



Brussels, 26 October 2017  
(OR. en)

EG 5/17  
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EUROGROUP 7  
ECOFIN 819  
UEM 271

**COVER NOTE**

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From: Ms Sanita PAVLITA-DESLANDES, Permanent Representative of the Republic of Latvia to the European Union

date of receipt: 11 October 2017

To: Mr Carsten PILLATH, Director General, Council of the European Union

Subject: Latvia:  
Draft Budgetary Plan of Latvia as laid down in Article 6(1) of Reg. (EU) 473/2013 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

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Delegations will find attached Draft Budgetary Plan for 2018 of Latvia **in English**. This document is aimed for discussion in the Eurogroup.



DRAFT BUDGETARY  
PLAN OF THE  
REPUBLIC OF LATVIA  
2018



RIGA, 2017

### Abbreviations

CIT	Corporate income tax
EAI	Emission Allowances Auctioning Instrument
EC	European Commission EU European Union
ERAQ	European Quality Assurance Register for Higher Education
ERDF	European Regional Development
ESA	European System of Accounts
ESF	European Social Fund
EU	European Union
GDP	Gross domestic product
GRTDI	Guidelines on Research, Technology Development, and Innovation for 2014–2020
ICT	Information and communication technologies Fund
MoE	Ministry of Economy
MoES	Ministry of Education and Science
MoEPRD	Ministry of Environmental Protection and Regional Development
MoF	Ministry of Finance
MPC	Mandatory procurement component
MTBF	Law on the medium-term budgetary framework
MTO	Medium-term objective of budget balance in structural terms
NEET	Youth not in education, employment or training
OECD	Organisation of Economic Cooperation and Development
PIT	Personal income tax
R&D	Research and development
RES	Renewable energy sources
SGP	Stability and growth pact
SME	Small and medium-sized enterprises
SO	Specific objective
SSC	Social security contribution
STEM	Science, technology, engineering and mathematics
VAT	Value added tax
VET	Vocational education and training

## 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 2018.

The Regulation provides for a coordination and strengthening of the process of budgetary surveillance in the euro area as a whole:

- ensuring common budgetary timeline – surveillance of budgetary process, which is carried out in the spring within preparation and submission of Convergence and Stability Programmes to the EC, is supplemented by the second surveillance phase, which is implemented in autumn during preparation of annual state budgets by euro area Member States;
- establishing common principles for the budget based on fiscal rules in accordance with strengthened SGP.

Draft Budgetary Plan of Latvia has been approved by the Cabinet of Ministers on October 10, 2017.

## Macroeconomic Development Scenario

The medium-term macroeconomic growth scenario for 2017-2020 was developed in July 2017 taking into account the GDP data for the first quarter of 2017 and current short-term statistical information available up to July, 2017. GDP growth forecasts have been revised up, comparing with the Latvia's Stability Programme for 2017-2020, mainly due to higher than expected increase in investment. Inflation forecasts also have been revised up, which was determined by internal factors, while employment growth forecasts remained unchanged. Forecasts of other indicators have been updated taking into account the current statistical data.

Macroeconomic indicators' forecasts are confirmed by the Bank of Latvia and MoE by signing an agreement protocol, and were approved by the Council of Fiscal Discipline on August 4, 2017. During the process of development of the medium-term macroeconomic growth scenario, MoF held consultations with experts from the International Monetary Fund and EC. Macroeconomic indicators' forecasts were used as the source for the medium-term budgetary framework 2018-2020.

The macroeconomic growth scenario is based on EC technical assumptions of the Spring 2017 forecast regarding oil price developments and economic development of Latvia's trade partners. According to the EC scenario, in 2017 and 2018 economic growth is expected in all EU countries for the first time since the global financial crisis, and EU GDP is forecasted to increase by 1.9% in both years. Economic growth in the EU will be promoted by the increasing economic activity in the rest of the world, as well as by the growing domestic demand. According to the EC forecasts, economic growth in the rest of the world is expected to accelerate to 3.9% in 2018 from 3.7% in 2017. US economy is expected to grow by 2.2% in 2017 and 2.3% in 2018, China's economy - by 6.6% and 6.3% and Russia's economy - by 1.2% and 1.4% respectively.

The steady commodities prices and low interest rates are also beneficial to the global trade growth and economic expansion. EC technical assumptions foresee that prices for Brent oil be 55.5 USD/bbl in 2017 and will increase to 55.9 USD/bbl in 2018 on average. It is also assumed, that average EUR/USD exchange rate will remain steady at 1.06 in 2017 and 2018 and interest rates will be steady and low, with short-term interest rates negative at -0.3% in 2017 and -0.2% in 2018 in the euro area.

According to the MoF forecasts, Latvia's real GDP will grow by 3.7 in 2017, due to the rapid expansion in the first half of the year, which was largely driven by faster than expected growth of private consumption (the forecast has been increased by 1.7 percentage points to 4.8%), as well as an increase in investments (the forecast has been increased by 6.2 percentage points to 11.4%). It is expected that investment growth will continue in the second half of the year, which is related to higher activity in EU funds absorption. Growth is expected to be more moderate in the coming years as such a sharp increase in investment as in 2017 is not expected to sustain for the following years. Therefore, GDP will increase by 3.4% in 2018, and then in 2019 and 2020 growth will stabilize at 3.2%, which is close to the potential economic growth rate.

Table 0.i) Basic assumptions

	2016	2017	2018
Short-term interest rate in euro area (annual average)		-0.3	-0.2
Long-term interest rate in euro area (annual average)		0.3	0.4
USD/EUR exchange rate (annual average)	1.11	1.06	1.06
Nominal effective exchange rate	-7.3	-1.3	-1.2
World excluding EU, GDP growth	3.2	3.7	3.9
EU GDP growth	1.9	1.9	1.9
Growth of relevant foreign markets	0.8	3.1	3.8
World import volumes, excluding EU	0.8	3.1	3.8
Oil prices (Brent, USD/barrel)	44.8	55.5	55.9

Table 1a: Macroeconomic prospects

	ESA Code	2016	2016	2017	2018
		Level	Rate of change		
<b>1. Real GDP</b>	B1*g	21.8	2.0	3.7	3.4
<b>of which</b>					
<b>Attributable to the estimated impact of aggregated budgetary measures on economic growth</b>					
<b>2. Potential GDP</b>		22.0	2.2	2.8	3.0
<b>Contributions:</b>					
<b>labour</b>			0.0	0.0	0.0
<b>capital</b>			0.4	0.9	1.0
<b>total factor productivity</b>			1.7	1.9	2.0
<b>3. Nominal GDP</b>	B1*g	25.0	2.7	6.6	6.3
<b>Components of real GDP</b>					
<b>4. Private consumption expenditure</b>	P.3	13.8	3.4	4.8	3.1
<b>5. Government consumption expenditure</b>	P.3	3.7	2.7	3.1	4.2
<b>6. Gross fixed capital formation</b>	P.51	4.0	-11.7	11.4	8.4
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53				
<b>8. Exports of goods and services</b>	P.6	13.1	2.8	6.1	3.7
<b>9. Imports of goods and services</b>	P.7	13.6	4.6	5.4	5.0
<b>Contribution to real GDP growth</b>					
<b>10. Final domestic demand</b>			0.1	5.5	4.4
<b>11. Changes in inventories and net acquisition of value</b>	P.52 + P.53		3.0	-2.1	-0.1
<b>12. External balance of goods and services</b>	B.11		-1.1	0.3	-0.9

Table 1b: Price developments

	ESA Code	2016	2016	2017	2018
		Level	Rate of change		
1. GDP deflator			0.7	2.8	2.8
2. Private consumption deflator			0.9	2.8	2.8
3. HICP			0.1	2.8	2.8
4. Public consumption deflator			-2.9	3.5	3.2
5. Investment deflator			-1.1	1.0	5.0
6. Export price deflator (goods and services)			-1.7	3.0	3.0
7. Import price deflator (goods and services)			-6.1	5.0	4.5

Table 1c: Labour market developments

	ESA Code	2016	2016	2017	2018
		Level	Rate of change		
1. Employment, persons ('000)		893	-0.3	0.0	0.0
2. Employment, hours worked		1306792585	-0.4	0.0	0.0
3. Unemployment rate (%)			9.6	8.9	8.2
4. Labour productivity, persons			2.3	3.5	3.2
5. Labour productivity, hours worked			2.3	3.5	3.2
6. Compensation of employees, bln.euro	D.1	11505	6.2	6.7	6.0
7. Compensation per employee (Gross wage), euro		859	5.0	6.5	6.0

Table 1d: Sectoral balances

	ESA Code	2016	2017	2018
		% GDP		
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	2.0	0.9	0.7
of which				
- Balance on goods and services		0.5	-0.2	-1.8
- Balance of primary incomes and transfers		0.5	0.5	0.5
- Capital account		1.0	0.6	2.0
2. Net lending/borrowing of the private sector	B.9	2.0	1.8	1.7
3. Net lending/borrowing of general government	EDP B.9	0.0	-0.9	-1.0
4. Statistical discrepancy		0.0	0.0	0.0



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

Latvian fiscal policy principles, applied deviations from the MTO due to increase in contributions to the second pension pillar and reform of the healthcare system have not changed and have been described in the Stability Programme for 2017-2020.

