development of study and scientific work infrastructure during the planning period of 2007 (total indicative financing of 44.6 mln euro, including ERDF financing of 37.9 mln euro). Simultaneously with the support of the EU funds, STEM 1 professional higher education is being improved, incl. to improve the medical and creative industry and study environment in colleges (total indicative funding of 14.2 mln euro, including ERDF funding of 12 mln euro).

3) The working group for improvement of study and student loan system established by the MoES developed the concept of the new lending system³. On July 17, 2019, the CoM approved changing the model of student and student lending, which provides for the issuance of an indicative 2,000 new loans per annum from 2020 and further repayment of loan for childbirth, death and in cases of disability. The advantage of the new system is the abolition of the requirement for a second guarantor; loans will be granted by several credit institutions; simplified procedures, faster access to credit; no student loan ceiling; the state will continue to subsidize student loan interest payments during the course of studies and one year after graduation.

On November 1, 2018, the Law “Amendments to the Disability Law” was adopted. Pursuant to this law, as of September 1, 2019, persons with disabilities studying in higher education institutions and colleges are entitled to receive state-funded assistant services for mobility support and self-care.

4) Work continued on developing the quality assurance system for higher education.

In the 15th of July, 2019 a new methodology of accreditation and licensing process has approved. The Agency has been developing an e-platform (eplatforma.aika.lv) where full information on accreditation and licenses of the programmes will be available as well as the assessment by experts. Higher Education institutions will submit all documents electronically and all documents for experts will be available in the limited access part of the e-platform. In accordance with the Law on Higher Education Institutions a time framework for accreditation of study directions is published.

The new regulation ensures the implementation of a system of quality assessment of higher education in line with international standards and the reduction of fragmentation of study programs by increasing the international competitiveness of Latvian higher education.

5) The implementation of the projects under the ESF programme “The reduction of the fragmentation of study programs and the strengthening of resource sharing” (SAM 8.2.1.) is being started during the year (2019) by the higher education institutions. The projects will be ongoing by December 2022. Total indicative financing of 10.8 mln euro, incl. ESF funding of 9.2 mln euro. During the next years the development of new, strong and internationally competitive study programs, incl. doctoral level programs is planned.

6) Latvian state scholarships are one of the tools for attracting foreign students. In 2019/2020, 25 state scholarships were awarded to 28 researchers (out of 90 applicants) and 92 students (from 244 applicants), as well as 7 summer schools, which were held at Latvian universities, giving 70 scholarships to foreigners. Along with all types of scholarships, 197 Latvian state scholarships have been granted to foreigners.

The MoES has developed conditions for good practice in attracting foreign students and providing studies. Conditions prescribe the quality of education as a key principle of good practice. With this

³ WG consists of representatives from the Treasury, MoF, Administration of Studies and Science, Latvian Financial Industry Association, Joint Stock Company “Development Finance Institution Altum”, Latvian Student Association and Rectors' Council

		<p>agreement, higher education institutions commit to providing quality study experience to all students, to strengthen the reputation of Latvian higher education. Only those higher education institutions that will sign and adhere to the agreement will continue to be able to take part in government-funded education export promotion activities, including foreign visits, as well as in exhibitions and marketing activities and in the acquisition of external markets. The agreement on good practice in attracting foreign students has been signed by 17 Latvian universities. The development of monitoring system on higher education internationalization is being introduced.</p>
<p>National poverty target [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>On August 13, 2019 the Plan for Improvement of the Minimum Income Support System (2020-2021) was approved by the government (Order No.408 of the CoM). During 2020 budget preparation process government approved allocation of 10 mln euro for implementation of the Plan (necessary financial amount to ensure implementation of the Plan - 29, mln euro). As a result of limited funding, the policy measures set out in the Plan cannot be fully implemented and support would not cover all target groups identified in the Plan. Starting from 2020 there are foreseen the following measures:</p> <ol style="list-style-type: none"> 1) increase the state minimum pension calculation base from 64 to 80 euro (for persons with disabilities since childhood - 122,69 euro); 2) increase the amount of state social security benefit for persons with disabilities from 64 to 80 euro (for persons with disabilities since childhood - 122,69 euro); 3) increase the minimum amount of disability pension by applying state social security benefit in amount of 80 euro (for persons with disabilities since childhood - 122,69 euro); 4) increase the minimum amount of compensation for loss the work-capacity by applying state social security benefit in amount of 80 euro (for persons with disabilities since childhood - 122,69 euro).

