



Finanšu ministrija

DRAFT BUDGETARY PLAN OF THE REPUBLIC OF LATVIA 2023

RIGA
2023

Content

Abbreviations.....	3
Introduction.....	4
Macroeconomic Development Scenario.....	5
Fiscal strategy and the structural balance objective	9
Implementation of medium-term budget policy priority development directions ..	14
Distributional Impact Assessment	38
Annex: Methodological aspects.....	41

Tables

Table 0.a: Basic assumptions	6
Table 1.a: Macroeconomic prospects.....	7
Table 1.b: Price developments.....	8
Table 1.c: Labour market developments	8
Table 1.d: Sectoral balances.....	8
Table 2.a: General government budgetary targets broken down by subsector	10
Table 2.b: General government debt developments	11
Table 2.c: Contingent liabilities.....	11
Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components.....	11
Table 4.a: General government expenditure and revenue targets, broken down by main components.....	12
Table 4.b: Expenditure to be excluded from the expenditure criteria.....	13
Table 4.c General government expenditure by function.....	13
Table 4.c.i): General government expenditure on education, healthcare and employment	13
Table 4.c.ii): Classification of the functions of the Government.....	13
Table 5: Description of discretionary measures included in the draft budget	17
Table 5.a.i) Discretionary revenue measures taken by General Government.....	17
Table 5.a.ii) Discretionary expenditure measures taken by General Government..	18
Table 5.b.i) Discretionary revenue measures taken by Central Government	22
Table 5.b.ii): Discretionary expenditure measures taken by Central Government .	23
Table 5.c.i1): Discretionary revenue measures taken by Local Government	26
Table 5.c.i1): Discretionary expenditure measures taken by Local Government ..	27
Table 5.c.i2): Discretionary revenue measures taken by Social Security Funds	27
Table 5.c.i2): Discretionary revenue measures taken by Social Security Funds ...	28
Table 6.a: CSR recommendations.....	29
Table A1: COVID-19 crisis economic support measures and their fiscal impact ..	33
Table A2: Fiscal policy measures taken in response to the energy price hikes; costs related to people fleeing Ukraine.....	34
Table B: COVID-19 related guarantees	37
Table C: RRF impact.....	37
Table 7: Divergence from Stability Programme 2022–2025	38
Table 8: Impact of policy measures on household income in 2023, in EUR and %	39
Table 9: Impact of support measures on income inequality in 2023	40

Abbreviations

CIT	Corporate Income Tax
CSR	Country Specific Recommendations
DIA	Distributional Impact Assessment
EC	European Commission
ESA	European System of Accounts
EU	European Union
FDL	Fiscal Discipline Law
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GMI	Guaranteed Minimum Income
HICP	Harmonised Index of Consumer Prices
ICT	Information and Communications Technology
JSC	Joint-Stock Company
MoF	Ministry of Finance
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
RRF	Recovery and Resilience Facility
SJSC	State Joint-Stock Company
SME	Small and Medium-Sized Enterprises
SRS	State Revenue Service
SSC	Social Security Contributions
UN	United Nations
VAT	Value Added Tax
PPP	Purchasing Power Parity

Introduction

Within the framework of the European Semester and according to the Regulation No. 473/2013 of the European Parliament and of the Council *on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area* Latvia submits the updated Draft Budgetary Plan for 2023.

Due to the elections of the *Saeima* on October 1, 2022, Latvia submitted to the EC and the Eurogroup the Draft Budgetary Plan for 2023 based on a no-policy change scenario on October 11, 2022.

This Draft Budgetary Plan for 2023 is prepared based on the macroeconomic development scenario drawn in December 2022, which foresees a 0.6% drop in GDP for 2023. The scenario of fiscal development for 2023 includes the no-policy change scenario, as well as a policy change scenario, which in turn includes discretionary revenue and expenditure measures adopted by the Cabinet of Ministers. The budget for 2023 has been prepared, projecting that the nominal deficit of the General Government budget is 4.2% of GDP in 2023.

The Cabinet of Ministers has approved the Draft Budgetary Plan for 2023 on February 7, 2023.

Macroeconomic Development Scenario

The initial medium-term macroeconomic development scenario for 2022-2025 was developed in August, 2022. However, the state's budget preparation schedule changed, thus, in December 2022, the MoF has updated the forecasts of macroeconomic indicators for 2022 and 2025, considering the dynamics of Latvia's GDP in the third quarter, as well as the predicted economic slowdown in main foreign trade partner countries. The geopolitical situation has also worsened, more and more restrictions are being imposed on trade with Russia, contributing to a rapid increase of energy prices globally. At the same time, the basic scenario assumes that the geopolitical situation will not significantly deteriorate in the future. On the other hand, the impact of COVID-19 is considered insignificant, which will not affect the economy to the same extent as in previous years. Forecasts of macroeconomic indicators have been consulted with the Bank of Latvia, the Ministry of Economy and approved by the Fiscal Discipline Council on December 2, 2022.

According to the updated scenario, Latvia's GDP growth forecast for 2022 has been lowered to 1.6% (by 1.2 percentage points). In the first half of the year economic growth reached 4.1% supported by a strong increase in private consumption after the restrictions of COVID-19. In contrast, in the second half of the year the growth rate of consumption decreased significantly due to high prices and a fall in purchasing power. The situation of Latvian producers worsened, and investment volumes remained low, therefore in the third quarter Latvia's GDP decreased by 0.6%. Similar GDP dynamics are expected in the last quarter of the year, also affecting the next year.

In 2023, GDP is predicted to fall by 0.6% (or by 1.6 percentage points less than in the forecast of August, last year). The high prices of energy resources, the increase in production costs and the weakening demand in foreign markets will continue to have a negative effect on Latvia's economy in the first half of 2023. However, decline of the GDP will be temporal, and it will start to recover from the middle of the year. Therefore, in the medium term, growth rates are again expected to converge to the potential GDP growth rate, i.e., GDP growth reaching 3% in 2025.

The growth of private consumption will reach 7.9% in 2022, on account of strong growth at the beginning of the year, but during the 2022-2023 heating season, private consumption will decline because of the decrease in the purchasing power due to the high inflation and more spendings to cover housing-related expenses. Therefore, the growth of the private consumption will decrease by 3% in 2023 and then recover to 3.6% and 4.1% in 2023 and 2024, respectively.

General government consumption real growth will be moderate 1.9% and 1.2% in 2022 and 2023, respectively. The government consumption forecast is based on a no-policy change assumption, considering only already approved spending measures. Moderate growth will be determined by increased prices, i.e., more resources will have to be directed to maintain an existing consumption.

The investments (gross fixed capital formation) could have increased by 0.6% in 2022 (or by 1.3 percentage points less than in the August forecast). Slower growth explains rapidly rising costs, which will also affect the dynamics of investments in 2023 as the volume of investments will decrease by 1%. Considering the great uncertainty and geopolitical situation, the next year's investments will largely depend on the European Union funds, the RRF, as well as the implementation of the *Rail-Baltica*. Then again, investment growth will recover and will be around 5% per year in the medium term.

A noticeable contribution on economic growth this year comes from exports, which could reach 10.7% in 2022, as exports are boosted by high external demand and increased prices. In contrast, exporters could experience some difficulties, thus exports would grow by only 0.2% in 2023 as the external environment worsens and demand decreases. While in the following years, exporters will have adapted to the new conditions, and exports will be able to grow by around 4% per year.

The updated macroeconomic indicator scenario has slightly increased the inflation forecast for 2022 and 2023. The increase in the inflation is related to a slight increase in the prices of natural gas and heating production, as well as stronger second round effects. Therefore, consumer price growth will reach 17.3% in 2022 and then decrease to 8.5% in 2023, which is by 0.8 and 2.0 percentage points more, respectively, than August forecast. Inflationary pressures will ease over the next two years, assuming the EU measures aimed at energy independence are successful, which could also lead to a reduction in the price of energy resources, stabilizing at 2.0% by 2025.

The war started by Russia, trade restrictions and the rapid rise in prices have no negative impact on the labour market, however, might be manifested with a greater time lag than previously predicted. Accordingly, the unemployment rate forecast for 2022 has been reduced to 7.0% or 0.1 percentage point, but increased to 7.3% in 2023, which is 0.2 percentage points more than the forecast in August. Unemployment is expected to decrease to 7.0% in 2024, although it would be 0.3 percentage points higher than forecasted at the beginning of August.

The wage growth forecast for 2022 has not been changed but has been raised to 7.5% and 6.2% for 2023 and 2024, respectively, considering predicted a slight increase in consumer prices and the increase of the minimum monthly wage to 620 euros from January 1, 2023, and to 700 euros from 2024. Compared to the August's forecast, the average wage forecast for 2023 has been increased by 1.5 percentage points and the forecast for 2024 – by 0.9 percentage points.