The general objective of Latvian fiscal policy – raise sustainably the quality of life of population – has not changed and similarly as in previous years it is implemented with the following medium-term budgetary policy priority directions:

- 1) increase state defence capacity by raising state defence funding to 2% of GDP;
- 2) promotion of sustainable and balanced economic development, introducing CIT 0% rate on reinvested profit, decreasing labour tax wedge and primarily providing increase in funding for defence, internal security, health and education within limits of the state budget;
- 3) income inequality reduction by increasing minimum wage and introducing of progressive PIT non-taxable minimum and differentiating PIT rate;
- 4) gradual increase of tax revenue to 1/3 of GDP, in particular by improving tax collection.

Specific objectives of Latvia's fiscal policy have remained unchanged during the current budgetary preparation cycle, but the policy measures is specified to achieve these objectives. The first objective is clarified by stipulating that 2% funding is provided in all the years of the MTBF, the second and third objectives are complemented with the key measures of the tax reform and the second objective lists the areas in which the state budget financing is increased substantially for this MTBF.

For the implementation of above mentioned medium-term budgetary policy priority directions the government during successive budgetary preparation cycles has adopted discretionary revenue and expenditure measures by continuing the previously implemented policy course, which has been described in the Stability Programme for 2017-2020.

Preparation of the state budget for 2018 was launched by positive fiscal space in the amount of +63.2 mln euro, while fiscal space for 2019 initially was negative -42.0 mln euro. This, in turn, meant that by taking decisions on the redistribution a positive fiscal space for government priorities in 2018, the situation would further deteriorate in 2019. Taking into account this situation at several successive government meetings decisions on revenue increasing and expenditure decreasing measures were taken, that eliminated the negative fiscal space in 2019 and ensured funding for the medium-term budgetary priorities.

At the same time it should be noted that the additional resources for government's priorities were provided not only by deciding on the revenue increasing measures, but also by carrying out state budget expenditure revision which allowed to ensure additional funding both for own sectoral priorities and common government priorities.

Fiscal data in the Table No.3 has been prepared on the basis of a no-policy change scenario, which for the year 2018 takes into account discretionary revenue and expenditure measures already included in the Law on Medium-Term Budget Framework for 2016, 2017 and 2018 and in the Law on Medium-Term Budget Framework for 2017, 2018 and 2019. In 2018 no-policy change scenario envisage the changes stemming from updated macroeconomic scenario, also updated revenue and expenditure forecasts in particular general government

levels, taking into account actual execution data - these are not being classified as discretionary expenditure measures and respectively are not included in Table 5.

It should be noted that the current Stability Programme included information on the implementation of the tax reform, the key measures defined and their assessed impacts at that time. On July 28, 2017 the Saeima approved a package of tax reform laws - total 11 draft laws and respectively as of January 1, 2018 several significant changes are planned in Latvia's tax policy. The impact of tax reform on the general government budget is included in the no-policy scenario and the expansion of its activities is presented in the Table 5.e.

In the view of the above mentioned, the budget for 2018 has been drawn up:

- 1) by introducing a tax reform based on the reform of labour force and CIT, combating the shadow economy, as well as compensatory measures that reduce the negative effects of certain elements of the reform on the general government budget;
- 2) by forecasting that the general government nominal deficit, by including identified fiscal risks, is 1.0% of GDP in 2018, which according to Latvian forecasts allows to ensure EC fiscal recommendation;
- 3) by implementing state budget expenditure revision and by developing additional discretionary revenue and expenditure measures in order to ensure funding for the priorities defined by the government – security, health, demography and maintenance of motor roads;
- 4) by continuing to provide discretionary measures to reduce the shadow economy, to improve tax collection as well to reduce income inequality.

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

	ESA Code	2017	2018
		% of GDP	
<b>Net lending (+) / net borrowing (-) (B.9) by sub-sector</b>			
<b>1. General government</b>	S.13	-0.9	-1.0
<b>2. Central government</b>	S.1311	-1.3	-1.5
<b>3. State government</b>	S.1312		
<b>4. Local government</b>	S.1313	0.2	0.1
<b>5. Social security funds</b>	S.1314	0.2	0.4
<b>6. Interest expenditure</b>	D.41	0.9	0.8
<b>7. Primary balance</b>		0.1	-0.2
<b>8. One-off and other temporary measures</b>			
<b>9. Real GDP growth (%) (=1. in Table 1a)</b>		3.7	3.4
<b>10. Potential GDP growth (%) (=2 in Table 1.a)</b>		2.8	3.0
<b>contributions:</b>			
- labour		0.0	0.0
- capital		0.9	1.0
- total factor productivity		1.9	2.0
<b>11. Output gap (% of potential GDP)</b>		0.0	0.3
<b>12. Cyclical budgetary component (% of GDP)</b>		0.0	0.1
<b>13. Cyclically-adjusted balance (1 - 12) (% of GDP)</b>		-0.9	-1.2
<b>14. Cyclically-adjusted primary balance (13 + 6) (% of GDP)</b>		0.1	-0.3
<b>15. Structural balance (13 - 8) (% of GDP)</b>		-0.9	-1.2

Table 2.b: General government debt developments

	ESA Code	2017	2018
		% of GDP	
<b>1. Gross debt</b>		38.7	37.3
<b>2. Change in gross debt ratio</b>		-1.4	-1.4
<b>Contributions to change in gross debt</b>			
<b>3. Primary balance</b>		0.1	-0.1
<b>4. Interest expenditure</b>	EDP D.41	0.9	0.8
<b>5. Stock-flow adjustment, i.e. implicit interest rate on debt</b>		-2.3	-2.3
		2.5	2.3
<b>Other relevant variables</b>			
<b>6. Liquid financial assets</b>			
<b>7. Net financial debt (7=1-6)</b>			
<b>8. Debt amortization (existing bonds) since the end of the previous year</b>		3.7	2.7
<b>9. Percentage of debt denominated in foreign currency</b>		11.9	11.3
<b>10. Average maturity</b>		7.06 gadi	
<i>For information - in calculations used GDP data:</i>			
<b>Nominal GDP. mln euro</b>		26 676.2	28 359.4

Table 2.c: Contingent liabilities

% of GDP	2017	2018
<b>Public guarantees</b>	1.0	1.0

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

	ESA Code	2017	2018
		% GDP	
<b>1. Total revenue at unchanged policies</b>	TR	36.4	36.4
<b>of which</b>			
1.1. Taxes on production and imports	D.2	13.4	14.1
1.2. Current taxes on income, wealth, etc.	D.5	8.5	7.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	8.8	9.3
1.5. Property income	D.4	0.6	0.7
1.6. Other		5.0	5.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.5	30.5
<b>2. Total expenditure at unchanged policies</b>	TE	37.3	37.2
<b>of which</b>			
2.1. Compensation of employees	D.1	10.7	10.5
2.2. Intermediate consumption	P.2	6.4	6.1
2.3. Social payments	D.62 D.632	11.6	11.9
<b>of which Unemployment benefits</b>		0.4	0.5
2.4. Interest expenditure	D.41	0.9	0.9
2.5. Subsidies	D.3	0.5	0.9
2.6. Gross fixed capital formation	P.51	4.4	4.6
2.7. Capital transfers	D.9	0.1	0.1
2.8. Other		2.6	2.3

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

	ESA Code	2017	2018
		% GDP	
<b>1. Total revenue target</b>	TR	36.4	36.5
Of which			
1.1. Taxes on production and imports	D.2	13.4	14.1
1.2. Current taxes on income, wealth, etc.	D.5	8.5	7.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	8.8	9.6
1.5. Property income	D.4	0.6	0.6
1.6. Other		5.0	4.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.5	30.8
<b>2. Total expenditure target</b>	TE3	37.3	37.5
Of which			
2.1. Compensation of employees	D.1	10.7	10.5
2.2. Intermediate consumption	P.2	6.4	6.2
2.3. Social payments	D.62 D.632	11.6	12.0
of which Unemployment benefits		0.4	0.5
2.4. Interest expenditure (= Table 2.a.9.)	D.41	0.9	0.8
2.5. Subsidies	D.3	0.5	1.0
2.6. Gross fixed capital formation	P.51	4.4	4.5
2.7. Capital transfers	D.9	0.1	0.1
2.8. Other		2.6	2.5

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

	ESA Code	2016	2016	2017	2018
		mln. euro	% GDP		
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		504.7	1.5	1.6	1.6
<b>2. Cyclical unemployment benefit expenditure</b>		-7.5	0.0	0.0	0.0
<b>3. Effect of discretionary revenue measures</b>		222.2	0.1	0.4	0.2
<b>4. Revenue increases mandated by law</b>					

Table 4.c General government expenditure by function

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

	2017		2018	
	% GDP	% general government expenditure	% GDP	% general government expenditure
<b>Education</b>	5.8	13.6	5.6	12.9
<b>Health</b>	3.7	9.9	4.2	11.2
<b>Employment</b>	0.2	0.5	0.2	0.4