In accordance with the general government deficit and debt notification of April 2019, the general government budget deficit was 1.0% of GDP in **2018**. On 30 September 2019, the Central Statistical Bureau has submitted to *Eurostat* this year's autumn notification, the results of which for the deficit and debt levels of 2018 and previous years will be published at the end of October.

Taking into account the State Treasury's data about the general budget execution in the first half of 2019, the general government budget deficit in **2019** is forecasted to be 0.5% of GDP according to the MoF assessment. The assessed deficit is broadly in line with the budget deficit level planned by the Law on the State Budget for 2019. Compared with the plan, overall tax revenue is forecasted to be higher in 2019, particularly revenues from PIT and SSC, given higher average wage growth and actual revenue execution. While the CIT revenue forecast was reduced, taking into account both the substantial increase in tax refunds for advance payments made previously and lower than the forecasted amount of distributed profits for 2018, companies by a higher extent distributed the profits accumulated during previous years for which taxes had already been paid.

In 2019, higher budgetary expenditures, compared to the planned, are forecasted for contributions to the EU budget and expenditures on projects implementation of the EU funds and other foreign aid, including co-financing of the central government budget. A higher expenditure on the EU funded projects is expected in both the central and local governments budget, continuing active implementation of the EU funded projects. At the same time, in accordance with the actual budget execution, there are items of expenditure that are expected to be lower in 2019 than forecasted previously, such as the budget expenditure on pensions, the local governments budget expenditure to ensure basic functions. Through adjustments to these items in 2019, medium-term forecasts were adjusted appropriately as well.

In **2020**, the general government budget deficit is forecasted to be 0.3% of the GDP. Medium-term general government budget forecasts are based on the medium-term macroeconomic development scenario developed in June 2019, updated tax revenue forecasts and budget expenditure plans, taking into account the government decisions adopted until October 2019. The forecast considers the likely development of local governments and other derived public persons budget in the coming years, additionally including an impact of the government decisions on these budgets.

The general government budget revenues in 2020 are higher in nominal terms compared to 2019, while their share of GDP is declining, mainly because revenue growth rates are projected to be slower than the growth rate of GDP. This is mainly due to the decrease in growth rates of current taxes on income and wealth, taking into account the government decision to rise differentiated non-taxable minimum to 300 euro per month starting from 2020.

Furthermore, in 2020, the general government budget expenditure as a percentage of GDP is expected to fall more sharply than revenue, mainly due to decrease in intermediate consumption and gross fixed capital formation compared to 2019. This is largely due to a reduction of these expenditures in the local governments budget, considering the resources available to the local governments, including the limited borrowing. At the same time, taking into account the government decision to increase remuneration for medical practitioners, teachers, officials of the system of internal affairs, employees of the Constitutional Court and employees of the sector of culture, the general governmental budget expenditure on remuneration in 2020 is forecasted with an increase, which is slightly lower than in 2019.

Table 7: Divergence from Stability Programme 2019–2022

	ESA Code	2018	2019	2020
		% GDP		
Target general government net lending/ net borrowing	B.9			
Stability Programme		-1,0	-0,5	-0,4
Draft Budgetary Plan		-1,0	-0,5	-0,3
Difference		0,0	0,0	0,1
General government net lending projection at unchanged policies	B.9			
Stability Programme		-1,0	-0,5	-0,3
Draft Budgetary Plan		-1,0	-0,5	-0,4
Difference		0,0	0,0	-0,1

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.