Table 0.a: Basic assumptions

	2021	2022	2023
Short-term interest rate (annual average)	-0.5	0.2	3.1
Long-term interest rate (annual average)	-0.4	1.2	2.3
USD/€ exchange rate (annual average)	1.18	1.04	0.98
Nominal effective exchange rate	1.3	-4.3	-0.5
World excluding EU, GDP growth	6.0	3.1	2.9
EU GDP growth	5.4	3.3	0.3
Growth of relevant foreign markets	12.3	3.8	0.7
World import volumes, excluding EU	11.0	4.8	2.5
Oil prices (Brent, USD/barrel)	70.7	103.0	95.0

Table 1.a: Macroeconomic prospects

	ESA Code	2021	2021	2022	2023
		Levels	Rate of change, %		
1. Real GDP	B1 *g	28.2	4.1	1.6	-0.6
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		28.0	2.1	2.2	2.2
Contributions					
Potential GDP contributions: labour			-0.3	-0.2	-0.2
Potential GDP contributions: capital			0.9	0.8	0.6
Potential GDP contributions: total factor productivity			1.3	1.3	1.4
3. Nominal GDP	B1 *g	33.7	11.2	17.0	8.1
Components of real GDP					
4. Private consumption expenditure	P.3	16.6	8.2	6.9	-3.0
5. Government consumption expenditure	P.3	5.4	4.4	1.9	1.2
6. Gross fixed capital formation	P.51	6.6	18.2	-5.5	-0.4
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2.7			
8. Exports of goods and services	P.6	18.4	5.9	10.7	0.2
9. Imports of goods and services	P.7	21.6	15.3	10.5	-1.2
Contribution to real GDP growth					
10. Final domestic demand			6.2	4.6	-1.9
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		4.6	-2.0	0.1
12. External balance of goods and services	B.11		-6.7	-1.0	1.1

Table 1.b: Price developments

	ESA Code	2021	2021	2022	2023
		Levels	Rate of change		
1. GDP deflator			6.9	15.2	8.7
2. Private consumption deflator			3.4	17.3	8.5
3. HICP			3.3	17.3	8.5
4. Public consumption deflator			7.8	0.3	7.8
5. Investment deflator			4.1	15.9	7.9
6. Export price deflator (goods and services)			11.3	21.9	11.0
7. Import price deflator (goods and services)			9.6	21.1	10.5

Table 1.c: Labour market developments

	ESA Code	2021	2021	2022	2023
		Levels	Rate of change		
1. Employment, persons		864.0	-3.2	2.8	-0.2
2. Employment, hours worked		1691.1	5.4	0.0	0.0
3. Unemployment rate (%)			7.6	7.0	7.3
4. Labour productivity, persons			7.6	-1.2	-0.4
5. Labour productivity, hours worked			7.6	-1.2	-0.4
6. Compensation of employees	D.1	13.5	8.5	9.9	7.3
7. Compensation per employee		1277	11.7	8.0	7.5

Table 1.d: Sectoral balances

	ESA Code	2021	2022	2023
		% of GDP		
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.8	-1.2	1.0
of which				
- Balance on goods and services		-3.4	-3.3	-2.0
- Balance of primary incomes and transfers		-0.8	0.9	1.0
- Capital account		1.4	1.3	1.9
2. Net lending/borrowing of the private sector	B.9	4.2	3.8	3.6

	ESA Code	2021	2022	2023
		% of GDP		
3. Net lending/borrowing of general government	EDP B.9	-7.0	-4.7	-4.2
4. Statistical discrepancy		0.0	0.0	0.0

Fiscal strategy and the structural balance objective

The Draft Budgetary Plan for 2023 is prepared at a time when there is a war in Europe. High inflation, the easing of the COVID-19 pandemic in Europe and the associated easing of restrictions have obviated the need for general economic stimulus through fiscal policy instruments. Although the EU's General Escape Clause remains in place for 2023, the EC stated in the 2022 Spring package communication that in 2023 this does not mean full freedom of action for the Member States regarding the budget deficits. Freedom of action is restricted by the Council's Country specific recommendations addressed to all EU member states, which also include a semi-quantitative fiscal recommendations for 2023. According to the recommendation, Latvia shall ensure a broadly neutral fiscal stance in 2023.

In fact, this means that in the period of 2023-2025 it is justified to finance targeted measures that directly address the manifestations of the current crisis. Other expenditures must be financed within the framework of fiscal discipline.

These new circumstances prompted a review of Latvia's Fiscal Policy Strategy, which during the COVID-19 pandemic was based on the suspension of FDL norms and the use of the General Escape Clause without limitation of scope.

The new Fiscal Policy Strategy (hereafter – Strategy) was approved by the Cabinet of Ministers on April 12, 2022 (protocol of the meeting of the Cabinet of Ministers No. 20, § 45) together with the Stability Programme of Latvia 2022-2025. The basis of the Strategy is the return to the application of FDL norms from 2023, providing a transitional procedure for achieving the target of the structural balance of the general government - the structural deficit is gradually reduced by an average of 0.5% of GDP per year until it reaches the 0.5% of GDP as specified in Article 10 of the FDL. The second essential element of the Strategy is determination of the scope of one-off measures. It is based on the position that the expenses related to the crisis are one-off and extraordinary, moreover, they must be carried out in the amount and time necessary to reduce the negative impact of the crisis on society and the national economy. These expenditures are excluded from the calculation of the structural balance and therefore do not affect the target of the structural balance.

The general government budget deficit of 2022 is projected to be 4.7% of GDP - the general government budget is balanced if one-off expenditures related to the crisis are deducted, which amount to 4.8% of GDP.

In accordance with the Strategy and the conditions of the FDL, the general government structural balance target for 2023 is -0.5% of GDP. The total amount of one-off measures is 3.0% of GDP and the amount of Fiscal Security Reserve is 0.1% of GDP. The general government budget deficit, excluding the Fiscal Security Reserve, is projected to be at 4.2% of GDP.

In addition to dividing expenditures into two categories – one-off expenditures related to the crisis and the other expenditures – the Strategy also formulates the general objective of

the fiscal policy and the specific objectives of the fiscal policy, which are also known as the priority development directions of medium-term budget policy.

The Strategy for the period from 2023 to 2025 is directly subordinated to the Declaration on the planned activities of the Cabinet of Ministers headed by Arturs Krišjānis Kariņš.

The general objective of Latvia's fiscal policy is the transformation of Latvia's economy for a better life in Latvia.

Each and every person is the main value of Latvia. It is necessary to mobilize for the kind of economic growth that will improve life for the current population and future generations. In order to implement a broad transformation of the economy, a targeted reorientation is planned in five closely related areas: security, education, energy, competitiveness, quality of life, human and public health.

These areas are also the specific objectives of the fiscal policy or the priority development directions of the medium-term budget policy.

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

	ESA Code	2022	2023
		% of GDP	
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-4.7	-4.2
2. Net lending/net borrowing: Central government	S.1311	-5.5	-4.4
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	0.1	0.1
5. Social security funds	S.1314	0.7	0.2
6. Interest expenditure	D.41	0.5	0.6
7. Primary balance		-4.1	-3.6
8. One-off and other temporary measures		-4.8	-3.0
9. Real GDP Growth(%) (=1 in Table 1a)		1.6	-0.6
10. Potential GDP Growth(%) (=2 in Table 1a)		2.0	1.9
Contributions			
-Labour		-0.2	-0.2
-Capital		0.8	0.6
-Total factor productivity		1.3	1.4
11. Output gap (% of potential GDP)		0.4	-2.1
12. Cyclical budgetary component (% of potential GDP)		0.1	-0.8
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-4.8	-3.4
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-4.3	-2.8

15. Structural balance (13-8) (% of potential GDP)		0.0	-0.4 ¹
---	--	-----	-------------------

Table 2.b: General government debt developments

	ESA Code	2022	2023
		% of GDP	
1. Gross debt		40.9	41.9
2. Change in gross debt ratio		-2.7	1.0
Contributions to changes in gross debt			
3. Primary balance		-4.1	-3.6
4. Interest expenditure	EDP D.41	0.5	0.6
5. Stock-flow adjustment		-1.0	-0.1
Implicit interest rate on debt		1.4	1.5
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		1.6	3.6
9. Percentage of debt denominated in foreign currency		0.0	0.0
10. Average maturity		6.58 years	

Table 2.c: Contingent liabilities

% of GDP	2022	2023
Public guarantees	1.8	1.8

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

	ESA Code	2022	2023
		% GDP	
1. Total revenue at unchanged policies	TR	35.8	36.8
Of which			
1.1. Taxes on production and imports	D.2	13.2	13.0
1.2. Current taxes on income, wealth, etc.	D.5	6.9	6.6
1.3. Capital taxes	D.91	0.1	0.0
1.4. Social contributions	D.61	9.6	9.6
1.5. Property income	D.4	0.7	0.8
1.6. Other		5.3	6.6
p.m.: Tax burden (D.2+D.5+D.61+D.91-		30.0	29.5

¹ Excluding the Fiscal Security Reserve of 0.1% of GDP.

