Finanšu ministrija

DRAFT BUDGETARY PLAN OF THE REPUBLIC OF LATVIA 2024

RIGA, 2023

Content

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Abbreviations

CIT	Corporate Income Tax
CoM	Cabinet of Ministers
CSR	Country Specific Recommendations
DIA	Distributional Impact Assessment
EC	European Commission
ED	Excise Duty
EU	European Union
ESA	European System of Accounts
FDL	Fiscal Discipline Law
GDP	Gross Domestic Product
LGT	Lottery and Gambling Tax
MoF	Ministry of Finance
MSSIC	Mandatory State Social Insurance Contributions
MTO	Medium-term Objective
NRT	Natural Resources Tax
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
RRF	Recovery and Resilience Facility
SME	Small and Medium-sized Enterprises
SSC	Social Security Contributions
VAT	Value Added Tax

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 Draft Budgetary Plan for 2024.

After the Prime Minister's resignation, on September 15th of this year, the Saeima of the Republic of Latvia approved a new government, resulting in the annual state budget law project being prepared three weeks later than planned.

The Draft Budgetary Plan for 2024 has been prepared based on the macroeconomic development scenario developed in June 2023, which projects a GDP growth of 2.5% for 2024. The fiscal development scenario for 2024 includes a no-policy change scenario, as well as a policy change scenario, which encompasses discretionary revenue and expenditure measures adopted by the Cabinet of Ministers (CoM). The budget for 2024 has been prepared, projecting that the nominal deficit of the General Government budget is 2.8% of GDP in 2024.

The CoM approved the Draft Budgetary Plan for 2024 on November 1st of this year.

Macroeconomic Development Scenario

The medium-term macroeconomic development scenario for the period 2023-2026 was developed in June 2023, based on the first quarter 2023 GDP data and the short-term macroeconomic information available until June of the same year. In developing medium term macroeconomic development scenario, the Ministry of Finance (MoF) consulted with experts from the International Monetary Fund and the European Commission (EC). The macroeconomic indicator forecasts have been agreed with the Bank of Latvia and the Ministry of Economics, and were approved by the Fiscal Discipline Council on June 13, 2023.

The macroeconomic development scenario projects that Latvia's economic growth will reach 1% in 2023, which is one percentage point higher than the forecasts made in February of the same year, in 2024, an acceleration of economic growth to 2.5% is expected, which is 0.5 percentage points more than what was projected in early February. Latvia's economy has overcome challenges stemming from the conflict in Ukraine and the resulting increase in energy resource prices better than anticipated, both last year and at the beginning of this year. The mild winter and government support measures have mitigated the negative impact of the rise in energy prices on household consumption. In the following two years - 2025 and 2026 - economic growth is forecasted to be 2.9%.

In 2021 and 2022, private consumption was the main driver of the economy, growing on average by 6.6% during these years. However, the scenario does not foresee significant growth in private consumption this year and the next, largely influenced by the uncertainty surrounding the upcoming winter heating season and potential tariff increases, as well as the persistently high core inflation. It is projected that in 2023 private consumption growth will reach 1.1% and in 2024 it will be 2.6%, which is respectively 2.1 and 0.5 percentage points more than in the February forecasts.

The noticeable driving force behind economic growth this year and the next will be investments. The volume of investments could increase by 6.1% this year, which is 5.1 percentage points more than in the February forecasts. Investments will be stimulated by EU fund and National Recovery and Resilience Plan financing, as well as the implementation of the *Rail Baltica* project, also promoting the recovery of construction sector activities after a two-year decline. In the following years, investment growth will be more moderate - increasing by 3.1% in 2024 and averaging 4% per year in subsequent years.

Regarding the export forecast, it should be noted that its dynamics will be influenced by the economic activity of Latvia's trading partners, based on the EC's spring forecasts, which projected slightly stronger economic growth in the EU and the eurozone than was forecasted in February. However, export growth in 2023 is projected to remain at the previous year's level, as it will no longer be driven by the rapid increase in export prices. Meanwhile, in 2024, export growth will begin to recover to 3.7%, and similar dynamics are expected in the medium term.

The average annual inflation forecast for 2023 is 10.0%, and for 2024 - 2.2%. Compared to the February forecasts, it remains unchanged, as the dynamics of consumer prices in the second half of 2022 and the beginning of this year have been in line with the previous MoF projections. In the next two years, price growth is projected to be 2.5% and 2.3%, respectively. According to the scenario, inflation will be influenced by a reduction in inflation for energy resources and unprocessed food products in the second half of 2023, and, given the current situation in global markets, the price level will remain at the current level.

Since at the beginning of 2023, the average monthly gross wage continued to grow rapidly, driven by both a 24% increase in the minimum wage, an increase in state budget expenditures for public sector employee salaries, and the energy support provided by private companies to their employees, the total wage increase for 2023 would reach 11%, and in 2024 - 7.5%. In the medium term, it is expected that the pace of wage growth will slow down and approach the pace of productivity growth, stabilizing at a 5% level.

The unemployment rate, while maintaining a relatively stable economic growth, will continue to decrease, reaching 6.5% in 2023, and remaining at approximately the same level in the following three years. The number of employed individuals in the economy will remain stable this year and the next. However, from 2025, a slight decrease in employment is expected, primarily due to a reduction in the number of working-age population.

Table 0.i: Basic assumptions[1]

	2022	2023	2024
Short-term interest rate (annual average)	0.3	3.3	3.3
Long-term interest rate (annual average)	1.1	2.4	2.4
USD/€ exchange rate (annual average)	1.05	1.09	1.10
Nominal effective exchange rate	-4.5	5.8	0.8
World (excluding EU), GDP growth, %	3.2	3.1	3.3
EU GDP growth, %	3.5	1.0	1.7
Growth of relevant foreign markets, %	6.1	0.7	2.9
World import volumes, excluding EU, %	4.8	1.4	3.0
Oil prices (Brent, USD/barrel)	100.7	80.0	81.0

Table 0.ii: Main assumptions

	2022	2023	2024
Fiscal policy			
a. General Government net lending/ net borrowing	-4.4	-2.7	-2.8
b. General gross debt	15 948.2	17 220.9	18 646.3

Table 1.a: Macroeconomic prospects

	ESA Code	2022	2022	2023	2024
		Levels	Rate of change, %		
1. Real GDP	B1*g	28.9	3.4	1.0	2.5
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		28.8	2.7	2.6	2.5

[1] Data source: EC spring 2023 forecasts.

	ESA Code	2022	2022	2023	2024
		Levels	Rate of change, %		
Contributions					
Potential GDP contributions: labour			0.2	0.1	0.0
Potential GDP contributions: capital			0.9	1.0	1.0
Potential GDP contributions: total factor productivity			1.5	1.5	1.6
3. Nominal GDP	B1*g	38.9	16.6	11.0	5.5
Components of Real GDP					
4. Private consumption expenditure	P.3	17.6	6.0	1.1	2.6
5. Government consumption expenditure	P.3	5.5	2.8	4.7	2.0
6. Gross fixed capital formation	P.51	6.6	0.6	6.1	3.1
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0.6			
8. Exports of goods and services	P.6	20.9	10.3	0.0	3.7
9. Imports of goods and services	P.7	23.5	11.1	2.5	3.4
Contribution to real GDP growth					
10. Final domestic demand			4.2	3.0	2.7
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		0.6	0.0	-0.1
12. External balance of goods and services	B.11		-1.4	-2.0	-0.1

Table 1.b: Price developments

	ESA Code	2022	2022	2023	2024
		Levels	Rate of change, %		
1. GDP deflator			12.8	9.9	2.9
2. Private consumption deflator			14.9	10.0	2.2
3. HICP			17.3	10.0	2.2
4. Public consumption deflator			0.8	4.8	4.0
5. Investment deflator			12.7	8.0	3.9
6. Export price deflator (goods and services)			17.8	-1.0	5.0