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

	COFOG Code	2017	2018
		% of GDP	
<b>1. General public services</b>	1	5.0	4.9
<b>2. Defense</b>	2	1.8	2.0
<b>3. Public order and safety</b>	3	2.0	1.9
<b>4. Economic affairs</b>	4	4.1	3.9
<b>5. Environmental protection</b>	5	0.7	0.6
<b>6. Housing and community amenities</b>	6	0.9	0.9
<b>7. Health</b>	7	3.7	4.2
<b>8. Recreation, culture and religion</b>	8	1.6	1.5
<b>9. Education</b>	9	5.8	5.6
<b>10. Social protection</b>	10	11.6	12.0
<b>11. Total Expenditure (= item 2 in Table 2.c.i)</b>	TE	37.3	37.5

State draft budget 2018 is drawn up in accordance with the following basic principles:

1. The priority sectors – security, health, demography and maintenance of motor roads.

During the preparation of the state budget for 2018 the government defined following priority sectors – security, health, demography and maintenance of motor roads. Decision to **increase funding for defence** was adopted in the previous two MTBF that includes not only strengthening external but also internal security. Regarding the remaining priorities – health, demography and maintenance of motor roads – maintaining those on the top of the government's list of priorities results from the fact that in relevant sectors, which are cornerstones of successful economic development, problems have been accumulating already for several years. **Health sector** has long functioned under the condition of inadequate public financing, which in turn has increased patient co-payments, significantly inhibiting satisfaction of patients' health needs. The increase in funding is expected to be achieved by increasing the SSC rate of 1 percentage point and its allocated to the health, and by using the permission of the EC to use the SGP flexibility mechanism for structural reforms. It should be noted that the increase of the SSC rate provides stable additional funding for the health sector, but the deviation of structural reform only works until 2019. The current MTBF anticipates that the loss of funding for the deviation of structural reforms in 2020 will be fully compensated by allocating fiscal space in the amount of 144 mln euro for health sector from 2020. This ensures a stable increase in funding for the health sector.

In order to ensure sustainable economic growth above 3% of GDP, three factors need to be ensured: gross fixed capital formation, productivity growth and labour force growth. The first factor is largely stable. Growth of the labour force in Latvia is also not foreseen, as increasing the retirement age only compensates the decline in the population. Therefore, alongside productivity growth, which in the medium term is a key factor to ensure potential GDP growth, it is also important to implement a policy to ensure labour force growth. In this respect it is essential to create economic conditions favourable to the increase in number of families with three and more children. **Therefore, in this year's budget there has been a significant increase in funding for demographic measures** - an additional funding of 28 mln euro in 2018 with a base effect for the subsequent years. Basically, additional funding are planned to allocate for the increase of benefit for a third child and more children.

Funding for the repair and maintenance of Latvian motor roads has been relatively low compared to the Baltic neighbours and the substantial part of funding is allocated from the EU Structural Funds. In the subsequent years funding of the EU structural funds will decrease substantially, as the road sector has already acquired the funding provided. This year these conditions have, in particular, raised the issue on the state budget funding for the road sector, raising the issue of linking fuel excise duty with the funding the road sector, as well as introducing regulation in the Law "On Roads" to ensure stable and predictable increase of state budget funding. Currently the issue is not systematically resolved and discussions on the optimal mechanism, including the restoration of the potential motor road fund as a special budget, are planned in the subsequent years. As a medium-term solution the current MTBF provides an increase in funding for maintenance of motor roads of 26 mln euro in 2018 with the base effect for 2019 and another 11 mln euro in 2020 and this is the most significant increase in funding for this sector in recent years. This increase in funding is comparable to the increase in revenue from the excise duty increase on fuel adopted by the tax reform package and conceptually marks the link between new policy measures for fuel excise and the dynamics of expenditure for road sector. Together with the planned EU Structural Fund reserve of 6% for the road sector,



it is estimated that these measures will allow to provide work of motor road repair and maintenance at the existing amount.

2. State budget expenditure revision. As a result of expenditure revision for 2018 it was possible to find resources of 81.1 mln euro which were distributed respectively – 28.6 mln euro for common government priorities and 52.5 mln euro allocated as internal resources for funding sectorial priorities. Amendments to the Law on Budget and Financial Management which came into force on 1st January, 2016 have established State budget expenditure revision as a permanent and systematic process.
3. Increasing the tax chargeability so as to move towards the ratio of tax revenue to GDP – 1/3. Latvia traditionally has been a country with relatively low tax burden, which is one of the lowest in the EU. In the previous MTBF increase in tax revenue were set as a priority with the aim to reach 1/3 of GDP. This goal is also being maintained in this MTBF, but the emphasis are different. This year an ambitious tax reform package was adopted with the aim to ensure the economic breakthrough and including measures that have a direct effect on decrease of revenue in the medium-term - both as a reduction of PIT rate and the abolition from the advance payment of the CIT. These measures were necessary to improve the business environment by reducing labour costs and improving corporate balance sheets. In this sense the objective of fiscal policy - to facilitate growth and increase tax revenue to GDP - is to some extent contradictory and the current MTBF finds a politically acceptable balance between these goals. The adopted package of tax reform in this regard is more favourable to ensuring revenue to GDP than the original version of the reform, which was primarily aimed at stimulating the economy. At present more than in previous years it is recognized that it is important to ensure a real increase in revenue in order to finance the needs of the state rather than focusing primarily on the revenue to GDP ratio. If state with policy measures provides an increase in real GDP in long-term, which promotes a proportionately higher real revenue, the revenue-to-GDP ratio is not primarily decisive. Consequently this direction of priority development is not being cancelled, but at the forefront the question is not raised on how quickly this ratio converges to 1/3, but primarily important is issue of economic growth.
4. Reduction of population income inequality. A number of significant provisions were incorporated in the previous MTBF to reduce income inequality of population, such as an increase in the PIT non-taxable minimum, increase in PIT allowances for dependents, improvements in the State social assistance system, and the support scheme to low income households to compensate the rise in electricity costs due to the abolition of the initial rate since the electricity market was opened, increase of the minimum wage, as well as the introduction of the differentiated non-taxable minimum. The current budget law provides the continuation of the ongoing government policy and the implementation of the most tax reform measures from 2018 approved by the government and Saeima - increasing the minimum wage from 380 euro to 430 euro in 2018, significantly increasing PIT differentiated non-taxable minimum (by abandoning from the application of the differentiated non-taxable minimum under summarising procedure, applying it to a full amount every month already during the course of the taxation year): depending on the level of income, it will range from 0 to 200 euros per month in 2018, from 0 to 230 euros per month in 2019 and from 0 to 250 euros per month in 2020, ensuring a reduction of the MPC for electricity, as well as a number of measures to resolve demographic issues. However the most significant policy tool to reduce income inequality is the introduction of a progressive PIT rate, reducing the PIT from 23% to 20% for income to 20 000 euro per year. As a result of these measures it is projected that income inequality rates will improve (see the section "Government decision impact on specific budget revenue and expenditure measures").

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 % of GDP		
						2018	2019	2020
Introduction of the reduced VAT rate of 5% to vegetables, fruits and berries that are specific to Latvia	Introduction of the reduced VAT rate of 5% to vegetables, fruits and berries that are specific to Latvia	VAT	D.2	Accrual	Approved by government	-0.02	0.00	0.00
Developing solutions for the check lottery organization	Developing solutions for the check lottery organization as of January 1, 2019.	VAT PIT	D.2 D.5	Accrual Accrual	Approved by government Approved by government	0.00 0.00	0.01 0.00	0.00 0.00
Increase of the minimum dividends proportion of profit for 2019 (profit of 2018)	Determination of the minimum dividends proportion to 85% of profit for capital companies in which all shares are directly or indirectly owned by the State	Non-tax revenue	D.421	Accrual	Approved by government	0.00	0.01	0.00
Increasing revenue forecasts for other non-tax revenues	Increasing revenue forecasts for other non-tax revenues	CIT Non-tax revenue	D.5	Accrual Accrual	Approved by government Approved by government	0.00 0.01	0.00 0.01	0.00 0.00
Amendments to the long-term obligations of the Ministry of the Interior, of the technical means of road traffic (speed cameras) operation	Revenue increase from fines imposed by the State Police on road traffic violations, which are registered by the merchant's technical features	Non-tax revenue	D.751	Accrual	Approved by government	0.02	0.01	0.00
Clarification of payments of Central Bank of Latvia	Clarification of payments of Central Bank of Latvia	Non-tax revenue	D.421	Accrual	Approved by government	0.03	0.00	0.00
Increase in budget revenue from dividends, because of growth in State company "Latvijas valsts mežs" payments	Increase in budget revenue from dividends, because of growth in State company "Latvijas valsts mežs" payments	Non-tax revenue	D.421	Accrual	Approved by government	0.02	-0.01	0.00
Clarification of revenue from dividends	Revenue changes from dividends from AS "Latvenergo", in accordance with the conceptual report "Complex measures for the development of the electricity market"	CIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
Increase of forecasted VAT revenue from carriage of certain passenger categories with fare relief in public passenger transport	Increase of forecasted VAT revenue from carriage of certain passenger categories with fare relief in public passenger transport	Non-tax revenue CIT	D.421 D.5	Accrual Accrual	Approved by government Approved by government	-0.10 0.00	0.10 0.00	0.31 0.08
Other measures	Increase of forecasted VAT revenue from carriage of certain passenger categories with fare relief in public passenger transport	VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
				Accrual	Approved by government	0.02	0.00	0.00
					<b>TOTAL</b>	<b>-0.02</b>	<b>0.13</b>	<b>0.39</b>