	ESA Code	2022	2023
		% GDP	
D.995)			
2. Total expenditure at unchanged policies	TE	40.5	39.4
of which			
2.1. Compensation of employees	D.1	10.1	10.1
2.2. Intermediate consumption	P.2	6.9	5.8
2.3. Social payments	D.62 D.632	13.5	13.2
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	0.5	0.6
2.5. Subsidies	D.3	0.7	0.6
2.6. Gross fixed capital formation	P.51	4.3	4.8
2.7. Capital transfers	D.9	0.2	0.1
2.8. Other		4.2	4.2

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

	ESA Code	2022	2023
		% GDP	% GDP
1. Total revenue target	TR	35.8	37.1
Of which			
1.1. Taxes on production and imports	D.2	13.2	13.0
1.2. Current taxes on income, wealth, etc.	D.5	6.9	6.7
1.3. Capital taxes	D.91	0.1	0.0
1.4. Social contributions	D.61	9.6	9.7
1.5. Property income	D.4	0.7	1.0
1.6. Other		5.3	6.8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.0	29.6
2. Total expenditure target	TE	40.5	41.3
of which			
2.1. Compensation of employees	D.1	10.1	10.4
2.2. Intermediate consumption	P.2	6.9	6.0
2.3. Social payments	D.62 D.632	13.5	13.2
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	0.5	0.6
2.5. Subsidies	D.3	0.7	0.6
2.6. Gross fixed capital formation	P.51	4.3	5.5
2.7. Capital transfers	D.9	0.2	0.1
2.8. Other		4.2	4.9

Table 4.b: Expenditure to be excluded from the expenditure criteria

	ESA Code	2021	2021	2022	2023
		million, euro	% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue		452.7	1.3	1.1	3.1
1a. Investment expenditure fully matched by EU funds revenue		241.4	0.7	0.6	1.2
2. Cyclical unemployment benefit expenditure		6.39	0.0	0.0	0.0
3. Effect of discretionary revenue measures		232.0	0.7	0.1	0.5
4. Revenue increases mandated by law					

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

	2022		2023	
	% of GDP	% of general government expenditure	% of GDP	% of general government expenditure
Education²	5.2	12.9	5.3	12.8
Health^{3;4}	5.3	13.1	4.5	10.8
Employment⁵	0.1	0.2	0.1	0.2

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

	COFOG Code	2022	2023
		% of GDP	
1. General public services	1	3.7	3.9
2. Defense	2	2.2	2.8
3. Public order and safety	3	1.9	2.2
4. Economic affairs	4	5.7	5.9
5. Environmental protection	5	0.5	0.6
6. Housing and community amenities	6	1.0	1.1
7. Health⁶	7	5.3	4.5
8. Recreation, culture and religion	8	1.4	1.5
9. Education	9	5.2	5.3

² This expenditure category should correspond to item 9 in table 4.c.ii).

³ This expenditure category should correspond to item 7 in table 4.c.ii).

⁴ Including one-off expenditure related to the COVID-19 pandemic.

⁵ This expenditure category contains, inter alia, government spending related to active labour market policies (ALMPs) including public employment services. Items such as compensation of public employees or vocational training programmes are not included here.

⁶ Including one-off expenditure related to the COVID-19 pandemic.

	COFOG Code	2022	2023
		% of GDP	
10. Social protection	10	13.5	13.5
11. Total Expenditure	TE	40.5	41.3

Implementation of medium-term budget policy priority development directions

Russia's military aggression against Ukraine has created unprecedented security threats at the global level in the 21st century. In response to Russia's military aggression against Ukraine, the government's Declaration puts security as one of the main priorities. The field of security covers not only external military defence and foreign policy, but also internal security, justice and strengthening the rule of law, which includes police, firefighters, border guards, and anti-corruption forces.

For the **priority direction "Security"** in the medium term, additional funding in the amount of more than 1.1 billion euros is allocated, including, outside the fiscal space for the one-off investments for strengthening the state security services and capabilities for 2023 – 354.1 million euros (0.8% of GDP), for 2024 – 384.5 million euros (0.9% of GDP) and for 2025 – 350.6 million euros (0.7% of GDP). Main items of additional expenditures for the years 2023-2025:

- 600 million euros are earmarked for the purchase of air defense systems;
- 166.3 million euros for the purchase of special firefighting and rescue vehicles;
- 103.2 million euros for the construction of the state fire and rescue service depot - disaster management centers;
- 77.6 million euros for the development of the state border infrastructure;
- 77 million euros for the support of Ukrainian civilians and support for the reconstruction of Ukraine;
- 40.1 million euros for strengthening cybersecurity, as well as providing citizens with essential industrial goods in case of national threats;
- 19.3 million euros for providing the administrative units of the State Police Riga Region with appropriate premises, as well as allowances for work on holidays for officials with special service ranks.

Additional expenditure in the amount of 62.3 million euros are earmarked for **priority measures in the field of foreign policy** for 2023-2025.

The **priority direction "Education"** is financed in the medium term in the amount of more than 170 million euros (45.1 million euros for 2023, 60.3 million euros for 2024 and 67.0 million euros for 2025). Expenditures are mainly intended for higher education, science and research, compensation for the increase in prices and developing the learning process of natural sciences.

The **priority direction "Energy"** is basically financed by EU funds and RRF. Therefore, the additional investment from the state budget at the current stage is relatively small. A significant part of the state budget funding required for these needs is covered by JSC "Latvenergo" dividends. Hence, even though energy is one of the priorities of the Declaration

and, therefore, the priority development direction of the medium-term budget, the additional funding from the fiscal space allocated in the draft law is relatively small and intended for research in this sector - 1 million euros in 2023 and 5 million euro in 2024 and 2025.

The **priority direction "Competitiveness"** is related to improvements in many areas: financial sector policy, fiscal policy, state budget preparation and municipal financial system, tax policy and tax administration, public administration and investment, business and investment environment, housing, human capital and employment, transport, agriculture, forestry and fisheries, regional development, environment and digitization, regional development policy, investment policy aimed at regional differences and opportunities, national ICT development, data security and data economy development. Additional funding in the amount of 367 million euros is allocated to this priority direction in the medium term (for 2023 – 71.2 million euros, for 2024 – 148.5 million euros, for 2025 – 147.5 million euros).

In addition to these policies, research and development potential is important for increasing competitiveness.

Increasing the country's innovative potential is important not only as a key factor in increasing potential GDP, but also in the context of new competitiveness challenges and geopolitical upheavals, increasing the economy's resilience to external shocks and stimulating the transformation of the economy to carbon neutrality.

Competitive jobs, which can be provided by strong and often export-capable companies, are important for the full use of the potential of scientific human capital. Therefore, the political and potential support of state investments is essential for the development of such companies. This support would stimulate companies to strengthen and even expand their activities directly in Latvia. Thus, in order to start the process of re-industrialization and ensure access to finance for companies planning to carry out large investment projects, the Investment Fund has been established. The successful operation of the Investment Fund and the opportunities provided for the creation of the added value chain in the national economy have proven the need to expand the scope of the Fund's operations. In order to enhance the operation of the support program and strengthen the competitiveness of the national economy, the Cabinet of Ministers has allocated additional funding to the fund of 10 million euros for 2023 and 30 million euros for both 2024 and 2025.

The **priority direction "Quality of life, human and public health"** has been allocated the second largest funding increase after the priority direction "Security". In the medium term, additional funding of more than 600 million is foreseen to this priority direction (for 2023 – 161.5 million euros, for 2024 – 223.2 million euros, for 2025 – 224.9 million euros). The absolute largest part of it is allocated to the health sector, followed by strengthening the capacity of the public administration and support for increasing the minimum income.

Reducing income inequality is one of the most important tasks of the state. According to Eurostat data, income inequality (expressed by the Gini coefficient) in 2021 in Latvia was the second highest in the EU. In order to reduce income inequality, a goal has been set to improve the minimum support system, including the minimum pension, state social security, guaranteed minimum income, income thresholds for poor and low-income households.

The Draft Law on the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025 provides that the methodology for determining income thresholds is improved, i.e., minimum income thresholds are not lower than 20% of the median income and are regularly reviewed. In 2023 the new minimum income thresholds will enter into force from July 1, but starting from 2024, they will be revised annually in January. In *The Draft Law on the State Budget for 2023 and the Budget Framework for 2023, 2024 and 2025* 10.3 million euros in

2023 are earmarked for the revision of the minimum income thresholds (20 million euros in the following years).

The overall health of the population of Latvia is still much worse compared to the EU average, despite the fact that the situation is slowly improving year by year. For example, the average life expectancy of newborns increased from 70.2 years in 2000 to 73.1 years in 2019⁷, but the number of healthy life years is still the lowest in the EU - in 2020, it was 54.3 years for women, 52.6 years for men.⁸

In 2020, Latvia has the 5th lowest total health care expenditure per capita (PPP), 47% of the EU average.⁹ They correlate with the indicator - GDP per capita (PPP), which is also the 5th lowest in Latvia in 2020 – 72% of the EU average.