	ESA Code	2022	2022	2023	2024
7. Import price deflator (goods and services)			18.5	-5.2	4.0

Table 1.c: Labour market developments

	ESA Code	2022	2022	2023	2024
		Levels	**Rate of change, %**		
1. Employment, persons (`000)		886.2	2.6	0.1	0.0
2. Employment, hours worked		1729.5	2.3	0.0	0.0
3. Unemployment rate (%)			6.9	6.5	6.6
4. Labour productivity, per person			0.8	0.9	2.5
5. Labour productivity, per hours worked			0.8	0.9	2.5
6. Compensation of employees, bln EUR	D.1	15.0	15.2	11.1	7.5
7. Compensation per employee (Gross wage)		1373	7.5	11.0	7.5

Table 1.d: Sectoral balances

	ESA Code	2022	2023	2024
		% of GDP		
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-3.6	-0.2	1.7
of which				
- Balance on goods and services		-4.5	-2.7	-1.9
- Balance of primary incomes and transfers		-0.2	1.0	1.7
- Capital account		1.1	1.5	2.0
2. Net lending/borrowing of the private sector	B.9	1.0	2.5	4.6
3. Net lending/borrowing of general government	EDP B.9	-4.6	-2.7	-2.8
4. Statistical discrepancy		0.0	0.0	0.0

Fiscal strategy and the structural balance objectives

The Draft Budgetary Plan for 2024 has been prepared at a time when Europe is still at war. High inflation and stabilization of energy prices serve as the basis for adjusting the fiscal policy course towards prudence, including the removal of support measures introduced to compensate for the increase in energy prices, thereby supporting the monetary policy efforts to stabilize price growth.

In light of Prime Minister Arturs Krišjānis Kariņš resignation and the approval of the new government led by Evika Siliņa in an extraordinary session of the Saeima on September 15, 2023, the Fiscal Policy Strategy for 2024-2026 is subordinated to the new CoM' Declaration – the Declaration on the intended actions of the CoM led by Evika Siliņa[2] (hereinafter referred to as the Declaration), according to which fiscal policy is planned to be implemented responsibly, ensuring that the government debt remains on average level of 40% of GDP in the long term, while respecting the principles of countercyclical fiscal policy and ensuring socially responsible and development-promoting fiscal policy.

The overall goal of Latvia's fiscal policy is to build a sustainable state by improving the quality of life for families. The political forces forming the government are committed to implementing policies that provide security, growth, and prosperity for the residents of Latvia.

Taking into account the priority directions of action defined by the government, the following are put forward as the specific goals of the fiscal policy or **the priority development directions of the medium-term budget (of national importance) policy: security, health and education.**

According to the Fiscal Policy Strategy of Latvia, the expenditures related to emergency measures carried out by the country in the context of the war initiated by Russia against Ukraine (support for Ukraine and its civilians in Latvia, strengthening of the state's external border infrastructure and one-off investments in defense) are recognized as one-off measures and are excluded from the structural balance objective of the general government budget. The Law "On the State Budget for 2024 and the Budget Framework for 2024, 2025, and 2026" does not expand the scope of one-off measures set out in the previous budget law. The objective for the structural balance of the general government budget for 2024 is determined based on the FDL balance condition. The objective for the structural balance of the general government budget is set at -0.5% of GDP. The total amount of one-off measures for 2024 is 1.9% of GDP, and the Fiscal Security Reserve is 0.1% of GDP. The general government budget deficit, excluding the Fiscal Security Reserve, is projected to be 2.8% of GDP.

According to calculations by the MoF, taking into account the updated assessment and forecasts of macroeconomic and fiscal indicators, the nationally financed gross primary expenditures in 2023 amount to 16,039 million EUR and in 2024 – 17,233 million EUR. Considering the fiscal impact of discretionary revenue measures (401 million EUR), the net primary expenditure increase is 4.9% of GDP. Using the EC's methodology for determining the allowable net primary expenditure growth and taking into account that the general government budget deficit in 2023 (2.7% of GDP) is below the 3% threshold, the allowable net primary expenditure increase is 3.9% of GDP. The EC method is based on the requirement to reduce the primary structural deficit by 0.3% of GDP until it reaches the medium-term objective (MTO), which in Latvia's case is -1% of GDP. This means that expenses can increase by 1.5 percentage points less than potential GDP growth and the GDP deflator. If the requirement to

[2] Declaration on the planned activities of the CoM led by Evika Siliņa on September 15, 2023, available: https://www.mk.gov.lv/lv/media/16704/download?attachment

reduce the structural deficit is excluded, the growth in primary expenses could be 5.4%. It should be noted that in 2023, national fiscal policy was influenced by one-off support measures to mitigate the extraordinary increase in energy prices, support for Ukrainian civilians in Latvia and one-off investments in defense and internal security. In 2023, these costs accounted for 2.5% of GDP. If they were excluded, the structural balance of the general government would be 0.2% of GDP and significantly above the MTO. Therefore, in this case, there would be no need to reduce the primary structural deficit, and the net primary expenditure increase would be in line with potential GDP growth and the GDP deflator, i.e., 5.4%, more than in this budget plan. Therefore, the projected excess of the net primary expenditure increase (4.9%) over the allowable 3.9% increase can be explained by the need to finance the one-off expenses related to the war in Ukraine. For example, if support for Ukrainian residents and one-off investments in defense and internal security were excluded from net primary expenditure for 2023 and 2024, the growth in net primary expenditure would be 3.4%, i.e., below the allowable 3.9% increase.

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

	ESA Code	2023	2024
		% of GDP	
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-2.7	-2.8
2. Central government	S.1311	-3.3	-3.7
3. State government	S.1312		
4. Local government	S.1313	-0.1	0.0
5.Social security funds	S.1314	0.7	0.9
6. Interest expenditure	D.41	0.7	0.9
7. Primary balance		-2.0	-1.9
8. One-off and other temporary measures		-2.5	-1.9
9.Real GDP Growth(%) (=1 in Table 1a)		1.0	2.5
10.Potential GDP Growth(%) (=2 in Table 1a)		2.6	2.5
Contributions			
-Labour		0.1	0.0
-Capital		1.0	1.0
-Total factor productivity		1.6	1.6
11. Output gap (% of potential GDP)		-1.2	-1.3
12. Cyclical budgetary component (% of GDP)		-0.5	-0.5
13. Cyclically adjusted balance (1-12) (% of GDP)		-2.2	-2.3
14. Cyclically adjusted primary balance (13+6) (% of GDP)		-1.5	-1.4
15. Structural balance (13-8) (% of GDP)		0.2	-0.4[3]

[3] Excluding the Fiscal Security Reserve of 0.1% of GDP.

Table 2.b: General government debt developments

	ESA Code	2023	2024
		% of GDP	
1. Gross debt		39.9	41.0
2. Change in gross debt ratio		-1.1	1.1
Contributions to changes in gross debt			
3. Primary balance		-2.0	-1.9
4. Interest expenditure	EDP D.41	0.7	0.9
5. Stock-flow adjustment		0.3	0.3
Implicit interest rate on debt		1.9	2.5
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		3.5	2.9
9. Percentage of debt denominated in foreign currency		0.0	0.0
10. Average maturity		6.82 years	

Table 2.c: Contingent liabilities

% of GDP	2023	2024
Public guarantees	1.5	1.5

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

	ESA Code	2023	2024
		% of GDP	
1. Total revenue at unchanged policies	TR	37.1	37.9
Of which			
1.1. Taxes on production and imports	D.2	13.0	13.0
1.2. Current taxes on income, wealth, etc.	D.5	7.0	7.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.9	10.2
1.5. Property income	D.4	1.1	0.7
1.6. Other		6.0	6.8
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		30.1	30.6
2. Total expenditure at unchanged policies	TE	39.8	40.2
of which			
2.1. Compensation of employees	D.1	10.5	10.4
2.2. Intermediate consumption	P.2	6.0	5.8
2.3. Social payments	D.62, D.632	13.2	13.2