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

List of measures	ESA Code	Accounting principle	Adoption Status	Budgetary impact % of GDP	
				2018	2019 2020
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)		Cash flow	Approved by government	0.04	-0.02 -0.01
Decisions of the Cabinet of Ministers, including:		Cash flow	Approved by government	-0.04	0.23 0.72
1) MoE (including clarification of funding for supporting electricity users)	D.3	Cash flow	Approved by government	0.02	-0.09 0.14
2) MoF (including clarification of expenditures for including public debt servicing expenditure and for contributions to the EU budget, additional funding for projects of State Joint Stock Company «State Real Estate»)	D.41, P.51	Cash flow	Approved by government	-0.08	-0.01 0.18
3) Ministry of the Interior (including expenditure for the administration of road traffic (speed cameras) operation, for the operation of State Border Guard)	D.1, D.3, P.2	Cash flow	Approved by government	0.01	0.00 0.00
4) Ministry of Transport (including grant for public transport service providers to cover losses for those who are entitled to use the fare relief)	D.39	Cash flow	Approved by government	0.01	0.00 0.00
5) Ministry of Welfare		Cash flow	Approved by government	0.01	0.00 0.00
6) Ministry of Justice (including decrease in grants from general revenues and expenditure for implementation of long-term measure "Construction of a new prison in Liepāja")	P.51	Cash flow	Approved by government	-0.10	0.02 0.09
7) Ministry of Culture		Cash flow	Approved by government	0.01	0.01 0.00
8) Ministry of Health (including expenditure to increase minimum monthly wage up to 430 euros from 1st January 2018)	D.1	Cash flow	Approved by government	0.04	0.00 0.00
9) Prosecutor's Office		Cash flow	Approved by government	0.00	-0.01 0.01
10) 62. earmarked grants for municipalities		Cash flow	Approved by government	0.01	0.00 0.00
11) 64. Grants to local governments (including compensation for local governments to provide local governments budget revenue together with special grant in the amount of 19.6% of general budget revenue)		Cash flow	Approved by government	0.07	0.41 0.30
12) 74. The annual state budget execution process of reallocating funding (including correction of the amount of Funds for Unforeseen Events, decrease in funding for appropriation reserve)		Cash flow	Approved by government	-0.01	-0.09 0.01
13) State special budget (including decrease in funding for old age pension, decrease in expenditure for unemployment benefits in relation to the projected decrease in the number of beneficiaries)	D.62	Cash flow	Approved by government	-0.04	-0.01 0.00
14) Correction - excluding funding for increase in the minimum wage up to 430 euros and to provide increase in the employer's state social insurance contributions, which is already included in the no-policy scenario)	D.1	Cash flow	Approved by government	-0.10	0.00 0.00
The diplomatic and consular service essential interests of the security and defence	D.1, P.2	Cash flow	Approved by government	0.01	0.00 0.00
State guarantees for loans for house purchases or constructions	D.3	Cash flow	Approved by government	0.01	0.00 0.00

The modernisation of the tax information service (including the Payment management information system and the creation of the provision functionality)	D.1, P.2, P.51	Cash flow	Approved by government	0.00	0.00	0.02
The strengthening of the institutional capacity of the MoF, including combating the shadow economy, the State Revenue Service in order to achieve the strategic objectives (including customs, inspectors and financial police remuneration)	D.1	Cash flow	Approved by government	0.01	0.00	0.00
The continuation of the reform of the administrative structures in State Revenue Service, including capacity-building and transfer price agreement journals	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Construction of the state border of the Republic of Latvia with the Russian Federation and the Republic of Belarus	P.51	Cash flow	Approved by government	0.01	0.00	0.01
Maintenance of the state border of the Republic of Latvia	P.2, P.51	Cash flow	Approved by government	0.01	0.00	0.00
Information and communication technologies, infrastructure improvement of security of the Ministry of Interior (information classified)	D.1, P.2, P.51	Cash flow	Approved by government	0.01	0.00	0.00
Wage increase for teachers of the higher education institutions subordinate to the Ministry of Education and Science	D.1	Cash flow	Approved by government	0.01	0.01	0.00
Enforcement of state functions in the sports sector at a constant level	D.3	Cash flow	Approved by government	0.01	0.00	0.00
Additional investment for the national sports infrastructure development projects	P.51	Cash flow	Approved by government	0.02	-0.02	0.01
Purchase of fire protection specialised vehicles for the State Forest Service	P.51	Cash flow	Approved by government	0.01	-0.01	0.00
Increase the administrative capacity to ensure the functions of the supervisory, control of animals and plants, and the prevention of infectious diseases in the area of the administration and administration of EU funds, as well as the Data Protection Regulation, partial requirements for data security, availability and legitimacy, and information and communication technology systems integration and development	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Railway public infrastructure	D.3	Cash flow	Approved by government	0.01	-0.01	0.00
Increase in state family benefit	D.3	Cash flow	Approved by government	0.10	0.01	0.00
Capacity building of social institutions, for social programmes in field of protection of children rights and adaptation of the IT systems for these measures	D.1, P.2	Cash flow	Approved by government	0.01	0.00	0.00
Development of alternative family care	D.3	Cash flow	Approved by government	0.01	0.00	0.00
		Cash flow	Approved by government	0.00	0.00	0.00
		Cash flow	Approved by government	0.00	0.00	0.00
Increase in remuneration of judges	D.1	Cash flow	Approved by government	0.00	0.00	0.01
The strengthening of the environmental monitoring (including wages for inspectors)	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Special purpose programme	D.3	Cash flow	Approved by government	0.01	-0.01	0.00
Increase in remuneration of prosecutors	D.1	Cash flow	Approved by government	0.00	0.00	0.01
Providing funding for health	D.3	Cash flow	Approved by government	0.00	0.00	0.45
Strengthening the administrative capacity of the State Social Insurance Agency	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Other measures		Cash flow	Approved by government	0.13	-0.04	0.01
			<b>TOTAL</b>	<b>0.30</b>	<b>0.14</b>	<b>1.23</b>

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 % of GDP		
						2018	2019	2020
Introduction of the reduced VAT rate of 5% to vegetables, fruits and berries that are specific to Latvia	Introduction of the reduced VAT rate of 5% to vegetables, fruits and berries that are specific to Latvia	VAT	D.2	Accrual	Approved by government	-0.02	0.00	0.00
Developing solutions for the check lottery organization	Developing solutions for the check lottery organization as of January 1, 2019.	VAT PIT	D.2 D.5	Accrual Accrual	Approved by government Approved by government	0.00 0.00	0.01 0.00	0.00 0.00
Increase of the minimum dividends proportion of profit for 2019 (profit of 2018)	Determination of the minimum dividends proportion to 85% of profit for capital companies in which all shares are directly or indirectly owned by the State	Non-tax revenue	D.421	Accrual	Approved by government	0.00	0.01	0.00
Increasing revenue forecasts for other non-tax revenues	Increasing revenue forecasts for other non-tax revenues	CIT Non-tax revenue	D.5	Accrual	Approved by government	0.00	0.00	0.00
Amendments to the long-term obligations of the Ministry of the Interior, of the technical means of road traffic (speed cameras) operation	Revenue increase from fines imposed by the State Police on road traffic violations, which are registered by the merchant's technical features	Non-tax revenue	D.7.51	Accrual	Approved by government	0.02	0.01	0.00
Clarification of payments of Central Bank of Latvia	Clarification of payments of Central Bank of Latvia	Non-tax revenue	D.421	Accrual	Approved by government	0.03	0.00	0.00
Increase in budget revenue from dividends, because of growth in State company "Latvijas valsts meži" payments	Increase in budget revenue from dividends, because of growth in State company "Latvijas valsts meži" payments	Non-tax revenue	D.421	Accrual	Approved by government	0.02	-0.01	0.00
Clarification of revenue from dividends	Revenue changes from dividends from AS "Latvenergo", in accordance with the conceptual report "Complex measures for the development of the electricity market"	CIT Non-tax revenue	D.5 D.421	Accrual Accrual	Approved by government Approved by government	0.00 -0.10	0.00 0.10	0.00 0.31
Increase of forecasted VAT revenue from carriage of certain passenger categories with fare relief in public passenger transport	Increase of forecasted VAT revenue from carriage of certain passenger categories with fare relief in public passenger transport	CIT	D.5	Accrual	Approved by government	0.00	0.00	0.08
Other measures		VAT	D.2	Accrual	Approved by government	0.01	0.00	0.00
				Accrual	Approved by government	0.02	0.00	0.00
					<b>TOTAL</b>	<b>-0.02</b>	<b>0.13</b>	<b>0.39</b>