The most significant additional funding in the health sector has been allocated to the following measures:

- 166.2 million euros for the remuneration of medical personnel, the improvement of the availability of personnel in the Emergency Medical Service and introduction of the general care nurse profession, including the promotion of employment of nurses in the profession;
- 110 million euros for improving healthcare services in the field of oncology;
- 45 million euros for the availability of healthcare services.

⁷ CSP data base, Average life expectancy at birth (years) 1896 - 2021; available: https://data.stat.gov.lv/pxweb/en/OSP_PUB/START__POP__IR__IRP/IRP010/

⁸ Eurostat data base; available: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Healthy_life_years_statistics

⁹ Eurostat data base, Total health care expenditure; available: <https://ec.europa.eu/eurostat/databrowser/view/TPS00207/default/table>

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

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2023	2024	2025
						% of GDP		
Increase of revenues from the dividends	Increase of the forecasted revenues from the dividends of SJSCs	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.11	-0.09	0.00
Increase in remuneration in the prioritized sectors	Spillover effects from the supported measures	PIT	D.5	Accrual	Partly approved by government	0.03	0.01	0.00
		SSC	D.61			0.05	0.02	0.00
		SSC for the Health payment	D.61			0.00	0.00	0.00
		VAT	D.2			0.01	0.01	0.00
Increase of revenues from the state fee	Increase in revenue forecast for the State fee for the maintenance of the State petroleum product stocks (classification code 9380)	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
		Non-tax revenue	P.13			0.02	-0.02	0.00
Increase of revenues from the state fee	Increase/rectification of revenue forecast of the State duty for issuance of a passport (classification code 9181) and the State duty for the issuance of an identity card (classification code 9182) submitted", of the sale of state-owned property after a decision made by other state institutions (classification code 12190), from fines imposed by the State Police for violations in road traffic, which are fixed with the technical resources of the State Police (classification code 10151)	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.02	0.01	-0.01
Increasing the effectiveness of SRS and reducing the shadow economy	Increasing the effectiveness of SRS tax administration measures and reducing the share of the shadow economy in the field of trade in used vehicles, as stipulated in the amendments to the Road Traffic Law	PIT	D.5	Accrual	Partly approved by government	0.001	0.00	0.00
		VAT	D.2			0.002	0.00	0.00
					TOTAL	0.25	-0.06	-0.01

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

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Security and foreign policy				0.07%	0.01%	0.00%
Priority measures related to national security	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	0.01%	0.01%
Allowances for work on public holidays for officials with special service ranks	D.1, P.2	Cash flow	Approved by government	0.01%	0.00%	0.00%
Reconstruction of the UN representative building in New York and the rental of temporary premises, provision of relocation	P.2, P.51g	Cash flow/Accrual	Approved by government	0.02%	-0.01%	-0.01%
Increasing allowances and compensations for services abroad for high-quality defense of Latvia's national security and economic interests	D.1, P.2	Cash flow	Approved by government	0.03%	0.01%	0.00%
Other measures related to security and foreign policy	D1, D.62, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Security and foreign policy (beyond fiscal space)				0.82%	0.02%	-0.10%
Priority measures related to national security	P.51g	Cash flow	Approved by government	0.07%	0.04%	-0.09%
Air defense systems	P.51g	Cash flow	Approved by government	0.47%	-0.02%	-0.02%
Purchase of special firefighting and rescue vehicles	P.51g	Cash flow	Approved by government	0.05%	0.12%	-0.04%
Construction of the state fire and rescue service depot - disaster management centers	P.51g	Cash flow	Approved by government	0.01%	0.07%	0.05%
Providing the administrative units of the State Police (Riga Region) with appropriate premises	P.51g	Cash flow	Approved by government	0.00%	0.00%	0.00%
Strengthening the cybersecurity	P.51g	Cash flow	Approved by government	0.02%	-0.02%	0.00%
Provision of citizens with essential industrial goods in case of national threats	P.51g	Cash flow	Approved by government	0.01%	0.01%	0.00%
Support for Ukrainian civilians	D.7	Cash flow	Approved by government	0.17%	-0.17%	0.00%
Support for the reconstruction of Ukraine	P.51g	Cash flow	Approved by government	0.01%	-0.01%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Education, energy, climate and environment, competitiveness				0.28%	0.20%	-0.01%
Increase in funding for meals for school learners from 1st to 4th grade	P.2	Cash flow	Approved by government	0.02%	0.00%	0.00%
Transition to compulsory education only in Latvia	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.01%
Science, research, higher education, incl.		Cash flow	Approved by government	0.07%	0.03%	0.00%
Provision of base funding for science	D.7, P.2, P.51g	Cash flow	Approved by government	0.02%	0.01%	0.00%
Increase in funding for the implementation of projects of the Fundamental and Applied Research Programs	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Implementation of the national research program	D.1, P.2	Cash flow	Approved by government	0.02%	0.00%	0.00%
Innovation Fund	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Higher Education	D.7, P.2	Cash flow	Approved by government	0.02%	0.01%	0.00%
Sport	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Research activities	P.2	Cash flow	Approved by government	0.00%	0.01%	0.00%
Further development of the Construction information system and modernization of services to improve the business environment	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	0.00%	0.00%
Financial instrument for investment projects	D.7	Cash flow	Approved by government	0.02%	0.04%	0.00%
Funding for public railway infrastructure	D.7	Cash flow	Approved by government	0.04%	0.00%	0.00%
Implementation of the project <i>Rail Baltica</i>	P.51g	Cash flow	Approved by government	0.01%	0.00%	0.00%
Implementation of the project <i>Traffic transfer from Tvaika street to Kundziņsala</i> in 2023-2025	P.51g	Cash flow	Approved by government	0.00%	0.05%	-0.05%
Reconstruction and renovation of regional and local highways	P.51g	Cash flow	Approved by government	0.03%	0.01%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Grant to cover losses for public transport service providers	D.3	Cash flow	Approved by government	0.02%	0.00%	0.00%
Support for rural development policy by implementing the Strategic Plan of the Common Agricultural Policy 2023-2027	D.3	Cash flow	Approved by government	0.00%	0.04%	0.04%
Establishment of a new infrastructure for the implementation of the functions of control services	P.51g	Cash flow	Approved by government	0.00%	0.02%	0.00%
Improvements of the Payment Administration Information System of the SRS, including changes in regulatory acts.	P.2, P.51g	Cash flow	Approved by government	0.01%	0.01%	0.00%
Other measures related to education, energy, climate and environment, competitiveness	D.1, D.3, D.41, D.7, P.2, P.51g	Cash flow	Approved by government	0.03%	-0.01%	0.00%
Quality of life				0.38%	0.12%	-0.02%
Support for increasing the minimum income	D.62, D.7	Cash flow	Approved by government	0.02%	0.02%	0.00%
Improvement of out-of-family care support services	D.62, D.7	Cash flow	Approved by government	0.00%	0.01%	0.00%
Assistant services in the municipality	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Technical aids	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Services of contractual organizations	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Housing guarantee support program and support program <i>Balsts</i>	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Improving healthcare services in the field of oncology	D.7, P.2, P.51g	Cash flow	Approved by government	0.07%	0.02%	0.00%
Availability of services for children	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Implementation of the policy of the welfare sector and improvement of the quality of the services provided	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%
Improving the availability of personnel in the Emergency Medical Service	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%
Introduction of the profession of general care nurse, including promotion of employment of nurses in the profession	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Remuneration of medical personnel	D.1, D.7, P.2	Cash flow	Approved by government	0.06%	0.06%	-0.01%
Access to health care services	D.1, D.7, P.51g	Cash flow	Approved by government	0.04%	0.00%	0.00%
Latvian Song Festival	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	-0.01%	0.00%
Capacity building (in state theaters, concert organizations, circus, opera, etc)	D.7	Cash flow	Approved by government	0.00%	0.00%	0.00%
Strengthening the capacity of the state administration by ensuring the remuneration of strategically important job groups	D.1	Cash flow	Approved by government	0.06%	0.02%	0.00%
Other measures related to quality of life	D.1, D.62, D.7, P.2, P.51g	Cash flow	Approved by government	0.03%	-0.01%	0.00%
Funding for independent institutions	D.1, D.7, P.2, P.51g	Cash flow	Approved by government	0.04%	0.00%	0.00%
Funding for independent institutions outside the fiscal space	D.7	Cash flow	Approved by government	0.01%	0.01%	-0.02%
Contingency funds	D.7	Cash flow	Approved by government	0.07%	-0.07%	0.00%
Compensatory spending measures				-0.17%	0.09%	-0.09%
Special grant adjustment for municipalities	P.51g	Cash flow	Approved by government	-0.15%	0.09%	0.00%
Correction of the 74th budget unit	D.7	Cash flow	Approved by government	-0.01%	-0.01%	-0.09%
Adjustment of special budget expenditure	D.62	Cash flow	Approved by government	-0.01%	0.00%	0.00%
Other measures	D.1, D.7, P.2, P.51g	Cash flow	Approved by government	0.13%	0.03%	-0.03%
			TOTAL	1.6%	0.4%	-0.3%