	ESA Code	2023	2024
		% of GDP	
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	0.7	0.9
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51	4.8	6.2
2.7. Capital transfers	D.9	0.1	0.0
2.8. Other		3.7	2.9

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

	ESA Code	2023	2024
		% of GDP	% of GDP
1. Total revenue target	TR	37.1	39.0
Of which			
1.1. Taxes on production and imports	D.2	13.0	13.1
1.2. Current taxes on income, wealth, etc.	D.5	7.0	7.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.9	10.3
1.5. Property income	D.4	1.1	1.1
1.6. Other		6.0	6.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.1	31.2
2. Total expenditure target	TE	39.8	41.8
of which			
2.1. Compensation of employees	D.1	10.5	11.1
2.2. Intermediate consumption	P.2	6.0	6.0
2.3. Social payments	D.62, D.632	13.2	13.3
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	0.7	0.9
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51	4.8	6.3
2.7. Capital transfers	D.9	0.1	0.0
2.8. Other		3.7	3.5

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

	ESA Code	2022	2022	2023	2024
		million, EUR	% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue		463.3	1.2	1.9	3.1
1a. Investment expenditure fully matched by EU funds revenue		228.3	0.6	0.9	1.5
2. Cyclical unemployment benefit expenditure		-2.03	0.0	0.0	0.0

	ESA Code	2022	2022	2023	2024
		million, EUR	% of GDP		
3. Effect of discretionary revenue measures		36.6	0.1	0.4	0.7
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

	2023		2024	
	% of GDP	% of general government expenditure	% of GDP	% of general government expenditure
Education[4]	5.2	13.1	5.5	13.3
Health[5]	4.7	11.7	4.7	11.1
Employment[6]	0.1	0.3	0.1	0.2

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

	COFOG Code	2023	2024
		% of GDP	
1. General public services	1	3.1	3.6
2. Defense	2	2.6	3.0
3. Public order and safety	3	2.5	3.0
4. Economic affairs	4	6.8	7.2
5. Environmental protection	5	0.5	0.4
6. Housing and community amenities	6	0.9	0.8
7. Health	7	4.7	4.7
8. Recreation, culture and religion	8	1.2	1.1
9. Education	9	5.2	5.5
10. Social protection	10	12.4	12.4
11. Total Expenditure	TE	39.8	41.8

[4] This expenditure category correspond to item 9 in table 4.c.ii).
[5] This expenditure category correspond to item 7 in table 4.c.ii).
[6] 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.

Implementation of medium-term budget policy priority development directions

The total additional support for priorities in 2024 is planned at 783.4 million EUR (1.7% of GDP), aiming to implement priority measures that ensure the balanced achievement of goals outlined in the government declaration.

More than 70% or 1.7 billion EUR of this funding is allocated to **medium-term budget priorities - security, education, and health, including 486.2 million EUR for 2024 (1.1% of GDP).** This allocated funding also covers one-off measures for medium-term budget priorities, totaling 43.0 million EUR.

According to the draft law "On the State Budget for 2024 and the Budget Framework for 2024, 2025, and 2026", **the priority direction "Security"** in 2024 is allocated additional funding of more than **91.9 million EUR** (0.2% of GDP), with 47% of the funding coming from outside the fiscal space **- 43.0 million EUR** (0.09% of GDP).

Committing to complete the construction of a fence on the border with Belarus and Russia by the end of 2024, as well as to invest in smart border security and human resources involved in border guarding, the new CoM, in addition to the provisions of the Law on the State Budget for 2023 and Budget Framework for 2023, 2024 and 2025, has allocated EUR 175.5 million, including EUR 35,5 million for setting up technical infrastructure and security measures at the country's external borders, in turn, EUR 91.3 million (EUR 30.4 million annually) were earmarked for the remuneration of employees of the institutions of the Ministry of the Interior and the Ministry of Justice, including the Probation Service.

Ensuring competitive remuneration for officials in institutions of the Ministry of Interior – State Police, State Border Guard, State Fire and Rescue Service, Internal Security Bureau, State Police College, State Border Guard College, Fire Safety and Civil Protection College, as well as officials of the Prison Administration – is one of the most important issues for a stable and sustainable service that motivates officials to initiate and continue their service, and serves as a guarantee for strengthening internal security of the country. This is particularly crucial in the current geopolitical situation in light of Russia's large-scale military aggression against Ukraine and growing geopolitical risks. The informative report "On Proposals for Increasing Compensation for Employees of Institutions of the Ministry of Interior and the Ministry of Justice Involved in Implementing Measures to Strengthen Internal Security"[7] envisaged a 10% increase in personnel salaries in 2023, continuing the growth in 2024 and 2025, to achieve a total monthly salary increase of 30% in 2023, 2024 and 2025 compared to 2022.

The priority direction "Security" also includes the following additional expenditure items for 2024:

- 2.6 million EUR allocated for personnel with special service ranks in institutions of the Ministry of Interior and the Detention Place Administration to improve the availability of healthcare services and raise compensation limits for healthcare services;
- 2.6 million EUR planned to be allocated for strengthening the life-saving capabilities of units of the State Fire and Rescue Service;

[7] Minutes of the meeting of the CoM of April 19, 2022, No.22 38.§, available: https://tapportals.mk.gov.lv/meetings/protocols/6fb0828a-8865-4730-b659-523f6164a2dc

- 11.4 million EUR earmarked for support to Ukraine and promotion of global security (support for Ukraine's reconstruction and contributions to Ukraine's support);
- 6.7 million EUR allocated for enhancing cybersecurity;
- 2.8 million EUR earmarked for other priority measures in the security sector.

The priority direction "Education" will receive more than **119.7 million EUR** in funding for 2024.

Teachers' pay level is a long-standing challenge for the education system, for which the CoM has allocated additional funding in the past three medium-term budgets. In this medium-term budget framework period, balancing the compensation and workload of educators is recognized as a priority, and additional financial resources will be allocated for this purpose. According to the informative report "On Proposals for Prioritized Measures of the State Budget for 2024 and the Budget Framework for 2024-2026," the CoM has allocated additional funding of 91.3 million EUR annually for 2024-2026 to implement an increase in teachers' remuneration.

The priority direction "Education" also includes the following additional expenditure items for 2024:

- 16.6 million EUR for gradual increasing the share of performance funding in higher education, as well as implementing a pilot project for institutional funding of higher education from September 1, 2024, and ensuring the functioning of national universities councils;
- 9.2 million EUR for the acquisition of teaching materials and the development and maintenance of digital teaching tools and platforms, as well as the gradual transition to teaching in the state language;
- 2.6 million EUR earmarked for other priority measures in the education sector.

In 2024, the largest additional funding of **275 million EUR** is allocated within the **priority direction of "Health"** to improve the accessibility and quality of healthcare services. At the time of budget preparation, specific expenditure items and their required funding amounts are not earmarked.

The allocated funding is intended to address persistent issues, namely, to establish a patient-centered healthcare service system, ensuring broader accessibility to primary healthcare that will significantly enhance early diagnosis and the ability to effectively treat patients with high mortality rate diseases, to implement a sustainable healthcare financing model covering entire population of Latvia, alongside efficient e-governance data solutions, to ensure that public funding for the healthcare sector reaches at least 12% of the expenditures on core functions of the Latvia's state budget (excluding investments funded outside the fiscal space) to increase the number of healthy years lived in Latvian society, promoting an active lifestyle.