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

List of measures	ESA Code	Accounting principle	Adoption Status	Budgetary impact % of GDP	
				2018	2019 2020
Other measures (reallocation of revenue (including implementation of EU funds) from paid services and other own revenue increase, etc.)		Cash flow	Approved by government	0.04	-0.02 -0.01
Decisions of the Cabinet of Ministers, including:		Cash flow	Approved by government	-0.04	0.23 0.72
1) MoE (including clarification of funding for supporting electricity users)	D.3	Cash flow	Approved by government	0.02	-0.09 0.14
2) MoF (including clarification of expenditures for including public debt servicing expenditure and for contributions to the EU budget, additional funding for projects of State Joint Stock Company «State Real Estate»)	D.41, P.51	Cash flow	Approved by government	-0.08	-0.01 0.18
3) Ministry of the Interior (including expenditure for the administration of road traffic (speed cameras) operation, for the operation of State Border Guard)	D.1, D.3, P.2	Cash flow	Approved by government	0.01	0.00 0.00
4) Ministry of Transport (including grant for public transport service providers to cover losses for those who are entitled to use the fare relief)	D.39	Cash flow	Approved by government	0.01	0.00 0.00
5) Ministry of Welfare		Cash flow	Approved by government	0.01	0.00 0.00
6) Ministry of Justice (including decrease in grants from general revenues and expenditure for implementation of long-term measure "Construction of a new prison in Ligota")	P.51	Cash flow	Approved by government	-0.10	0.02 0.09
7) Ministry of Culture		Cash flow	Approved by government	0.01	0.01 0.00
8) Ministry of Health (including expenditure to increase minimum monthly wage up to 430 euros from 1st January 2018)	D.1	Cash flow	Approved by government	0.04	0.00 0.00
9) Prosecutor's Office		Cash flow	Approved by government	0.00	-0.01 0.01
10) 62. earmarked Grants for Municipalities		Cash flow	Approved by government	0.01	0.00 0.00
11) 64. Grants to local governments (including compensation for local governments to provide local governments budget revenue together with special grant in the amount of 19.6% of general budget revenue)		Cash flow	Approved by government	0.07	0.41 0.30
12) 74. The annual state budget execution process of reallocating funding (including correction of the amount of Funds for Unforeseen Events, decrease in funding for appropriation reserve)		Cash flow	Approved by government	-0.01	-0.09 0.01
13) State special budget (including decrease in funding for old age pension, decrease in expenditure for unemployment benefits in relation to the projected decrease in the number of beneficiaries)	D.62	Cash flow	Approved by government	-0.04	-0.01 0.00

14) Correction - excluding funding for increase in the minimum wage up to 430 euros and to provide increase in the employer's state social insurance contributions, which is already included in the no-policy scenario)	D.1	Cash flow	Approved by government	-0.10	0.00	0.00
The diplomatic and consular service essential interests of the security and defence	D.1, P.2	Cash flow	Approved by government	0.01	0.00	0.00
State guarantees for loans for house purchases or constructions	D.3	Cash flow	Approved by government	0.01	0.00	0.00
The modernisation of the tax information service (including the Payment management information system and the creation of the provision functionality)	D.1, P.2, P.51	Cash flow	Approved by government	0.00	0.00	0.02
The strengthening of the institutional capacity of the MoF, including combating the shadow economy, the State Revenue Service in order to achieve the strategic objectives (including customs, inspectors and financial police remuneration)	D.1	Cash flow	Approved by government	0.01	0.00	0.00
The continuation of the reform of the administrative structures in State Revenue Service, including capacity-building and transfer price agreement journals	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Construction of the state border of the Republic of Latvia with the Russian Federation and the Republic of Belarus	P.51	Cash flow	Approved by government	0.01	0.00	0.01
Maintenance of the state border of the Republic of Latvia	P.2, P.51	Cash flow	Approved by government	0.01	0.00	0.00
Information and communication technologies, infrastructure improvement of security of the Ministry of Interior (information classified)	D.1, P.2, P.51	Cash flow	Approved by government	0.01	0.00	0.00
Wage increase for teachers of the higher education institutions subordinate to the Ministry of Education and Science	D.1	Cash flow	Approved by government	0.01	0.01	0.00
Enforcement of state functions in the sports sector at a constant level	D.3	Cash flow	Approved by government	0.01	0.00	0.00
Additional investment for the national sports infrastructure development projects	P.51	Cash flow	Approved by government	0.02	-0.02	0.01
Purchase of fire protection specialised vehicles for the State Forest Service	P.51	Cash flow	Approved by government	0.01	-0.01	0.00
Increase the administrative capacity to ensure the functions of the supervisory, control of animals and plants, and the prevention of infectious diseases in the area of the administration and administration of EU funds, as well as the Data Protection Regulation, partial requirements for data security, availability and legitimacy, and information and communication technology systems integration and development	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Railway public infrastructure	D.3	Cash flow	Approved by government	0.01	-0.01	0.00
Increase in state family benefit	D.3	Cash flow	Approved by government	0.10	0.01	0.00
Capacity building of social institutions, for social programmes in field of protection of children rights and adaptation of the IT systems for these measures	D.1, P.2	Cash flow	Approved by government	0.01	0.00	0.00
Development of alternative family care	D.3	Cash flow	Approved by government	0.01	0.00	0.00
		Cash flow	Approved by government	0.00	0.00	0.00
		Cash flow	Approved by government	0.00	0.00	0.00
Increase in remuneration of judges	D.1	Cash flow	Approved by government	0.00	0.00	0.01
The strengthening of the environmental monitoring (including wages for inspectors)	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Special purpose programme	D.3	Cash flow	Approved by government	0.01	-0.01	0.00

Increase in remuneration of prosecutors	D.1	Cash flow	Approved by government	0.00	0.00	0.01
Providing funding for health	D.3	Cash flow	Approved by government	0.00	0.00	0.45
Strengthening the administrative capacity of the State Social Insurance Agency	D.1	Cash flow	Approved by government	0.01	0.00	0.00
Other measures		Cash flow	Approved by government	0.13	-0.04	0.01
			<b>TOTAL</b>	<b>0.30</b>	<b>0.14</b>	<b>1.23</b>

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

List of measures	Detailed description	Type of tax	E-SA Code	Accounting principle	Adoption Status	Budgetary impact		
						2018	2019	2020
Increase in revenue in the relation with planned check lottery	Developing solutions for the check lottery organization as of January 1, 2019.	PIT	D.5	Accrual	Approved by government	0.00	0.00	0.00
					<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>



### Government decision impact on specific budget revenue and expenditure measures

The labour tax reform will have a positive impact on the reduction of income inequality for the employees. Especially, the income of low-paid employees will increase substantially by increasing non-taxable minimum of the PIT, reducing the PIT from 23 to 20% (for income below 20,000 euro per year or 1,667 euro per month), and increasing the minimum monthly wage from the current 380 euro to 430 euro in 2018.

**Table 5d. The impact of labour tax reform on the wages of employees (without dependents), euro per month**

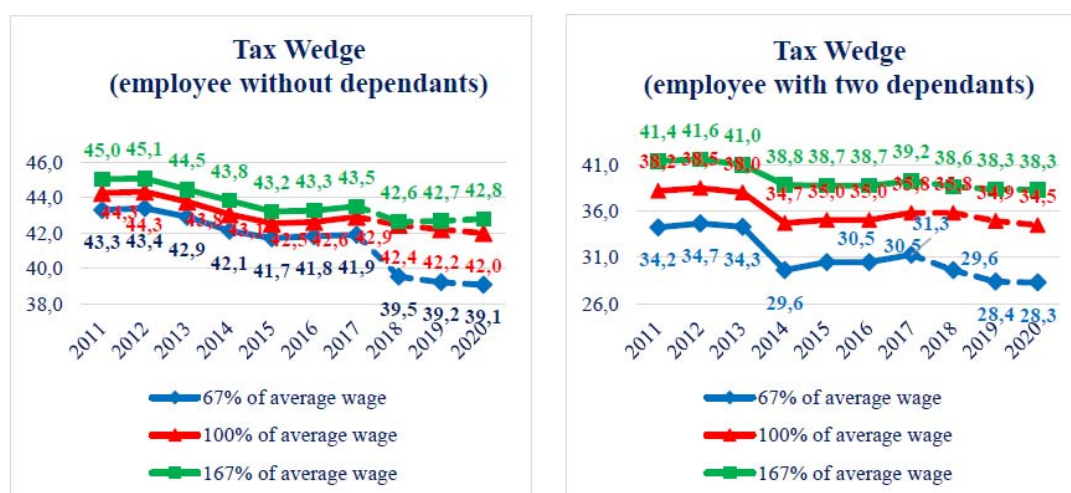
Gross wage	Net income, euro per month						
	2017*	Tax reform			Comparing to 2017		
		2018	2019	2020	2018	2019	2020
Minimum wage**	288	346	352	356	58	64	68
600	436	456	462	467	19	26	30
800	571	584	591	596	13	20	25
1 000	705	712	719	725	7	14	20
1 200	841	854	854	854	14	14	14
1 400	979	997	997	997	18	18	18
2 000	1 392	1 414	1 414	1 414	22	22	22
4 000	2 770	2 778	2 778	2 778	8	8	8
6 000	4 149	4 142	4 142	4 142	-7	-7	-7
8 000	5 527	5 506	5 506	5 506	-21	-21	-21
10 000	6 905	6 870	6 870	6 870	-35	-35	-35

\* Taking into account the additional recoverable PIT by submitting an annual income declaration in 2018.