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

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2023	2024	2025
						% of GDP		
Increase of revenues from the dividends	Increase of the forecasted revenues from the dividends of SJSCs	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.11	-0.09	0.00
Increase in remuneration in the prioritized sectors	Spillover effects from the supported measures	PIT	D.5	Accrual	Partly approved by government	0.01	0.00	0.00
		SSC for the Health payment	D.61			0.00	0.00	0.00
		VAT	D.2			0.01	0.01	0.00
Increase of revenues from the state fee	Increase in revenue forecast for the State fee for the maintenance of the State petroleum product stocks (classification code 9380)	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
		Non-tax revenue	P.13			0.02	-0.02	0.00
Increase of revenues from the state fee	Increase/rectification of revenue forecast of the State duty for issuance of a passport (classification code 9181) and the State duty for the issuance of an identity card (classification code 9182) submitted", of the sale of state-owned property after a decision made by other state institutions (classification code 12190), from fines imposed by the State Police for violations in road traffic, which are fixed with the technical resources of the State Police (classification code 10151)	Non-tax revenue	P.13	Cash flow	Partly approved by government	0.02	0.01	-0.01
Increasing the effectiveness of SRS and reducing the shadow economy	Increasing the effectiveness of SRS tax administration measures and reducing the share of the shadow economy in the field of trade in used vehicles, as stipulated in the amendments to the Road Traffic Law	PIT	D.5	Accrual	Partly approved by government	0.000	0.000	0.000
		VAT	D.2			0.002	0.000	0.000
					TOTAL	0.18	-0.09	-0.01

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

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Security and foreign policy				0.07%	0.01%	0.00%
Priority measures related to national security	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	0.01%	0.01%
Allowances for work on public holidays for officials with special service ranks	D.1, P.2	Cash flow	Approved by government	0.01%	0.00%	0.00%
Reconstruction of the UN representative building in New York and the rental of temporary premises, provision of relocation	P.2, P.51g	Cash flow/Accrual	Approved by government	0.02%	-0.01%	-0.01%
Increasing allowances and compensations for service abroad for high-quality defense of Latvia's national security and economic interests	D.1, P.2	Cash flow	Approved by government	0.03%	0.01%	0.00%
Other measures related to security and foreign policy	D1, D.62, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Security and foreign policy (beyond fiscal space)				0.82%	0.02%	-0.10%
Priority measures related to national security	P.51g	Cash flow	Approved by government	0.07%	0.04%	-0.09%
Air defense systems	P.51g	Cash flow	Approved by government	0.47%	-0.02%	-0.02%
Purchase of special firefighting and rescue vehicles	P.51g	Cash flow	Approved by government	0.05%	0.12%	-0.04%
Construction of the state fire and rescue service depot - disaster management centers	P.51g	Cash flow	Approved by government	0.01%	0.07%	0.05%
Providing the administrative units of the State Police (Riga Region) with appropriate premises	P.51g	Cash flow	Approved by government	0.00%	0.00%	0.00%
Strengthening the cyber security	P.51g	Cash flow	Approved by government	0.02%	-0.02%	0.00%
Provision of citizens with essential industrial goods in case of national threats	P.51g	Cash flow	Approved by government	0.01%	0.01%	0.00%
Support of Ukrainian civilians	D.7	Cash flow	Approved by government	0.17%	-0.17%	0.00%
Support for the reconstruction of Ukraine	P.51g	Cash flow	Approved by government	0.01%	-0.01%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Education, energy, climate and environment, competitiveness				0.26%	0.15%	0.03%
Science, research, higher education, incl.		Cash flow	Approved by government	0.07%	0.03%	0.00%
Provision of base funding for science	D.7, P.2, P.51g	Cash flow	Approved by government	0.02%	0.01%	0.00%
Increase in funding for the implementation of projects of the Fundamental and Applied Research Program	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Implementation of the national research program	D.1, P.2	Cash flow	Approved by government	0.02%	0.00%	0.00%
Innovation Fund	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.00%
Higher Education	D.7, P.2	Cash flow	Approved by government	0.02%	0.01%	0.00%
Sport	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Research activities	P.2	Cash flow	Approved by government	0.00%	0.01%	0.00%
Further development of the Construction information system and modernization of services to improve the business environment	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	0.00%	0.00%
Financial instrument for investment projects	D.7	Cash flow	Approved by government	0.02%	0.04%	0.00%
Funding for public railway infrastructure	D.7	Cash flow	Approved by government	0.04%	0.00%	0.00%
Implementation of the project <i>Rail Baltica</i>	P.51g	Cash flow	Approved by government	0.01%	0.00%	0.00%
Reconstruction and renovation of regional and local highways	P.51g	Cash flow	Approved by government	0.03%	0.01%	0.00%
Grant to cover losses for public transport service providers	D.3	Cash flow	Approved by government	0.02%	0.00%	0.00%
Support for rural development policy by implementing the Strategic Plan of the Common Agricultural Policy 2023-2027	D.3	Cash flow	Approved by government	0.00%	0.04%	0.04%
Establishment of a new infrastructure for the implementation of the functions of control services	P.51g	Cash flow	Approved by government	0.00%	0.02%	0.00%
Improvements of the Payment Administration Information System of the SRS, including changes in regulatory acts.	P.2, P.51g	Cash flow	Approved by government	0.01%	0.01%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Other measures related to education, energy, climate and environment, competitiveness	D.1, D.3, D.41, D.7, P.2, P.51g	Cash flow	Approved by government	0.03%	-0.01%	0.00%
Quality of life				0.34%	0.10%	-0.02%
Support for increasing the minimum income	D.62, D.7	Cash flow	Approved by government	0.01%	0.01%	0.00%
Improvement of out-of-family care support services	D.62, D.7	Cash flow	Approved by government	0.00%	0.01%	0.00%
Technical aids	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Services of contractual organizations	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Housing guarantee support program and support program <i>Balsts</i>	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Improving healthcare services in the field of oncology	D.7, P.2, P.51g	Cash flow	Approved by government	0.07%	0.02%	0.00%
Availability of services for children	D.7	Cash flow	Approved by government	0.01%	0.00%	0.00%
Implementation of the policy of the welfare sector and improvement of the quality of the services provided	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%
Improving the availability of personnel in the Emergency Medical Service	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%
Introduction of the profession of general care nurse, including promotion of employment of nurses in the profession	D.1	Cash flow	Approved by government	0.01%	0.00%	0.00%
Remuneration of medical personnel	D.1, D.7, P.2	Cash flow	Approved by government	0.06%	0.06%	-0.01%
Access to health care services	D.1, D.7, P.51g	Cash flow	Approved by government	0.03%	0.00%	0.00%
Latvian Song Festival	D.1, P.2, P.51g	Cash flow	Approved by government	0.01%	-0.01%	0.00%
Capacity building (in state theaters, concert organizations, circus, opera, etc)	D.7	Cash flow	Approved by government	0.00%	0.00%	0.00%
Strengthening the capacity of the state administration by ensuring the remuneration of strategically important job groups	D.1	Cash flow	Approved by government	0.06%	0.02%	0.00%

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Other measures related to quality of life	D.1, D.62, D.7, P.2, P.51g	Cash flow	Approved by government	0.03%	0.00%	0.00%
Funding for independent institutions	D.1, D.7, P.2, P.51g	Cash flow	Approved by government	0.04%	0.00%	0.00%
Funding for independent institutions outside the fiscal space	D.7	Cash flow	Approved by government	0.01%	0.01%	-0.02%
Contingency funds	D.7	Cash flow	Approved by government	0.07%	-0.07%	0.00%
Compensatory spending measures				-0.01%	-0.01%	-0.09%
Correction of the 74th budget unit	D.7	Cash flow	Approved by government	-0.01%	-0.01%	-0.09%
Other measures	D.1, D.7, P.2, P.51g	Cash flow	Approved by government	0.13%	0.03%	-0.03%
TOTAL				1.7%	0.2%	-0.2%

Table 5.c.i1): Discretionary revenue measures taken by Local Government

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2023	2024	2025
						% of GDP		
Increase in remuneration in the prioritized sectors	Spillover effects from the supported measures	PIT	D.5	Accrual	Partly approved by government	0.02	0.01	0.00
Increasing the effectiveness of SRS and reducing the shadow economy	Increasing the effectiveness of SRS tax administration measures and reducing the share of the shadow economy in the field of trade in used vehicles, as stipulated in the amendments to the Road Traffic Law	PIT	D.5	Accrual	Partly approved by government	0.00	0.00	0.00
TOTAL						0.02	0.01	0.00