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		
						2024	2025	20226
						% of GDP		
Amendments to the Enterprise Income Tax Law	Obligation for credit institutions and consumer lending service providers to make a CIT payment in the amount of 20% of the profit made in the given year every year	CIT	D.5	Accrual	Partly approved by government	0.31	-0.16	-0.09
Amendments to the Value Added Tax Law	Increasing the threshold for VAT registration to EUR 50 000, increasing the threshold for the value of lost debt transactions to EUR 1000, and application of exemption for sports lessons	VAT	D.2	Accrual	Partly approved by government	-0.01	0.00	0.00
Amendments to the Law On Excise Duties	Tax rate increases for tobacco products, e-liquids and tobacco substitute products	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in tax rates on alcoholic beverages	VAT	D.2	Accrual	Partly approved by government	0.00	0.01	0.01
	Increase in tax rates for beer	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in rates for diesel and kerosene used in SEZs and free ports	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Tax rate increases for tobacco products, e-liquids and tobacco substitute products	ED	D.2	Accrual	Partly approved by government	0.01	0.02	0.01
	Increase in tax rates on alcoholic beverages	ED	D.2	Accrual	Partly approved by government	0.02	0.02	0.02

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2024	2025	20226
						% of GDP		
	Increase in tax rates for beer	ED	D.2	Accrual	Partly approved by government	0.01	0.01	0.01
	Increase in rates for diesel and kerosene used in SEZs and free ports	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
Draft Law on Amendments to the Natural Resources Tax Law	Changes in tax rates, new objects, cancellation of relief and change of allocations between state and local government budgets	NRT	D.2	Accrual	Partly approved by government	0.02	0.02	0.02
Draft Law on Amendments to the Law On Lotteries and Gambling Fee and Tax	Raising tax rates	LGT	D.2	Accrual	Partly approved by government	0.01	0.00	0.00
CIT from dividends		CIT	D.5	Accrual	Partly approved by government	0.02	-0.02	0.00
Spillover effect of taxes	Salary increase for priority sectors	VAT	D.2	Accrual	Partly approved by government	0.02	0.00	0.00
		PIT	D.5	Accrual	Partly approved by government	0.07	-0.01	0.00
		SSC	D.61	Accrual	Partly approved by government	0.11	-0.01	0.00
		SSC	D.61	Accrual	Partly approved by government	0.00	0.00	0.00
JSC *Latvenergo* dividends	Increase in revenue from the share of profit to be paid in dividends by JSC *Latvenergo*	Non-tax	D.4	Accrual	Partly approved by government	0.24	-0.16	0.17
JSC *Latvijas valsts meži* dividends	Increase in revenue from the share of profit to be paid in dividends by JSC *Latvijas valsts meži*	Non-tax	D.4	Accrual	Partly approved by government	0.16	-0.16	0.00

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2024	2025	20226
						% of GDP		
Non-tax revenue	Increase in revenue from the repayment of budget funds received by budget authorities and not used in previous years (classification code 12140)	Non-tax	P.13	Accrual	Partly approved by government	0.02	-0.02	0.00
Non-tax revenue	Increase in revenue from confiscated criminal proceeds and additional penalty - confiscation of property - realization (classification code 12160)	Non-tax	P.13	Accrual	Partly approved by government	0.09	-0.09	0.00
Non-tax revenue	Replacement of the State fee for the maintenance of petroleum product safety stocks (classification code 9.3.8.0) by a public service charge (amendments to the Energy Law)	Non-tax	P.13	Cash flow	Partly approved by government	-0.07	0.00	0.00
Other tax and non-tax measures	Other tax and non-tax measures	PIT, SSC, VAT, LGT, non-tax	D.2, D.5, D.61, P.13	Accrual/cash flow	Partly approved by government	0.04	-0.04	0.00
					TOTAL	**1.08**	**-0.59**	**0.16**

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

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Security				**0.12**	**-0.03**	**0.25**
Priority measures related to national security	D.1, P.2.	Cash flow	Approved by government	0.01	0.00	0.00
Increase in financing of national defense to 3% of GDP in 2027 (2026 - 2.75% of GDP, 2027 - 3% of GDP) (Ministry of Defense)	D.1, P.2, P.51g	Cash flow	Approved by government	0.00	0.00	0.25
Compensation for those employed in the institutions of the Ministry of the Interior and the Ministry of Justice, including the Probation Service	D.1	Cash flow	Approved by government	0.07	0.00	0.00

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Ensuring the security measures of the external border of the country	P.51g	Cash flow	Approved by government	0.02	-0.02	0.00
Other measures related to security	D1, P.2	Cash flow	Approved by government	0.02	0.00	0.00
Security and other measures financed outside fiscal space				**0.25**	**-0.04**	**-0.09**
Priority measures related to national security	P.51g	Cash flow	Approved by government	0.00	0.00	0.00
Measures to support Ukraine and promote global security (support for the reconstruction of Ukraine and contributions to support Ukraine)	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Strengthening cyber security	P.2, P.51g	Cash flow	Approved by government	0.01	-0.01	0.00
Technical infrastructure of the external border	P.51g	Cash flow	Approved by government	0.05	0.13	-0.09
Support of Ukrainian civilians	D.7	Cash flow	Approved by government	0.15	-0.15	0.00
Health	**D.1, P.2, D.7**	**Cash flow**	**Approved by government**	**0.60**	**-0.04**	**-0.03**
Education				**0.26**	**0.00**	**-0.01**
The 2nd step of the implementation of the teacher salary increase scheduled from January 1, 2024	D.1	Cash flow	Approved by government	0.20	-0.01	-0.01
Gradual increase of the proportion of performance funding in Higher Education and Science	P.2	Cash flow	Approved by government	0.03	0.00	0.00
Pilot project for the introduction of institutional financing of higher education from September 1, 2024	P.2	Cash flow	Approved by government	0.01	0.01	0.00
Other measures related to education	D.1, P.2, D.7	Cash flow	Approved by government	0.03	0.00	0.00
Sectoral priorities				**0.39**	**-0.15**	**0.03**
Support for strengthening the economic viability of agriculture and preventing the consequences of the crisis	D.7	Cash flow	Approved by government	0.03	-0.03	0.00
Maintenance of public railway infrastructure	D.7	Cash flow	Approved by government	0.04	0.00	0.00

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Grant to cover losses for public transport service providers	D.3, D.7	Cash flow	Approved by government	0.04	0.00	0.00
Expanding the range and size of beneficiaries of old-age and disability pension supplements	D.62	Cash flow	Approved by government	0.03	0.03	0.04
Support measures for families and children	D.7	Cash flow	Approved by government	0.01	0.00	0.00
Support for compensating the increase in electricity tariffs	D.7	Cash flow	Approved by government	0.11	-0.11	0.00
One-off targeted support for borrowers for partial compensation of the rapid increase in interest rates (to be reserved in 74th budget unit)	D.7	Cash flow	Approved by government	0.03	-0.03	0.00
Support of innovation and export	P.2	Cash flow	Approved by government	0.01	0.00	0.00
Other sectoral priorities	D.1, P.2, D.3, D.7	Cash flow	Approved by government	0.08	-0.01	0.00
Funding for independent institutions	**D.1, P.2**	**Cash flow**	**Approved by government**	**0.04**	**0.02**	**0.01**
Enforcement of regulatory acts, court rulings	**P.2, D.7**	**Cash flow**	**Approved by government**	**0.04**	**-0.01**	**0.01**
Increasing the salary of employees in state direct administration institutions	**D.1**	**Cash flow**	**Approved by government**	**0.01**	**0.01**	**0.01**
Increase in rent of public entities	**P.2**	**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
Other expenditure measures				**0.21**	**-0.12**	**0.01**
Support for agriculture	D.7	Cash flow	Approved by government	0.10	-0.10	0.00
Funds for unforseem events	D.7	Cash flow	Approved by government	0.08	0.02	-0.01
Maintenance of petroleum reserve products	D.7	Cash flow	Approved by government	-0.08	-0.01	0.00
Social support in municipalities	D.62	Cash flow	Approved by government	0.04	0.00	0.00