\*\* Minimum wage: 380 euro in 2017, 430 euro in 2018-20.

Source: calculations of the MoF

According to the calculations of the MoF, the labour tax reform will decrease the tax wedge for employees without dependants who receive 67% of the average wage from 41.7% in 2015 to 39.1% in 2020.



Source: calculations of the MoF

**Figure 1. Changes in tax wedge after tax reform**

Reducing a tax burden on labour with a positive impact on private consumption will also reduce the costs of doing business, thereby increasing competitiveness of enterprises and improving labour recruitment. Similarly, reduction in labour costs can stimulate the enterprises to make more investments in their development. The tax reform will also have a positive impact on the *Gini* index for employees.

Although an increase of the minimum wage does not make a significant impact on the growth of private consumption, it will reduce the share of shadow economy, which is partly already included in the GDP calculations. Increasing the minimum wage simultaneously with a significant reduction in tax burden on labour will not reduce the external competitiveness of enterprises, nor will deteriorate the financial status, which is especially important in regions of Latvia where the total wage level is considerably lower.

After the tax reform, the labour costs will be similar to rest of the Baltic States. Furthermore, Latvia will have the largest allowance for dependant among the Baltic States.

Table 5.e: Impact of tax reform

List of measures	Detailed description	Type of tax	Budgetary impact % GDP		
			2018	2019	2020
Gambling tax increase by 30 percent for roulette (cylindrical game), cards and dice games and slot machines as of January 1, 2018	Gambling tax increase by 30 percent for roulette (cylindrical game), cards and dice games and slot machines as of January 1, 2018	Gambling tax	0,03	0,00	0,00
Separate use categories of immovable property tax cadastral value being revaluated	Separate use categories of immovable property tax cadastral value being revaluated	Real estate tax	0,02	0,00	0,00
Abolition of payment procedure changes of vehicle exploitation tax	Abolition of payment procedure changes of vehicle exploitation tax	Vehicle exploitation tax	0,00	0,15	-0,15
Excise duty increase on smoking tobacco as of January 1, 2020	Excise duty increase on smoking tobacco (fine-cut tobacco intended for the rolling of cigarettes, other smoking tobacco, tobacco leaves, heated tobacco) as of January 1, 2020	Excise duty	0,00	0,00	0,00
Excise duty increase on alcoholic beverages and beer	Excise duty increase on alcoholic beverages and beer in 2018, 2019, and 2020 (as of 1 March each year)	VAT	0,08	0,03	0,05
Excise duty increase on cigarettes	Excise duty increase on cigarettes as of July 1, 2018 and July 1, 2019.	VAT	0,02	0,01	0,01
Excise duty increase on cigars and cigarrillos	Excise duty increase on cigars and cigarrillos as of January 1, 2020.	VAT	0,00	0,01	0,00
Excise duty increase on oil products used as fuel	Excise duty increase on oil products used as fuel as of January 1, 2018 and January 1, 2020.	Excise duty	0,00	0,00	0,00
Reduction of VAT registration threshold from 50 000 euro to 40 000 euro	Reduction of VAT registration threshold from 50 000 euro to 40 000 euro as of January 1, 2018.	VAT	0,09	0,00	0,05
Reduction of the threshold for disclosing individual invoices from 1 430 euro to 150 euro	Reduction of the threshold for disclosing individual invoices from 1 430 euro to 150 euro of January 1, 2018.	VAT	0,02	0,00	0,01
The expansion of the reverse VAT charge mechanism to supplies of building materials and household appliances and introduction of the reverse VAT charge mechanism to supplies of metal products.	The expansion of the reverse VAT charge mechanism to supplies of building materials and household appliances and introduction of the reverse VAT charge mechanism to supplies of metal products.	VAT	0,13	0,00	0,00
The reduction of the shadow economy - Administration and recovery improvement	The reduction of the shadow economy - Administration and recovery improvement	VAT	0,14	0,00	0,00
Introduction of tax support measure	Introduction of tax support measure - possibility to pay tax debts (late charge and fine not applied) without additional criteria	PIT	0,03	0,00	0,00
		VAT	0,05	0,00	0,00
		VAT	0,03	0,00	0,00
		SSC	0,01	0,00	0,00
		PIT	0,01	0,00	0,00
		VAT	0,04	0,00	0,00
		SSC	0,05	0,00	0,00
		PIT	0,01	0,00	0,00

Introduction of 0% CIT rate for reinvested profit	Introduction of 0% CIT rate for reinvested profit	CIT	0,01	0,00	0,00
Restriction of microenterprise turnover limit to 40 000 euros per year	Restriction of microenterprise turnover limit to 40 000 euros per year	CIT	-0,84	0,00	0,00
		SSC	0,03	0,00	0,00
		PIT	-0,01	0,00	0,00
		CIT	0,00	0,00	0,00
SSC rate increase by 1 percentage point for healthcare financing	Refers both to social insurance contributions and solidarity tax.	SSC for the Health payment	0,30	0,00	0,00
Minimum health payment <sup>1</sup>	Tax payers with a minimum tax paid, distribution by budgets will be specified during the development of a separate draft law, intended for the health sector funding	SSC for the Health payment	0,00	0,10	0,13
Solidarity tax reform	Cancellation of solidarity tax in central government budget and introduction of 13,59% solidarity payment in SSC budget	SSC	0,07	0,00	0,00
		Solidarity tax	-0,18	0,00	0,00
Social insurance contributions being applied to royalty income	Social insurance contributions being applied to royalty income	SSC	0,01	0,00	0,00
Introduction of the measures against the shadow economy in the construction industry	Introduction of the measures against the shadow economy in the construction industry	SSC	0,03	0,00	0,00
Changes in the application of differential non-taxable minimum	Changes in the application of differential non-taxable minimum	PIT	0,02	0,00	0,00
		PIT	-0,14	-0,09	-0,06
Increase of allowance for dependants up to 250 euro	Increase of allowance for dependants up to 250 euro	PIT	-0,05	-0,06	-0,04
Introduction of progressive PIT rates	Introduction of progressive PIT rates	PIT	-0,48	0,00	0,00
Introduction of PIT allowance for non-working spouse	Introduction of PIT allowance for non-working spouse	PIT	-0,01	-0,01	0,00
Increase of the PIT non-taxable minimum for pensioners	Increase of the PIT non-taxable minimum for pensioners	PIT	-0,08	-0,03	-0,04
Increase of the minimal monthly wages from 380 to 430 euro per month	Increase of the minimal monthly wage from 380 to 430 euro per month	SSC	0,07	0,00	0,00
		PIT	0,03	0,00	0,00
Changes in the PIT rates on capital and capital gains	Changes in the PIT rates on capital and capital gains	PIT	0,04	0,00	0,00
Introduction of unified patent fee 50/100 euro	Unified patent fees with simplified payment procedure. Discount for disabled persons.	SSC	0,00	0,00	0,00
		PIT	0,00	0,00	0,00
Equitation of PIT rates for performers of economic activity	Restriction - only 80% of losses can be deducted. Additional 5% SSC rate for amount exceeding 430 euro per month (for performers of economic activity).	SSC	0,02	0,00	0,00
Income from gambling winnings exceeding 3 000 euros is taxed at 20% PIT rate (exemption - national lottery)	Income from gambling winnings exceeding 3 000 euros is taxed at 20% PIT rate (exemption - national lottery)	PIT	0,05	0,00	0,00
		PIT	0,01	0,00	0,00

<sup>1</sup> Decision on the amount of the health payment will be taken during development of this measure

Rate for dividends paid by microenterprises raised from 10% to 20%	Rate for dividends paid by microenterprises raised from 10% to 20%	PIT	0,01	0,01	0,00
Determination of transitional period for dividends of non-distributed profits of previous years	Determination of transitional period for dividends of non-distributed profits of previous years	PIT	0,46	0,00	-0,41
Determination of the 0% PIT rate for dividends	Determination of the 0% PIT rate for dividends	PIT	0,00	-0,23	0,00
Increase of PIT rate for dividends received from foreign countries from 10% to 20%	Increase of PIT rate for dividends received from foreign countries from 10% to 20%	PIT	0,01	0,00	0,00
Review of eligible expenses	Limit of eligible expenses for education, medical and donation expenses is set at 600 euro per year (not more than 30% of taxable amount). Limit for private pension funds and life insurance - 4000 euro per year	IIN	0,03	0,00	0,00
	<b>Revenue measures</b>		<b>0,20</b>	<b>-0,09</b>	<b>-0,44</b>
Expenditure to increase minimum monthly wage	Increase in the minimum monthly wage from 380 to 430 euro in 2018		-0,11	0,00	0,00
Additional special budget expenditure	Additional special budget expenditure in relation with tax reform		-0,10	-0,01	-0,03
Expenditure for road maintenance	The increase in funding is comparable to an increase in revenue from an increase in the excise tax on fuel adopted by the tax reform package and conceptually marks the link between new policy measures for fuel excise and the dynamics of expenditure for the road sector		-0,09	0,00	-0,04
Expenditure for health	Increase in funding for health by linking the increase of the SSSC with the minimum health payment		-0,30	-0,15	-0,14
Compensation for local governments	Compensation for local governments in relation with tax reform to provide local governments budget revenue together with special grant in the amount of 19,6% of general budget revenue		0,00	0,04	-0,10
	<b>Expenditure measures</b>		<b>-0,60</b>	<b>-0,12</b>	<b>-0,31</b>