Table 5.c.ii1): Discretionary expenditure measures taken by Local Government

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Education, energy, climate and environment, competitiveness				0.02%	0.05%	-0.04%
Increase in funding for meals for school learners from 1st to 4th grade	P.2	Cash flow	Approved by government	0.02%	0.00%	0.00%
Implementation of the project <i>Traffic transfer from Tvaika street to Kundziņsala in 2023-2025</i>	P.51g	Cash flow	Approved by government	0.00%	0.05%	-0.05%
Other measures related to education, energy, climate and environment, competitiveness	D.1, P.2	Cash flow	Approved by government	0.00%	0.00%	0.01%
Quality of life				0.03%	0.01%	0.00%
Support for increasing the minimum income	D.62	Cash flow	Approved by government	0.01%	0.01%	0.00%
Assistant services in the municipality	P.2	Cash flow	Approved by government	0.01%	0.00%	0.00%
Other measures related to quality of life	D.1, D.62, P.2, P.51g	Cash flow	Approved by government	0.00%	0.00%	0.00%
Compensatory spending measures				-0.15%	0.09%	0.00%
Special grant adjustment for municipalities	P.51g	Cash flow	Approved by government	-0.15%	0.09%	0.00%
			TOTAL	-0.1%	0.2%	0.0%

Table 5.c.i2): Discretionary revenue measures taken by Social Security Funds

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2023	2024	2025
						% of GDP		
Increase in remuneration in the prioritized sectors	Spillover effects from the supported measures	SOC	D.61	Accrual	Partly approved by government	0.05	0.02	0.00

Table 5.c.ii2): Discretionary revenue measures taken by Social Security Funds

List of measures	ESA code	Accounting principle	Adoption Status	2023	2024	2025
				% of GDP		
Security and foreign policy	D.62	Cash flow	Approved government by	0.00%	0.00%	0.00%
Education, energy, climate and environment, competitiveness	P.2	Cash flow	Approved government by	0.00%	0.00%	0.00%
Quality of life				0.01%	0.00%	0.00%
Support for increasing the minimum income	D.62	Cash flow	Approved government by	0.00%	0.00%	0.00%
Implementation of the policy of the welfare sector and improvement of the quality of the services provided	D.1	Cash flow	Approved government by	0.01%	0.00%	0.00%
Other measures related to quality of life	D.1, D.62, P.2, P.51 g	Cash flow	Approved government by	0.00%	0.00%	0.00%
Compensatory spending measures	D.62	Cash flow	Approved government by	-0.01%	0.00%	0.00%
			TOTAL	0.0%	0.0%	0.0%

Table 6.a: CSR recommendations

CSR No.	Measures	Description
1	<p>In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Broaden taxation, including of property and capital, and strengthen the adequacy of healthcare and social protection to reduce inequality.</p>	<p>Assessing by the changes in the structural balance from 0% of GDP in 2022 to -0.5%, the fiscal stance is slightly restrictive. However, taking into account the different evaluations in the classification of one-off measures and the uncertainty in determining the output gaps, it can be concluded that the structural balance indicator basically indicates a neutral fiscal stance.</p> <p>Currently work is continued on changes to the real estate tax policy, taking into account the new cadastral values. According to Clauses 45-47 of the Transitional Provisions of State Immovable Property Cadastre Law, the Cabinet of Ministers shall submit to the <i>Saeima</i> a draft law by January 31, 2024, which, in relation to changes in the cadastral value base, provides a proportionate real estate tax and which comes into force at the same time as the cadastral value base, which will be used for the calculation of the cadastral value on January 1, 2025.</p> <p>The EU Council's recommendation is partially based on data on CIT revenues in 2020, which does not reflect the current situation. In 2021, CIT revenues were already 35.5% higher than in 2020.</p> <p>On 26 May 2022, the Cabinet of Ministers approved the Public Health Policy Guidelines 2021-2027, which is the main policy planning document for the health sector and which contains the priorities for the health sector in the coming years.</p> <p>The Public Health Policy Guidelines 2021-2027 foresee an increase in funding for health care to 6% of GDP in 2027. In 2023, additional funding of 85.8 million euro is allocated to ensure the adequacy of the health system, as well as to strengthen resilience and accessibility. This will contribute only to addressing the most pressing challenges in the health system, considering that the funding needed to improve access to health services is much higher.</p> <p>The additional funding is primarily planned to be directed towards increasing the salaries of health professionals in order to reduce the outflow of labour from the state-funded health sector, as well as to attract more students to study health professions.</p> <p>The additional funding will be used to facilitate early detection of oncological diseases and to provide more successful treatment. This will include the inclusion of new oncological medicines in the register of reimbursable medicines, improving the availability and quality of palliative services at home, and providing a new range of tests for oncology patients.</p> <p>To increase access to healthcare for children, the range of services provided by general practitioners will be expanded and improved, as well as the range of screening services for newborns and examinations for premature babies. At the same time, the provision of specific medical devices and medicines for children with specific diseases and disorders will be promoted.</p> <p>To ensure the adequacy of social protection, especially for those with low income, on January 24, 2023 the government has approved proposals for revising the minimum income thresholds from July 1, 2023. The proposed changes in the minimum income thresholds envisage: 1) their determination according to a specific calculation methodology,</p>

CSR No.	Measures	Description
		<p>namely by replacing the existing absolute minimum income amounts with the percentage from the median minimum income per equivalent consumer (equivalence scale - 1; 0.7); 2) regular annual revision of the minimum income thresholds after the publication of the EU statistics on income and living conditions data, replacing the previous norm of revision not less than once every three years; 3) determining the common coefficients in the country for calculating the housing benefit for different types of households, providing higher material support to households with persons of retirement age and persons with disabilities. It is predicted that these changes will affect approximately 64 thousand needy persons and 37 thousand low-income persons, 24 thousand beneficiaries of the state social security benefit and 19 thousand beneficiaries of minimum pensions. For the implementation of these measures in 2023, the additional planned state budget is 10.3 million euros, including 5.6 million euros state budget co-financing to municipalities to cover 30% of expenditures for the guaranteed minimum income benefit and housing benefit. These planned changes still have to be adopted by the Parliament.</p> <p>By increasing the state social security benefit the amounts of funeral benefits and benefits for the surviving spouse, minimum amount of service pensions etc. benefits (which amount is linked to the state social security benefit) have been raised.</p> <p>In order to increase public investments, which will contribute to the green transformation and energy security, in 2022 the Cabinet of Ministers has approved and launched RRF support programs for the energy efficiency of apartment buildings, increasing energy efficiency in business and modernization of electricity transmission and distribution networks with a total funding of 217.9 million euro.</p> <p>To promote digital transformation, the Ministry of Economics has earmarked 183 million euro to support the digital transformation of business, both to address the digital skills gap for entrepreneurs and to support the digitisation of processes, the development of new services and products, and to provide financial support for the acquisition of digital technologies.</p> <p>During 2023, amendments to the Latvian Recovery and Resilience Plan are planned, supplementing it with <i>REPowerEU</i> funding to promote energy security.</p> <p>In 2023, the energy efficiency investments of municipal buildings of the RRF will be launched, supporting measures to reduce annual primary energy consumption and to increase energy saving, introducing the most effective CO₂ reducing measures to improve energy efficiency and heat resistance, while reducing municipal budget expenditures for further maintenance of buildings. By purchasing zero-emission vehicles (electric buses) for municipalities with the funding of the EU RRF, it is planned to promote the transition to climate neutrality by replacing fossil fuel-powered municipal vehicles (buses) with electric buses, thereby reducing GHG emissions and contributing to the achievement of climate goals.</p> <p>As part of the EU Cohesion Policy Programme for 2021-2027, it is planned to promote the green transformation in 2023 by supporting households with the implementation of efficient and pollution-reducing combustion equipment, heat supply and water management service providers - with the improvement of air pollutant and waste water treatment facilities, merchants with the transition to a circular economy, municipalities with complex measures promoting pollution</p>