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Measures for solving mandatory procurement component issues and development of the electricity market	D.62	Cash flow	Approved by government	0.09	-0.08	0.10
Other expenditure measures	P.2, D.3, D.7	Cash flow	Approved by government	-0.03	0.05	-0.09
Compensatory measures	**D.1, P.2, P.51g, D.62**			**-0.25**	**0.19**	**0.00**
Adjusted investment plan of LLC *Rīgas satiksme*	P.51g	Cash flow	Approved by government	-0.04	0.04	0.00
Spending review resources for common priorities	P.2	Cash flow	Approved by government	0.00	0.00	0.00
Special budget expenditure adjustment	D.62	Cash flow	Approved by government	-0.06	0.00	0.00
Transfer of measures financed from the state budget to the 2021-2027 program of EU funds	D.1, P.2, P.51g	Cash flow	Approved by government	-0.15	0.15	0.00
			TOTAL	**1.68**	**-0.16**	**0.18**

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		
						2024	2025	20226
						% of GDP		
Amendments to the Enterprise Income Tax Law	Obligation for credit institutions and consumer lending service providers to make a CIT payment in the amount of 20% of the profit made in the given year every year	CIT	D.5	Accrual	Partly approved by government	0.31	-0.16	-0.09
Amendments to the Value Added Tax Law	Increasing the threshold for VAT registration to EUR 50 000, increasing the threshold for the value of lost debt transactions to EUR 1000, and application of exemption for sports lessons	VAT	D.2	Accrual	Partly approved by government	-0.01	0.00	0.00

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2024	2025	20226
						% of GDP		
Amendments to the Law On Excise Duties	Tax rate increases for tobacco products, e-liquids and tobacco substitute products	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in tax rates on alcoholic beverages	VAT	D.2	Accrual	Partly approved by government	0.00	0.01	0.01
	Increase in tax rates for beer	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Increase in rates for diesel and kerosene used in SEZs and free ports	VAT	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
	Tax rate increases for tobacco products, e-liquids and tobacco substitute products	ED	D.2	Accrual	Partly approved by government	0.01	0.02	0.01
	Increase in tax rates on alcoholic beverages	ED	D.2	Accrual	Partly approved by government	0.02	0.02	0.02
	Increase in tax rates for beer	ED	D.2	Accrual	Partly approved by government	0.01	0.01	0.01
	Increase in rates for diesel and kerosene used in SEZs and free ports	ED	D.2	Accrual	Partly approved by government	0.00	0.00	0.00
Draft Law on Amendments to the Natural Resources Tax Law	Changes in tax rates, new objects, cancellation of relief and change of allocations between state and local government budgets	NRT	D.2	Accrual	Partly approved by government	0.00	0.01	0.01
Draft Law on Amendments to the Law On Lotteries and Gambling Fee and Tax	Raising tax rates	LGT	D.2	Accrual	Partly approved by government	0.01	0.00	0.00
CIT from dividends		CIT	D.5	Accrual	Partly approved by government	0.02	-0.02	0.00

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2024	2025	20226
						% of GDP		
Spillover effects	Spillover effects of wage increase in priority sectors	VAT	D.2	Accrual	Partly approved by government	0.02	0.00	0.00
		PIT	D.5	Accrual	Partly approved by government	0.02	0.00	0.00
		SSC	D.61	Accrual	Partly approved by government	0.00	0.00	0.00
JSC *Latvenergo* dividends	Increase in revenue from the share of profit to be paid in dividends by JSC *Latvenergo*	Non-tax	D.4	Accrual	Partly approved by government	0.24	-0.16	0.17
JSC *Latvijas valsts meži* dividends	Increase in revenue from the share of profit to be paid in dividends by JSC *Latvijas valsts meži*	Non-tax	D.4	Accrual	Partly approved by government	0.16	-0.16	0.00
Non-tax revenue	Increase in revenue from the repayment of budget funds received by budget authorities and not used in previous years (classification code 12140)	Non-tax	P.13	Cash flow	Partly approved by government	0.02	-0.02	0.00
Non-tax revenue	Increase in revenue from confiscated criminal proceeds and additional penalty - confiscation of property - realization (classification code 12160)	Non-tax	P.13	Cash flow	Partly approved by government	0.09	-0.09	0.00
Non-tax revenue	Replacement of the State fee for the maintenance of petroleum product safety stocks (classification code 9.3.8.0) by a public service charge (amendments to the Energy Law)	Non-tax	P.13	Cash flow	Partly approved by government	-0.07	0.00	0.00
Other tax and non-tax measures	Other tax and non-tax measures	PIT, SSC, VAT, LGT, non-tax	D.2, D.5, D.61, P.13	Accrual/cash flow	Partly approved by government	0.04	-0.04	0.00
					TOTAL	**0.92**	**-0.58**	**0.15**

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

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Security				**0.12**	**-0.03**	**0.25**
Priority measures related to national security	D.1, P.2.	Cash flow	Approved by government	0.01	0.00	0.00
Increase in financing of national defense to 3% of GDP in 2027 (2026 - 2.75% of GDP, 2027 - 3% of GDP) (Ministry of Defense)	D.1, P.2, P.51g	Cash flow	Approved by government	0.00	0.00	0.25
Compensation for those employed in the institutions of the Ministry of the Interior and the Ministry of Justice, including the Probation Service	D.1	Cash flow	Approved by government	0.07	0.00	0.00
Ensuring the security measures of the external border of the country	P.51g	Cash flow	Approved by government	0.02	-0.02	0.00
Other measures related to security	D1, P.2	Cash flow	Approved by government	0.02	0.00	0.00
Security and other measures financed outside fiscal space				**0.25**	**-0.04**	**-0.09**
Priority measures related to national security	P.51g	Cash flow	Approved by government	0.00	0.00	0.00
Measures to support Ukraine and promote global security (support for the reconstruction of Ukraine and contributions to support Ukraine)	D.7	Cash flow	Approved by government	0.02	0.00	0.00
Strengthening cyber security	P.2, P.51g	Cash flow	Approved by government	0.01	-0.01	0.00
Technical infrastructure of the external border	P.51g	Cash flow	Approved by government	0.05	0.13	-0.09
Support of Ukrainian civilians	D.7	Cash flow	Approved by government	0.15	-0.15	0.00
Health	**D.1, P.2, D.7**	**Cash flow**	**Approved by government**	**0.60**	**-0.04**	**-0.03**
Education				**0.06**	**0.01**	**0.00**
The 2nd step of the implementation of the teacher salary increase scheduled from January 1, 2024	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Gradual increase of the proportion of performance funding in Higher Education and Science	P.2	Cash flow	Approved by government	0.03	0.00	0.00

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Pilot project for the introduction of institutional financing of higher education from September 1, 2024	P.2	Cash flow	Approved by government	0.01	0.01	0.00
Other measures related to education	D.1, P.2, D.7	Cash flow	Approved by government	0.02	0.00	0.00
Sectoral priorities				**0.35**	**-0.18**	**-0.01**
Support for strengthening the economic viability of agriculture and preventing the consequences of the crisis	D.7	Cash flow	Approved by government	0.03	-0.03	0.00
Maintenance of public railway infrastructure	D.7	Cash flow	Approved by government	0.04	0.00	0.00
Grant to cover losses for public transport service providers	D.3, D.7	Cash flow	Approved by government	0.04	0.00	0.00
Support measures for families and children	D.7	Cash flow	Approved by government	0.01	0.00	0.00
Support for compensating the increase in electricity tariffs	D.7	Cash flow	Approved by government	0.11	-0.11	0.00
One-off targeted support for borrowers for partial compensation of the rapid increase in interest rates (to be reserved in 74th budget unit)	D.7	Cash flow	Approved by government	0.03	-0.03	0.00
Support of innovation and export	P.2	Cash flow	Approved by government	0.01	0.00	0.00
Other sectoral priorities	D.1, P.2, D.3, D.7	Cash flow	Approved by government	0.08	-0.01	0.00
Funding for independent institutions	**D.1, P.2**	**Cash flow**	**Approved by government**	**0.04**	**0.02**	**0.01**
Enforcement of regulatory acts, court rulings	**P.2, D.7**	**Cash flow**	**Approved by government**	**0.04**	**-0.01**	**0.01**
Increasing the salary of employees in state direct administration institutions	**D.1**	**Cash flow**	**Approved by government**	**0.01**	**0.01**	**0.01**
Increase in rent of public entities	**P.2**	**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
Other expenditure measures				**0.13**	**-0.09**	**0.05**