Table 6.a: Country specific recommendations

CSR Nr.	Measures	Description of direct relevance
1	<p>Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to achieve its medium term budgetary objective in 2018, taking into account the allowances linked to the implementation of the systemic pension reform and of the structural reforms for which a temporary deviation is granted.</p> <p>Reduce taxation for low-income earners by shifting it to other sources that are less detrimental to growth and by improving tax compliance.</p>	<p>Draft Law "On State budget for 2018" and draft law "On the Medium-Term Budget Framework for 2018, 2019 and 2020" are developed in accordance with the provisions of Fiscal Discipline Law, taking into account granted deviations from MTO which are linked to the contributions to the second pension pillar and deviation as regards to the healthcare reform. EC during the evaluation of Stability programme 2017-2020 drew attention to a significant deviation risk of structural budget deficit in 2018.</p> <p>General government budget structural deficit target for 2018 is 1.2% of GDP which is by 0.5% lower than it was projected in the Stability Programme 2017-2020. At the same time general government nominal deficit for 2018 is 1.0% of GDP which according to the Latvian forecasts allows to ensure provisions of EC fiscal recommendation. Consequently, a significant risk of deviation for 2018 is eliminated.</p> <p>From January 1, 2018, a number of legislative changes will come into force, which will reduce the tax burden on labour for low-wage earners. Namely:</p> <ul style="list-style-type: none"> <li>• the progressive PIT rate will be introduced (currently the basic rate is 23%); <ul style="list-style-type: none"> <li>- 20% - income up to 20 000 euro per year;</li> <li>- 23% - for income from 20 000.01 to 55 000 euros per year (for exceeding);</li> <li>- 31.4% - for income over 55 000.01 euros per year (for exceeding);</li> </ul> </li> <li>• the PIT differentiated non-taxable minimum will be substantially increased (by abandoning the summary procedure for application of the differentiated non-taxable minimum and applying it every month in full amount during the taxation year): depending on the level of income it will range from 0 to 200 euros per month in 2018, from 0 to 230 euros per month in 2019 and from 0 to 250 euros per month in 2020;</li> <li>• the allowance for a person will be raised to 200 euros per month in 2018, 230 euros per month in 2019 and 250 euros per month in 2020 (currently 175 euros per month). In addition, as of July 1, 2018, the relief for dependent persons is also granted to non-working spouses dependent on children;</li> <li>• the minimum monthly wage will be raised to 430 euros (currently 380 euros);</li> <li>• the non-taxable minimum for pensioners will be raised to 250 euros per month in 2018, 270 euros per month in 2019 and 300 euros per month in 2020 (currently 235 euros per month).</li> </ul> <p>The above mentioned changes reduce the total tax revenues from labour taxes, therefore, at the same time, such measures are being implemented aimed at ensuring the shift of tax burden from labour to consumption and capital (according to recommendations of several international organizations):</p> <ul style="list-style-type: none"> <li>• the cadastral values of real estate will be arranged and the categories of application of separate real estate will be reviewed;</li> </ul>

	<ul style="list-style-type: none"> <li>• gambling tax for machines and gambling tables will be increased by 20%;</li> <li>• gradual excise duty rates will be raised, harmonizing them with sectoral organizations and taking into account changes in excise duty rates in other Baltic States;</li> <li>• limitations on the eligible expenditure of PIT will be established;</li> <li>• the current use of vehicles will be maintained in 2019 and further.</li> </ul> <p>Outside the tax structure, measures are being taken to improve tax administration measures and to ensure a more active fight against the shadow economy:</p> <ul style="list-style-type: none"> <li>• implementing measures to combat the shadow economy, the main directions of which are derived from the anti-shadow economy plan. The main directions for combating the underground economy are: <ul style="list-style-type: none"> <li>- extension of the application of the reverse charge order of VAT (in the sale of building materials, household appliances and metal products);</li> <li>- reduction of the threshold from 50 000 to 40 000 euros for registration of the State Revenue Service in the register of VAT payers;</li> <li>- reduction of the threshold for transactions to be decoded in the VAT declaration from 1430 to 130 euros;</li> <li>- implementation of the online trade register, etc. ;</li> </ul> </li> <li>• in implementing tax administration measures, the main ones are: <ul style="list-style-type: none"> <li>- implementation of the single account and accrual principle;</li> <li>- introduction of a business income account for small business;</li> <li>- availability and quality of services of the State Revenue Service;</li> <li>- reform of the deepened cooperation program;</li> <li>- review of accounting requirements depending on turnover, status and type of activity;</li> <li>- optimization of the administration of PIT expenditure;</li> <li>• improving recovery processes and penal policies.</li> </ul> </li> </ul>
2	<p>Improve the adequacy of the social safety net and up-skill the labour force by speeding up the curricula reform in vocational education.</p> <p>As of January 1, 2018 the amendments to the Law "On State pensions" foresee that the indexation of the old age pension will depend on persons' insurance period taken into account when awarding (recalculating) the pension. Accordingly, if the insurance period is 40 or more years, 70% of the actual percentage increase of the sum of the wage subject to insurance contributions (hereinafter – the contribution wage index); and 60% of the contribution wage index if persons' insurance period is 30-39 years, as well as to those pensions awarded for work in hazardous and hard working conditions or particularly hazardous and particularly hard working conditions.</p> <p>Simultaneously, the amendments foresee for those to whom old age pension has been awarded until December 31, 1995 as well as to whom disability pension has been awarded and the age for old age pension was reached until December 31, 1995, as of July 1, 2018 the supplement to the old age pension for each insurance year if accumulated until year 1995 (including) shall be 1,30 euro, instead of 1 euro per insurance year.</p>

<p>In 2018 the amount of the state family benefit will be increased. As of 2018, in order to support and to improve the social conditions of foster families and the adoptees, introduced changes are foreseen:</p> <ul style="list-style-type: none"> <li>• To provide the SSC for pension, unemployment and invalidity insurance for persons who receive compensation for the performance of the foster family's duties;</li> <li>• To increase the allowance for maintaining a child in a foster family;</li> <li>• To increase the amount of compensation for the performance of the foster family's duties, and set the amount for the first child 171 euro per month, but for the following children the amount is increasing with the coefficient 0,3, i.e., for the care of two children 222 euro per month, but for three or more children 274 euro per month.</li> <li>• To increase the amount of remuneration for the care of an adopted child (up to age of 8). For the employed person – 70% of average salary of social insurance contributions, but for unemployed person 171 euro.</li> </ul> <p>The discussions between the Government and The Union of Local Municipalities on raise of the Guaranteed Minimum Income level has been started.</p>	<p>VET content reform continues to ensure a transition from subject-based VET content to learning outcomes-based, as well as to introduce a modular approach for implementation of VET programmes. The first stage of reform was completed on November 30, 2015. The EU Structural Funds' 8.5.2. SO "To ensure conformity of vocational education to European qualifications framework" project "Improvement of Sectoral Qualifications System and Enhancement of Efficiency and Quality of Vocational Education" was started on December 16, 2016. Within the framework of the project until December 31, 2021 improvement of sectoral qualification system is being anticipated in order to develop vocational education content that is in line with the requirements of the labour market and to ensure the compliance of VET with the European Qualifications Framework. The project's planned financing is 12.13 mln euro, including the ESF in the amount of 10.31 mln euro and the state budget co-financing - 1.82 mln euro. The project intends to develop or improve 160 occupational standards and professional qualification requirements (90 by 2018), develop and introduce 184 modular vocational education programmes (10 by 2018) and develop content of professional qualification exams for 210 professional qualifications, as well as develop relevant teaching aids and methodological materials. The project will be implemented by the National Centre for Education in co-operation with the Employers' Confederation of Latvia, the Free Trade Union Confederation of Latvia, the Latvian Agricultural Organization Cooperation Council and the State Education Quality Service.</p> <p>Amendments to the Vocational Education Law were adopted on June 22, 2017 defining modular VET programmes and related terms, setting types of education where modular VET programmes can be implemented, as well as determining documents that confirm VET and professional qualification issued upon completion of these programmes.</p> <p>Approbation of 30 modular programmes, incl. 12 professional qualifications, started in school year 2016/2017. In September 2017, 24 vocational education institutions under the supervision of the MGES</p>
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	<p>has started the implementation and approbation of modular education programmes in about 80 programmes, incl. in 28 professional qualifications.</p> <p>At the end of April 2017 and in the beginning of May, cooperation agreements with cooperation partners were concluded and the development of 60 occupational standards and professional qualification requirements has been started (the list has been agreed with Tripartite Sub-council for Co-operation in Vocational Education and Employment (PINTSA) on April 12, 2017). The development of a professional qualification examination methodology in cooperation with the State Education Quality Service has started as well. The procurement for the development of modular VET programs for the first 45 qualifications has been completed; the list of qualifications have been agreed by the Sectoral Expert Councils. On August 4, 2017 procurement for the development of learning materials was announced, as well as the necessary simulation equipment is being identified.</p> <p>Modular education programmes' approbation seminars have been held (16.11.2016; 27.04.2017), as well as consultations to representatives of vocational education institutions on updating of the content of vocational education for the transition to results to be achieved and competence based modular programmes are provided on a regular basis (283 consultations were provided before August, 2017).</p>
<p>Increase cost-effectiveness and access to healthcare, including by reducing out of pocket payments and long waiting times.</p>	<p>According to 22.08.17. decision of Cabinet of Ministers (prot. Nr.40, 43, 5) additional funding was supported in order:</p> <ul style="list-style-type: none"> <li>• to realize implementation of an emergency care, including childbirth providing plan (7 801 592 euro every year);</li> <li>• to ensure an increase of the employer's state social insurance compulsory contributions in relation to the adopted amendments in the Law on State Social Insurance (230 221 euro in 2018, in 2019 and thereafter 229 666 euro per year);</li> <li>• to increase the minimum monthly wage up to 430 euro (356 273 euro every year);</li> <li>• for State social security measures which are related to minimum monthly wage, including grant for provision of publicly funded health care services (9,6 mln euro every year);</li> <li>• in accordance with the planned state budget revenues from state social insurance compulsory contributions' distribution for health care financing (5,3 mln euro in 2018, 99,6 mln euro in 2019, 105,5 mln euro in 2020. Funding will be allocated by the MoF after the Cabinet of Ministers approves the funding for the implementation of the measures in 2018. It is planned that the additional funding (85,3 mln euro) will be used to increase the wages of medical personnel.</li> <li>• the additional funding (113,4 mln euro in 2018 for implementation of the health care reforms is reserved in line with the EC allowance from structural fiscal target for the structural reform in</li> </ul>