CSR No.	Measures	Description
		<p>mitigation, adaptation to climate change and nature protection, at the national level - flood risk mitigation and comprehensive environmental monitoring.</p> <p>By using the funding of the Just Transition Fund within the EU Cohesion Policy Programme 2021-2027, it is planned to reduce the negative impact of climate change by phasing out of peat in energy by 2030 and alleviate a balanced socio-economic transition in the regions most affected by the transition to a climate-neutral economy. It is planned to support recultivation of degraded peat sites, restoration of habitats or peat sites ecosystems of EU importance, research development for sustainable use of natural resources, development of public infrastructure necessary for business, purchase of zero-emission vehicles in municipalities, business "greening" and product development, upskilling and enhancement of knowledge of the municipal and regional specialists and employees affected by the transition to a climate-neutral economy.</p> <p>By using the investments of the EU Cohesion Policy Programme 2021-2027 for the development of state ICT solutions and services and creation of opportunities for the private sector, it is planned to promote the digital transformation of the state and private sector.</p>
2	<p>Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021.</p> <p>Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.</p>	<p>Work continues on the development of the national regulatory framework for the implementation of Latvian Recovery and Resilience Plan investments - the Cabinet of Ministers has approved 34 regulations or informative reports on the implementation of 43 investments and reforms for a total funding of 976 million euros (approximately 53% of the total funding allocated to Latvia). During 2023, amendments to the Latvian Recovery and Resilience Plan are planned, supplementing it with <i>REPowerEU</i> funding. Likewise, work on the fulfillment of indicators continues - currently 12 out of 49 indicators have been fulfilled.</p> <p>European Commission has adopted European Union Cohesion policy Programme 2021-2027 on November 25, 2022. Currently intensive work is carried out to develop national horizontal and specific regulations in order to begin calls of proposals for EU funded projects and implementation of investments.</p>
3	<p>Improve access to finance for small and medium-sized enterprises through public lending and guarantee schemes aimed at facilitating investments of strategic importance, in particular the green transition and regional development.</p>	<p>In order to provide support for the establishment of economic operators, investment in the implementation of viable projects and working means with a view to promoting the development and productivity of their technological capacity, the Ministry of Economics intends to develop the following support programmes for SMEs in 2023:</p> <ul style="list-style-type: none"> - Support for SME business development (1.2.3.1; 74.35 million euros), where activities will cover the full range of current business incubation services. Not only will there be the possibility of pre- and post-incubation services, but there will also be the possibility of servicing companies if they need support to enter a foreign market. There will even be training programmes or innovation incentive support available to encourage entrepreneurship and innovation; - Support for company participation in the capital market (1.2.1.3; 2 million euros), where the programme provides support for the issuance of both equity and debt securities (bonds), with the aim of facilitating the raising of finance for the development of businesses on the capital markets, thereby increasing the international competitiveness of businesses and encouraging investment in viable and innovative businesses; - Venture Capital (1.2.3.2; 93 million euros) aimed at fostering the creation and development of new, innovative, high-growth and high-productivity businesses in Latvia;

CSR No.	Measures	Description
		<ul style="list-style-type: none"> - Start-up and productivity improvement (1.2.3.3 and 1.2.3.5; 31,74 million euros). The objective of the Start-up Loan Programme is to provide loans to companies with no start-up capital, insufficient collateral and insufficient track record to qualify for a loan from a commercial bank. The Productivity Loan Programme, on the other hand, aims to promote the development of entrepreneurs and turnover growth by supporting productivity-enhancing investments; - Guarantees, portfolio guarantees for full-cycle business (1.2.3.4; 40 million euros), where the support programme will provide investment loans, working capital loans, financial leasing. Individual guarantees are targeted at large transactions, while the portfolio guarantee instrument will speed up the process of providing a guarantee service for small transactions. The guarantees for digitisation and automation are intended to cover the introduction of new technologies and the digitisation of processes; - Productivity loans (including capital rebates) (1.2.1.2; 69,14 million euros), with the aim of promoting the improvement of production processes through the introduction of innovative production processes, as well as ensuring the commercialisation (introduction into production) of newly developed products. <p>To improve access to finance for the SMEs by the end of 2023, the following activities are planned:</p> <ul style="list-style-type: none"> - To ensure state aid program portfolio for the total amount of 1060 million euros to address market failures in financial instruments; - To raise capital for SMEs for the total amount of 227 million euros, including private sector funds for 125 million euros and European Regional Development Fund for 45,2 million euros; - To mobilize 20 million euros in additional resources from international financial institutions or in the capital market to increase available financing to address market failures by state support programs in financial instruments. <p>On top of that, following the Law on Agriculture and Rural Development and the Law on the Development Finance Institution, the state will issue guarantees for 250 million euros for the guarantees issued by the joint stock company <i>Development Finance Institution Altum</i>.</p>
4	Reduce overall reliance on fossil fuels and diversify imports of fossil fuels by accelerating the deployment of renewables, ensuring sufficient interconnection capacity, diversifying energy supplies and routes and reducing overall energy consumption through ambitious energy efficiency measures.	<p>In 2023, it is planned to ensure the operation of the Modernisation fund in Latvia. The purpose of the fund is to contribute to the achievement of climate and energy goals in the period up to 2030 by supporting low-carbon investments to modernise energy systems and to improve energy efficiency, including energy efficiency in transport, buildings, agriculture and waste sectors. In 2023 an open tender is planned to be adopted promoting energy efficiency in transport sector by giving support for the purchase of electric vehicles and their charging infrastructure.</p> <p>In 2023, within the state budget programme – the Emissions Auctioning Financial Instrument– the support for project implementation (generation and use of renewable energy in households, purchase of zero-emission and low-emission vehicles, improvement of energy efficiency in buildings and in the public lightening infrastructure) will be continued.</p>

Table A1: COVID-19 crisis economic support measures and their fiscal impact

Measures	ESA Code	Budgetary impact (% of GDP - change from previous year)			
		2020	2021	2022	2023
Support to the field of taxation		-0.4	0.4	0.0	0.1
Extension or division of the term for payment of taxes into terms of up to 3 years	D2; D5; D61	-0.1	0.1	0.0	0.0
Possibility not to pay PIT advance payments	D5	-0.1	0.1	0.0	0.1
Faster VAT overpayment refund	D2	-0.2	0.2	0.0	0.0
Other		0.0	0.0	0.0	0.0
Aid in the field of benefits		-0.4	-1.2	1.4	0.2
Downtime support for company employees, patent payers, self-employed	D7	-0.2	-0.2	0.4	0.0
Wage subsidies for part-time workers	D7	-0.2	0.1	0.1	0.0
Payment of sickness benefit from the state budget	D632; D62	0.0	-0.1	0.0	0.1
Allowance for families with children	D632; D62	0.0	-0.6	0.6	0.0
Benefit for pensioners and persons with disabilities	D632; D62	0.0	-0.3	0.3	0.0
Other		-0.1	0.0	0.0	0.1
Aid in the field of loans and guarantees		-0.3	0.0	0.1	0.1
Increase of local governments borrowing limit	P51	-0.2	-0.1	0.1	0.2
Working capital loans	D7	0.0	0.0	0.0	0.0
Credit guarantees	D7	-0.1	0.1	0.0	0.0
Portfolio guarantees	D7	-0.0	0.0	0.0	0.0
Loans with a capital discount for investment projects for entrepreneurs to promote competitiveness	D7	0.0	0.0	0.0	-0.0
Other		0.0	0.0	0.0	0.0
Sectoral support		-2.1	-2.3	2.9	1.2
Support to the air transport industry	D7; D9	-0.9	0.6	0.1	0.1

Measures	ESA Code	Budgetary impact (% of GDP - change from previous year)			
		2020	2021	2022	2023
Healthcare-related support	P2; P51; D1; D7	-0.4	-1.2	0.4	1.0
To alleviate financial difficulties in the agricultural, forestry, fisheries and food production sectors	D3	-0.1	0.1	0.1	0.0
For construction of state roads and repairs of bridges	P51	-0.2	-0.1	0.3	0.1
Support for passenger and freight carriers	D3; D7; D9	-0.2	0.2	0.1	0.0
Grant for current assets	D7	0.0	-1.5	1.4	0.1
High readiness projects related to overcoming the COVID-19 crisis and economic recovery	P51	0.0	-0.2	0.0	0.1
Support for the cultural sector	P2; D7; P51	-0.1	0.0	0.0	0.0
Support for education, science and sport	D1; D7; P2	-0.1	0.0	0.1	0.0
To compensate the decline in shopping center revenue	D7	0.0	0.0	0.0	0.0
Other		0.0	-0.1	0.3	-0.2
Total		-3.2	-3.1	4.4	1.7

Table A2: Fiscal policy measures taken in response to the energy price hikes; costs related to people fleeing Ukraine

	Measures	Date of adoption	Budgetary impact (% of GDP - change from previous year)		
			2021	2022	2023
	A cost-cutting measures for end-users		0.01	-0.87	-0.42
	Electricity system service fee compensation in full for all end users from December 1, 2021 to April 30, 2022	24.12.2021	0.00	-0.34	0.34
	Increase of support for protected users by 10 euro in the period from 1 November 2021 to 31 December 2022	01.06.2022	0.01	-0.02	0.02