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Support for agriculture	D.7	Cash flow	Approved by government	0.10	-0.10	0.00
Funds for unforseem events	D.7	Cash flow	Approved by government	0.08	0.02	-0.01
Maintenance of petroleum reserve products	D.7	Cash flow	Approved by government	-0.08	-0.01	0.00
Measures for solving mandatory procurement component issues and development of the electricity market	D.62	Cash flow	Approved by government	0.09	-0.08	0.10
Other expenditure measures	P.2, D.3, D.7	Cash flow	Approved by government	-0.06	0.08	-0.05
Compensatory measures	**D.1, P.2, P.51g, D.62**			**-0.15**	**0.15**	**0.00**
Spending review resources for common priorities	P.2	Cash flow	Approved by government	0.00	0.00	0.00
Transfer of measures financed from the state budget to the 2021-2027 program of EU funds	D.1, P.2, P.51g	Cash flow	Approved by government	-0.15	0.15	0.00
			TOTAL	**1.46**	**-0.19**	**0.19**

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		
						2024	2025	2026
						% of GDP		
Spillover effects	Spillover effects of wage increase in priority sectors	PIT	D.5	Accrual	Partly approved by government	0.05	0.00	0.00
Draft Law on Amendments to the Natural Resources Tax Law	Changes in tax rates, new objects, cancellation of relief and change of allocations between state and local government budgets	NRT	D.2	Accrual	Partly approved by government	0.01	0.01	0.01

List of measures	Detailed description	Type of tax	ESA code	Accounting principle	Adoption Status	Budgetary impact		
						2024	2025	2026
						% of GDP		
Other tax measures	Other tax measures	PIT, LGT	D.2, D.5	Accrual	Partly approved by government	0.00	0.00	0.00
					TOTAL	**0.06**	**0.01**	**0.01**

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

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Education				**0.21**	**-0.01**	**-0.01**
The 2nd step of the implementation of the teacher salary increase scheduled from January 1, 2024	D.1	Cash flow	Approved by government	0.20	-0.01	-0.01
Other measures related to education	P.2	Cash flow	Approved by government	0.01	0.00	0.00
Other expenditure measures				**0.07**	**-0.03**	**-0.04**
Social support in the local governments	D.62	Cash flow	Approved by government	0.04	0.00	0.00
Other measures	D3, P.2, P.51g	Cash flow	Approved by government	0.03	-0.03	-0.04
Compensatory measures	**P.51g**			**-0.04**	**0.04**	**0.00**
Adjusted investment plan of LLC *Rīgas satiksme*	P.51g	Cash flow	Approved by government	-0.04	0.04	0.00
			TOTAL	**0.24**	**0.00**	**-0.05**

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		
						2024	2025	2026
						% of GDP		
Spillover effects	Spillover effects of wage increase in priority sectors	SSC	D.61	Accrual	Partly approved by government	0.11	-0.01	0.00
Other tax measures	Other tax measures	SSC	D.61	Accrual	Partly approved by government	0.00	0.00	0.00
					TOTAL	**0.10**	**-0.01**	**0.00**

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

List of measures	ESA code	Accounting principle	Adoption Status	Budgetary impact		
				2024	2025	2026
				% of GDP		
Sectoral priorities				**0.03**	**0.03**	**0.04**
Expanding the range and size of beneficiaries of old-age and disability pension supplements	D.62	Cash flow	Approved by government	0.03	0.03	0.04
Other expenditure measures	**D.1, P.2**	**Cash flow**	**Approved by government**	**0.00**	**0.00**	**0.00**
Compensatory measures	**D.62**			**-0.06**	**0.00**	**0.00**
Special budget expenditure adjustment	D.62	Cash flow	Approved by government	-0.06	0.00	0.00
			TOTAL	**-0.02**	**0.03**	**0.04**

Table 6.a: CSR recommendations

<table>
<tr><th>CSR No.</th><th>Measures</th><th>Description</th></tr>
<tr><td>1</td><td>Wind down the energy support measures in force by the end of 2023, using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 3.0%.

Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

Broaden taxation, including of property and capital, and strengthen the adequacy of healthcare and social protection.</td><td>The planned energy support was primarily scheduled until April 30, 2023. Considering the market trends of energy resources and the influencing factors, it is anticipated that significant support to mitigate the impact of energy price increases will no longer be necessary. The amount of support provided in 2023 will be lower than in 2022 and lower than initially planned, as energy resource prices stabilized at the beginning of 2023. The allocated but unspent funds for support measures have not been redirected for other purposes. In the budget for 2024, 50 million EUR have been earmarked for compensating the increase in electricity tariffs. Specific support measures have not yet been developed, and there is also a possibility of increasing the allocation if the need for support measures arises due to adverse developments in energy source markets.
Amount of Energy Support in million EUR and % of GDP:

<table><tr><th>2022</th><th colspan="2">2023</th><th>2024</th></tr><tr><td>Execution</td><td>Plan</td><td>Execution (31.08.2023)</td><td>Plan</td></tr><tr><td>604</td><td>652</td><td>417</td><td>50</td></tr><tr><td>1.6%</td><td>1.5%</td><td>1.0%</td><td>0.1%</td></tr></table>
When deciding on providing support during the heating seasons of 2023/2024, a more targeted approach will be prioritized. The Ministry of Climate and Energy has prepared the draft law "Energy Supply Cost Support Law", which during the Draft Budgetary Plan for 2024 preparation process is under consideration in the Saeima in its 1st reading, providing that support measures for partial compensation of energy resource costs will be provided to households with low and medium-low-income levels in situations, when energy prices are extremely high. That is to say, the support is not planned as a constant support that can be granted within the entire heating season, it is planned to be granted only in situations where extreme fluctuations or an increase in the price of energy resources will be detected in the market, by which we understand the exceeding of a certain price level in the energy resource exchanges (for electricity - NordPool, for natural gas TTF Dutch, for heat energy – natural gas exchange TTF Dutch and wood chip exchange Baltpool in equal parts).

Starting from 2023, a prudent fiscal policy is being implemented in accordance with the national Fiscal Policy Strategy, which envisages maintaining a stable structural balance objective of -0.5% of GDP in 2023 and in the subsequent years.

According to calculations by the MoF, taking into account the updated assessment and forecasts of macroeconomic and fiscal indicators, the nationally financed gross primary expenditures in 2023 amount to 16,039 million EUR and in 2024 – 17,233 million EUR. Considering the fiscal impact of discretionary revenue measures (401 million EUR), the net primary expenditure increase is 4.9% of GDP. Using the EC's</td></tr>
</table>

CSR No.	Measures	Description
		methodology for determining the allowable net primary expenditure growth and taking into account that the general government budget deficit in 2023 (2.7% of GDP) is below the 3% threshold, the allowable net primary expenditure increase is 3.9% of GDP. The EC method is based on the requirement to reduce the primary structural deficit by 0.3% of GDP until it reaches the medium-term objective (MTO), which in Latvia's case is -1% of GDP. This means that expenses can increase by 1.5 percentage points less than potential GDP growth and the GDP deflator. If the requirement to reduce the structural deficit is excluded, the growth in primary expenses could be 5.4%. It should be noted that in 2023, national fiscal policy was influenced by one-off support measures to mitigate the extraordinary increase in energy prices, support for Ukrainian civilians in Latvia and one-off investments in defense and internal security. In 2023, these costs accounted for 2.5% of GDP. If they were excluded, the structural balance of the general government would be 0.2% of GDP and significantly above the MTO. Therefore, in this case, there would be no need to reduce the primary structural deficit, and the net primary expenditure increase would be in line with potential GDP growth and the GDP deflator, i.e., 5.4%, more than in this budget plan. Therefore, the projected excess of the net primary expenditure increase (4.9%) over the allowable 3.9% increase can be explained by the need to finance the one-off expenses related to the war in Ukraine. For example, if support for Ukrainian residents and one-off investments in defense and internal security were excluded from net primary expenditure for 2023 and 2024, the growth in net primary expenditure would be 3.4%, i.e., below the allowable 3.9% increase. In 2024, the energy efficiency investments of municipal buildings of the RRF will be continued, supporting measures to reduce annual primary energy consumption and to increase energy saving, introducing the most effective CO_2 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, the transition to climate neutrality will be promoted by replacing fossil fuel-powered municipal vehicles (buses) with electric buses, thereby reducing Greenhouse Gas emissions and contributing to the achievement of climate goals. As part of the EU Cohesion Policy Programme for 2021-2027, the green transformation in 2024 will be promoted 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 mitigation, adaptation to climate change and nature protection, at the national level – flood risk mitigation and comprehensive environmental monitoring. By using the funding of the Just Transition Fund within the EU Cohesion Policy Programme 2021-2027, the negative impact of climate change by phasing out of peat in energy by 2030 will be reduced and a balanced socio-economic transition will be alleviated in the regions most affected by the transition to a climate-neutral economy – the restoration of habitats or peat sites ecosystems of EU importance will be supported as well as the research development for sustainable use of natural resources, development of

CSR No.	Measures	Description
		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. By using the investments of the EU Cohesion Policy Programme 2021-2027 for the development of state information and communications technology solutions and services and creation of opportunities for the private sector, the digital transformation of the state and private sector will be promoted. On taxation, the EU Council's recommendation is partly based on data on corporate income tax (hereinafter - CIT) revenues in 2020, which do not reflect the current situation. In 2021, CIT revenues were already 35.5% higher than in 2020, while in 2022 they were 34.7% higher than in 2021, which is a significant increase. During the development of the CIT reform, a drop in CIT revenue was initially forecasted, based on the significant amount of accumulated profits made before the reform (it was determined that the FIFO (first in, first out) principle first allocates the profits made up to the reform for which the tax has already been paid). Also, CIT revenues were affected by the transitional norm, as a result of which merchants made an advance payment of CIT in the first half of 2018, while in subsequent years, if profit distribution was not carried out, merchants requested a refund of the tax paid in advance. Taking into account the above, the return of the CIT revenue level to the pre-reform levels was forecasted in a period of approximately 5 years. Already in 2023, the forecasted CIT revenue will exceed the pre-reform level and will continue to increase in the medium term, while also increasing as a share of GDP. Work is currently 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 CoM shall submit to the Saeima 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. The medium-term National Tax Policy Framework 2024-2027, which will define tax policy priorities for the coming years, is expected to be finalised in April 2024 on the basis of a broad and thorough analysis, including consideration of different scenarios for tax policy change. In 2023, the additional allocated funding was directed to increase 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. Also, funding has been directed to promote early detection of oncology and ensure more successful treatment, while ensuring the inclusion of new oncology drugs in the register of reimbursable medicines, improving the availability and quality of palliative care services at home. Funding has also been directed to ensuring and improving the quality of children's health care. In order to deal with the acute lack of funding in health care in 2023 and not to increase the waiting time for services, in the 3rd quarter of 2023, additional funding was allocated for the provision of health

CSR No.	Measures	Description
		care services in 2023 (41.3 million EUR from contingency funds and 57 million EUR from the funds found as a result of the budget review in other ministries). In accordance with the report considered by the CoM "On proposals for the priority measures of the state budget for 2024 and the budget framework for 2024-2026", additional funding of 275 million EUR has been reserved to improve the availability and quality of healthcare services in 2024-2026. In 2024, it is primarily intended to be directed to increase the wages of medical personnel in order to reduce the outflow of labor from the state-paid health care sector, to improve the quality and availability of outpatient and inpatient health care services, including oncology and in the field of maternal and child health care, as well as to increase tariffs. The funding is also intended to be directed to improve the availability of medicines and ensuring a more efficient medication system, providing laboratory services, as well as implementing health promotion measures, improving cardiovascular health and mental health. Also, in 2024, measures will be implemented to improve the digital transformation and its management, as well as the development of the primary health care and hospital system. To ensure the adequacy of social protection, especially for those with low incomes, as of 1st July 2023 the minimum income thresholds have revised envisaging: 1) their determination according to a specific calculation methodology, 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 - further from 2024 onwards the minimum income thresholds and amounts of the minimum benefits and minimum pensions thereof will be revised every year on January 1, in case of a decrease in the median income minimum income thresholds remains unchanged; 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. The increase in the State Social Security Benefit also leads to an increase in the amounts of pensions and benefits deriving from this benefit - the Chernobyl disaster relief, the funeral allowance, the minimum amount of departmental retirement pensions, compensation for additional expenses due to an accident at work or occupational disease, the minimum amount of compensation for loss of earning capacity, etc. As of July 1, 2023, material support for orphans and children left without parental care after reaching the age of majority has been increased. Amount of benefits has been linked to the minimum income threshold and provided for their revision every year. The lump-sum benefit for starting an independent life is set at 40% of the median minimum income, and for a child with a disability since childhood - at 60% of the median minimum income. The lump-sum allowance for the purchase of household items will be recalculated

CSR No.	Measures	Description
		annually from now on, applying a coefficient of 1.7 to the median minimum income. The monthly allowance for children who have reached the age of majority and continue their studies is 20% of the median minimum income, and for children with disabilities since childhood - 30% of the median minimum income. In order to increase the adequacy of pensions and reduce the risk of poverty for pensioners, during the budgeting process the government has approved the funding for the gradual allocation of supplements to old age and disability pensions for insurance years accumulated up to December 31, 1995. The policy measure envisages the gradual implementation (per 3 years) of supplements between 2024 and 2029 to those old-age and disability pensions granted between 2012 and 2028, but starting from 2029 – to all old-age and disability pension recipients for the insurance period accumulated until December 31, 1995. Provisionally, it will affect 38 thousand persons in 2024, 87 thousand persons in 2025 and 145 thousand persons in 2026.
2	Continue the steady implementation of its recovery and resilience plan and swiftly finalise the *REPowerEU* chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	Work on the development of the national regulatory framework for the Latvian Recovery and Resilience Plan investment implementation continues - 53 implementation conditions for 64 reforms/investments with a total RRF funding of 1.47 billion EUR (80% of the total RRF financing for Latvia) are approved by the CoM. By the first quarter of 2024, it is planned that Latvia and the EC will sign the financing agreement for Latvia to receive *RePowerEU* financing. During the reporting period intensive work has been caried out in order to start implementation of EU fund 2021-2027 planning period investments. Till mid-September 2023 in total 68 sets of project selection criteria for 2 117.7 million EUR have been adopted in EU funds Monitoring Committee; 24 for 472.7 million EUR CoM rules for implementation of Specific Objectives and measures have been adopted; 13 calls of project proposal selections for 192.1 million EUR have been launched.
3	Improve access to finance for SME through public lending and guarantee schemes aimed at facilitating investments of strategic importance, in particular in the areas of the green transition and regional development.	Investments of the EU Cohesion policy program for 2021-2027 are also intended for small and medium-sized enterprises in order to promote the transition to the circular economy, by allocating investments in the form of financial instruments. Various technical solutions for reducing resource consumption, replacing primary raw materials, implementing eco-design principles, etc. will be supported. To improve access to finance for the SMEs by the end of 2024, the following activities are planned: - To ensure state aid program portfolio for the total amount of 1144 million EUR to address market failures in financial instruments; - To raise capital for SMEs for the total amount of 230 million EUR, including private sector funds for 45.09 million EUR and European Regional Development Fund for 91 million EUR; - To mobilize 30 million EUR 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.