	Measures	Date of adoption	Budgetary impact (% of GDP - change from previous year)		
Energy support	Reduction of the mandatory procurement component in 2022 to 7.55 euro per megawatt hour	25.01.2022	0.00	-0.05	0.05
	Compensation of district heating service fee from January 1, 2022 to April 30, 2022	26.01.2022	0.00	-0.02	0.02
	Compensation of natural gas trade service fee from January 1, 2022 to April 30, 2022	27.01.2022	0.00	-0.07	0.07
	Compensation of the mandatory procurement component fee for the period from January 1, 2022 to April 30, 2022	28.01.2022	0.00	-0.06	0.06
	Compensation for the increase in electricity costs for households using electricity for heating	09.08.2022	0.00	0.00	-0.09
	Compensation for natural gas cost increases for households	09.08.2022	0.00	-0.02	-0.03
	Compensation for the increase in heat costs for households	09.08.2022	0.00	-0.07	-0.16
	Compensation for increased firewood purchase costs for households (proof with bill / receipt)	09.08.2022	0.00	0.00	-0.05
	Firewood for which the receipt has not been saved, 60 euro allowance (purchased by August 31)	09.08.2022	0.00	-0.03	0.03
	Compensation for the increase in the cost of pellets for households	09.08.2022	0.00	0.00	0.00
	Compensation for the increase in the cost of briquettes for households	09.08.2022	0.00	0.00	-0.03
	Electricity system service fee compensation in full for companies	23.08.2022	0.00	-0.08	-0.09
	Natural gas threshold	27.09.2022	0.00	0.00	-0.01
	Electricity compensation	27.09.2022	0.00	-0.01	-0.10
	Central heat compensation	27.09.2022	0.00	-0.04	-0.11
	Electricity compensations for legal users	27.09.2022	0.00	-0.06	-0.34
	Social benefits			0.00	-0.61
State budget grant to local governments for the provision of housing benefit - in the amount of 50 per cent of the actual	25.01.2022	0.00	-0.01	-0.02	

	Measures	Date of adoption	Budgetary impact (% of GDP - change from previous year)		
	expenses for housing benefit incurred in the period from 1 January 2022 to 31 December 2022				
	Payment of support 20 euro per month for seniors and persons with disabilities in the period from 1 January 2022 to 30 April 2022	21.10.2021	0.00	-0.11	0.11
	Payment of support 50 euro per month for families with children in the period from 1 January 2022 to 30 April 2022	29.01.2022	0.00	-0.21	0.21
	Faster indexation of pensions (from August 2022)	14.07.2022	0.00	-0.23	0.23
	Support for seniors, persons with disabilities, persons who have lost their breadwinners (from 01.11.2022 to 30.05.2023, benefit amount of 10, 20 or 30 euro per month, depending on the amount of the recipient's pension income)	09.08.2022	0.00	-0.05	-0.09
	Other support		0.00	0.00	0.00
	Support for the energy efficient businesses		0.00	-0.06	0.06
	Total energy support		0.01	-1.54	0.08
Costs related to Ukraine civilians	Payments to the international organizations	12.03.2022	0.00	-0.02	0.02
	For local governments, expenses for accommodation and food for refugees, education for children	29.04.2022 20.12.2022	0.00	-0.14	0.07
	Other measures, incl. social benefits, funds for language training, health care related expenditure)		0.00	-0.04	-0.13
	Total costs related to Ukraine civilians		0.00	-0.21	-0.03
	TOTAL		0.01	-1.74	0.04

Table B: COVID-19 related guarantees

	Measure	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
COVID-19	Credit guarantees	24.03.2020	0.22	0.22
	Portfolio guarantees	24.03.2020	0.01	0.01
	Guarantees for economic operators	17.12.2020	0.01	0.01
	Total		0.24	0.24

Table C: RRF impact

<i>Revenue from RRF grants (% of GDP)</i>				
	2020	2021	2022	2023
RRF GRANTS as included in the revenue projections	0.00	0.00	0.02	0.88
Cash disbursements of RRF GRANTS from EU	0.00	0.70	0.53	0.00
<i>Expenditure financed by RRF grants (% of GDP)</i>				
	2020	2021	2022	2023
TOTAL CURRENT EXPENDITURE	0.00	0.00	0.03	0.31
Gross fixed capital formation P.51 g	0.00	0.00	0.00	0.58
Capital transfers D.9				
TOTAL CAPITAL EXPENDITURE	0.00	0.00	0.00	0.58

Table 7: Divergence from Stability Programme 2022–2025

	ESA Code	2022	2023	2024
		% of GDP		
Target general government net lending/ net borrowing	B.9			
Stability Programme		-6.5	-2.8	-2.3
Draft Budgetary Plan		-4.7	-4.2	-2.3
Difference		1.8	-1.3	0.0
General government net lending projection at unchanged policies	B.9			
Stability Programme		-6.5	-2.4	-1.8
Draft Budgetary Plan		-4.7	-2.6	-0.4
Difference ¹⁰		1.8	-0.3	1.4

Distributional Impact Assessment

A distributional impact assessment (DIA) is used to assess the impact of government policy measures on income inequality and household equivalised disposable income¹¹ (hereafter – household income). The DIA is conducted using the EUROMOD – tax-benefit microsimulation model. The data used as input is based on Latvian EU-SILC 2020 data containing information on a representative sample of 6 095 households and 13 188 individuals, adjusted to the population to obtain information on 825 449 households and 1 880 676 individuals. The EU-SILC data on household income is updated on the basis of MoF's macroeconomic projections for CPI and gross wages (see Tables 1b and 1c).

The DIA analyses the impact of three government policy measures on income inequality and household income in 2023:

- 1) Government support for certain groups of the population (seniors, persons with disabilities, persons who have lost their breadwinners):
 - EUR 30 per month if the amount of the pension, state social security benefit does not exceed EUR 300 per month;
 - EUR 20 per month if the amount of the pension, state social security benefit does not exceed EUR 509 per month;
 - EUR 10 per month if the amount of the pension, state social security benefit does not exceed EUR 603 per month;
- 2) Increase of guaranteed minimum income (GMI) thresholds to 3 for the calculation of the housing benefit;
- 3) Increase of the minimum income thresholds to no less than 20% of the median income.

¹⁰ This difference can refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the Stability Programme and the submission of the Draft Budgetary Plan. Differences are expected due to the fact that the no-policy change scenario is defined differently for the purpose of this Code of Conduct with respect to the Stability Programme.

¹¹ Household disposable income divided by its "equivalent size", which is calculated with the help of the so-called "modified OECD" equivalence scale. This scale gives a weight of 1.0 to the first adult, 0.5 to any other household member aged 14 and over and 0.3 to each child aged less than 14.

Government support for certain groups of the population and an increase of the GMI thresholds for the calculation of the housing benefit are provided to support people in times of extreme increase in energy prices. Both measures are temporary: government support for certain groups of the population is granted until May 31, 2023, while the GMI thresholds for the calculation of the housing benefit are raised until April 30, 2023. The revision of the minimum income thresholds was identified as one of the priorities for the 2023 State Budget. According to a government decision, the minimum income thresholds are set at no lower than 20% of median income and are going to be reviewed annually.

The impact of the policy measures on household income is shown in Table 8. All the measures analyzed are means-tested, so that the lowest income households benefit the most from the policy measures. It should be noted that the EUROMOD model has been adjusted so that only 40% of the population qualifying for housing benefit apply for it.

Table 8: Impact of policy measures on household income in 2023, in EUR and %

	2023						
	Household average income	Impact from support for certain groups of the population		Impact of an increase of GMI thresholds		Impact of an increase of minimum income thresholds	
	EUR	EUR	%	EUR	%	EUR	%
Decile 1	3 645	63	1.73%	108	2.98%	37	1.00%
Decile 2	6 164	56	0.91%	33	0.53%	15	0.24%
Decile 3	7 933	44	0.56%	8	0.10%	7	0.09%
Decile 4	9 363	36	0.38%	6	0.06%	5	0.05%
Decile 5	10 886	25	0.23%	0	0.00%	1	0.01%
Decile 6	12 651	26	0.21%	0	0.00%	2	0.01%
Decile 7	14 597	25	0.17%	0	0.00%	2	0.01%
Decile 8	16 784	18	0.11%	0	0.00%	1	0.01%
Decile 9	20 597	13	0.06%	0	0.00%	1	0.01%
Decile 10	34 301	9	0.03%	0	0.00%	1	0.00%

The impact of the policy measures on inequality is shown in Table 9. The policy measures reduce the Gini coefficient¹², S80/S20 quintile share ratio index¹³ and the proportion of households below at-risk-of-poverty threshold¹⁴.

¹² The Gini coefficient characterizes inequality of income. It varies from 0 to 100. The Gini coefficient is 0, if there is absolute equality of income (i.e., all population have the same income), but the closer it gets to 100, the greater is inequality of income.

¹³ S80/S20 quintile share ratio index is the ratio of total equivalised disposable income received by the 20% of the country's population with the highest equivalised disposable income (top quintile) to that received by the 20% of the country's population with the lowest equivalised disposable income (bottom quintile).

¹⁴ At-risk-of-poverty threshold, which is set at 60 % of the median equivalised disposable income.

Table 9: Impact of support measures on income inequality in 2023

2023				
Inequality measure	Initial value	Impact from support for certain groups of the population	Impact of an increase of GMI thresholds	Impact of an increase of minimum income thresholds
Gini coefficient	32.73	-0.14	-0.13	-0.05
S80/S20	5.59	-0.06	-0.08	-0.04
At-risk-of-poverty threshold	0.20	-0.32	-0.21	-0.06

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, its 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.