CSR No.	Measures	Description
		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 260 million EUR for the guarantees issued by the joint stock company *Development Finance Institution Altum*.
4	Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular onshore and offshore wind as well as solar energy, and strengthening energy efficiency measures, e.g. through new financing and support measures to meet the targets of the long-term renovation strategy. Ensure sufficient capacity of interconnections to increase security of supply and continue synchronisation with the EU electricity grid. Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition	In 2024, it is planned to continue ensuring 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 the end of 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. It is planned to start implementation of the open tender in 2024. In 2024, within the state budget programme – the Emissions Auctioning Financial Instrument (EAAI) – the support for project implementation (generation and use of renewable energy in households, purchase of zero-emission and low-emission vehicles) will be continued. On 18 September 2020, a Memorandum of Understanding was signed for a joint Estonian-Latvian project for renewable energy production, establishing an indicative roadmap and establishing an institutional framework for cooperation in the development of the Latvian-Estonian offshore wind farm project (hereinafter - ELWIND). At the end of 2020, the Ministry of Economics, in close cooperation with the Estonian Ministry of Economics and Communications and the Investment and Development Agency of Latvia, as well as experts from the regional electricity transmission system operators *Augstsprieguma tīkls* and *Elering*, launched an intensive, productive and inclusive ELWIND implementation process. The ELWIND joint project would develop an offshore wind farm with a total installed capacity at least 1000 MW by 2030, which in turn would contribute to the long-term availability of Latvia's total electricity capacity under conditions of increasing electricity consumption on the *NordPool* market and reduce the risks of sharp increases in electricity prices in the Latvian trading area. On the Latvian side, the offshore wind park area of the ELWIND project will be located between Pavilosta and Jurkalne, approximately 15-20 kilometers from the coast. It is the E4 territory in the Maritime Spatial Planning. In the fourth quarter of 2021, a feasibility study was carried out to assess the potential locations for the offshore wind farm by selecting suitable sized sites corresponding to 1000 MW of installed wind turbine capacity. The aim of the study was to provide recommendations for the selection of two sites (one in Latvia and one in Estonia) for the development of ELWIND, taking into account technical, economic and sustainability considerations. On 15 October 2021, the project is included in ENTSO-E's (European Network of Transmission System Operators) Ten-Year Development Plan 2022, after which the project is to be included in the

CSR No.	Measures	Description
		Projects of Common Interest list. This list is expected to include offshore wind farm and transmission infrastructure. Studies will begin in 2024 and will continue till the 2026. Auctions for wind farms are planned for 2026, and construction of wind farms and transmission infrastructure and connections for 2027-2029. In 2030, the ELWIND joint project is scheduled to start generating electricity.

Table A: RRF impact – grants

Revenue from RRF grants (% of GDP)				
	2021	**2022**	**2023**	**2024**
RRF GRANTS as included in the revenue projections	0.0	0.0	0.6	1.3
Cash disbursements of RRF GRANTS from EU	0.7	0.5	0.0	1.0
Expenditure financed by RRF grants (% of GDP)				
	2021	**2022**	**2023**	**2024**
TOTAL CURRENT EXPENDITURE	0.0	0.0	0.2	0.5
Gross fixed capital formation P.51g	0.0	0.0	0.4	0.8
Capital transfers D.9				
TOTAL CAPITAL EXPENDITURE	0.0	0.0	0.4	0.8

Table 7: Divergence from Stability Programme 2023–2026

	ESA Code	2023	2024	2025
		% of GDP		
Target general government net lending/ net borrowing	**B.9**			
Stability Programme		-4.0	-2.5	-2.2
Draft Budgetary Plan		-2.7	-2.8	-2.3
Difference		1.3	-0.3	-0.1
General government net lending projection at unchanged policies	**B.9**			
Stability Programme		-4.0	-2.4	-1.7
Draft Budgetary Plan		-2.7	-2.2	-1.3
Difference[8]		1.3	0.2	0.4

[8] 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.

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 income[9] (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 2021 data containing information on a representative sample of 6 571 households and 13 975 individuals, adjusted to the population to obtain information on 824 774 households and 1 869 147 individuals. The EU-SILC data on household income is updated on the basis of MoF's macroeconomic projections for consumer price inflation and gross wages (see Tables 1b and 1c).

The DIA analyses the impact of two government policy measures on income inequality and household income in 2024:

1) Changes in the state social security benefit amounts guaranteed to recipients of social security benefits, recipients of minimum disability and caregiver loss pensions, as well as to vulnerable and low-income households receiving municipal social assistance. It is determined that the minimum income threshold is not less than 20% of the median minimum income per month published by the State Social Insurance Agency, and it is reviewed every year on January 1st.
2) Government-approved amendments to the rules on the revision of the state pension amount[10], which stipulate that if the actual increase in the insurance contribution wage is less than zero, then calculating the revised pension amount, a coefficient of "0" is used.

The changes in the state social security benefit amounts came into effect on July 1, 2023, when the minimum benefit levels were revised[11]. In the EUROMOD model, the changes in benefit amounts in 2024 are analyzed by comparing them with the benefit amounts in effect from July 1, 2023.

In Latvia, pensions are indexed taking into account both changes in the consumer price index and a portion of the actual increase in the insurance contribution wage – depending on the individual's insurance record. In conditions of high inflation, a situation could arise where a negative coefficient of actual increase in the insurance contribution wage would be used in the regular pension indexation process in 2023. This would result in a lower coefficient for pension indexation for individuals with longer insurance records. The EUROMOD model analyzes how household incomes and inequality indicators change, taking into account government-supported amendments, which result in pensions being indexed in 2023 only considering changes in the consumer price index.

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[9] 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.

[10] Amendment to the regulations of the CoM of July 15, 2014 No. 398 "Rules on revision of the amount of state pension", available: https://likumi.lv/ta/id/342679-grozijums-ministru-kabineta-2014-gada-15-julija-noteikumos-nr-398-noteikumi-par-valsts-pensijas-apmera-parskatisanu-

[11] Information on changes in the amount of the state social security benefit is available on the website of the State Social Insurance Agency; available: https://www.vsaa.gov.lv/lv/pakalpojumi/valsts-sociala-nodrosinajuma-pabalsts

Table 8: Impact of policy measures on household income in 2024, in EUR and %

	2024				
	Average Income	Changes in the amounts of social security benefits		Indexation of pensions, taking into account only changes in the consumer price index	
	EUR	EUR	%	EUR	%
Decile 1	3 919	69	1.76%	64	1.62%
Decile 2	6 313	17	0.26%	115	1.82%
Decile 3	8 053	6	0.08%	88	1.09%
Decile 4	9 793	5	0.05%	83	0.85%
Decile 5	11 631	3	0.02%	59	0.51%
Decile 6	13 614	2	0.02%	53	0.39%
Decile 7	15 732	4	0.02%	50	0.32%
Decile 8	18 492	1	0.00%	57	0.31%
Decile 9	23 039	1	0.00%	38	0.16%
Decile 10	39 146	2	0.01%	39	0.10%

The impact of measures on household income and indicators characterizing inequality is shown in Tables 8 and 9. The measures increase household income and reduce both the *Gini* coefficient[12] and the income quintile share ratio *S80/S20*[13].

Table 9: Impact of policy measures on income inequality in 2024

2024			
Inequality indicator	The coefficient value	Changes in the amounts of social security benefits	Indexation of pensions, taking into account only changes in the consumer price index
Gini coefficient	34.51	-0.08	-0.21
S80/S20	6.04	-0.05	-0.08

[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 income quintile share ratio 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).

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.

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