<sup>2</sup> The Saeima in 27.07.2017. adopted amendments to the Law "On State Social Insurance", which determines that the part of mandatory contributions corresponding to 1 percentage point of mandatory contribution rates is foreseen to finance health care services.

		<p>the healthcare sector of 0.5% of GDP in 2017-2019. Funding will be allocated by the Minister of Finance after the Cabinet of Ministers approves the funding for the implementation of the measures of health reform in 2018, such rights of the Minister of Finance will be set into the Law "On the State Budget for 2018".</p> <p>It is planned that the additional funding (113.4 mln euro) for implementation of the health care reforms in 2018 will be used to improve accessibility of health care services (outpatient and inpatient services), for primary health care, to improve accessibility of oncological diseases diagnosis and treatment, to reduce the spread of infectious diseases, for cardiovascular program.</p> <p>According to 20.06.2017. decision of Cabinet of Ministers (prot. Nr.31, 28.§) additional funding was supported (3.8 mln euro every year) to ensure gradual refusal from extended normal working time for medical personnel and medical care assistance staff, which are not medical personnel.</p> <p>According to 08.09.2017. and 12.09.2017. decisions of Cabinet of Ministers (prot. Nr.44, 1.§, prot. Nr.45, 53.§) were supported proposals for the transfer of funding to ministries for such priority measures:</p> <ul style="list-style-type: none"> <li>to ensure permanent insulin delivery preliminarily for 167 children with diagnosis of "Insulin-dependent diabetes mellitus", thus reducing the risk of late complications of diabetes and hypoglycaemia (funding is supported in the amount of 710 000 euro in 2018).</li> <li>to establish an independent, effective and international requirements appropriated anti-doping structure at the State Sports Medicine Center. Within the framework of this measure will be implemented doping prevention measures, will be eliminated doping violations in Latvian sports and will be ensured the compliance of the Latvian sports system with the requirements of international anti-doping regulations binding on Latvia (funding is supported in the amount of 600 000 euro every year).</li> <li>to increase the wages of academic staff of the Riga Stradins University within the framework of the teachers' wage reform, thus ensuring that teachers of the Riga Stradins University receive an increase in wages in the same amount as other teachers of state higher education institutions (funding is supported in the amount of 697 200 euro in 2018, and thereafter 1.4 mln euro every year).</li> </ul>
3	<p>Increase efficiency and accountability in the public sector, notably by simplifying administrative procedures and strengthening the conflict of interest prevention regime, including for insolvency administrators</p>	<p>Recent changes in the Insolvency Law provide for a complex solution to increase the efficiency of the control over the legitimacy of the insolvency administrator action and the insolvency proceedings, as well as supplemented with framework that provides for processing and publishing of information about the legal protection proceedings and the insolvency proceedings as well as about persons supervising the legal protection proceedings and insolvency administrators. Consequently, several Cabinet regulations were adopted in order to establish a specific procedure for applying these changes in practice.</p> <p>Additionally, the framework of the legal protection proceedings has been changed, namely, the person supervising the legal protection proceedings has been introduced whose main objective is to be the trustee of creditors during the legal protection proceedings and to supervise implementation of the measure plan of the legal protection proceedings as well as to provide respective information to creditors thus expanding the role of creditors in supervising of the implementation of the legal protection proceedings.</p>

<p>On July 26, 2017 draft Public Administration Reform Plan 2020 was announced. Plan aims to develop effective, accountable and resilient public administration, incl. strengthening result orientation, implementing "zero bureaucracy" approach and decreasing internal administrative burden among institutions.</p> <p>Taking into account previously mentioned, the Cabinet of Ministers within draft budget 2018 and draft medium-term budget 2018 – 2020 projects has approved allocation for financing experts on reform assessment and capacity building of the State Chancellery (due for approval at the parliament).</p>	
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Table 6.b: Targets set by the Union's Strategy for growth and jobs

National 2020 target	Measures	Description
<p><b>National 2020 employment target [73,0%]</b></p>	<ol style="list-style-type: none"> <li>1. Improving training measures for the unemployed,</li> <li>2. Implementing support measures to reduce youth unemployment,</li> <li>3. Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility,</li> <li>4. Retaining the working ability and fostering employment among the elderly residents,</li> <li>5. Improving the efficiency of the work of the State Employment Agency,</li> <li>6. Promoting self-employment and entrepreneurship.</li> </ol>	<p>Please see Latvian National reform programme.</p>
<p><b>National 2020 R&amp;D target [1,5% of GDP]</b></p>	<ol style="list-style-type: none"> <li>1. Raising the Competitiveness of GRTDI (Guidelines on Research, Technology Development, and Innovation for 2014–2020) sector,</li> <li>2. Connecting the GRTDI Sector with Societal and Economical Needs,</li> <li>3. Efficient management of GRTDI sector,</li> </ol>	<p>The science policy has been subject to significant reforms since 2014 – scientific institutions have been consolidated, conditions for the allocation of funding for scientific base reflect policy guidelines – funding raised from merchants, from international projects and so on is taken into account. Investments of EU Structural Funds are purposefully made in 14 best scientific institutions, as well as grant programmes are implemented – researches of practical nature (activity 1.1.1.1 "Researches of practical nature", post-doctoral research support (activity 1.1.1.2 "Post-doctoral research support"), a programme "Innovation grants for students" (activity 1.1.1.3 "Innovation grants for students").</p> <p>There are plans to almost double funding for fundamental and applied research to 9 mln euro in 2018 in all OECD sciences sector groups, in order to gradually build a stable knowledge base and human capital. At the same time, new</p>

<p>4. Supporting development of innovative merchants.</p> <p>5. Raising Awareness in the Society and Promoting Science and Innovation.</p>	<p>regulations of the Cabinet of Ministers are being developed for the programme of fundamental and applied research this year, which will prevent the conflict of interests in the evaluation of projects and will foster concentration of resources and excellence. It is expected that the new regulations for the implementation of research programmes will be approved by the end of 2017. In 2018, there are plans to announce new competitions for fundamental and applied research projects, as well as state research programmes.</p> <p>(1) In order to increase competitiveness of the RTDI sector, resources are concentrated in the best state scientific institutes and universities, as well as knowledge centres. For this purpose, scientific base funding will keep being allocated to those scientific institutions, which received a positive evaluation in the international science evaluation. The science base funding includes excellence-oriented criteria: 10% of the scientific base funding is allocated to scientific institutions receiving a high score in the international science evaluation. The next international science evaluation is expected in 2019.</p> <p>By 2020, there are plans to invest co-financing of EU funding in the infrastructure of the strongest scientific institutions within the framework of activity 1.1.1.4 "Development of R&amp;D infrastructure in smart specialization fields and strengthening the institutional capacity of scientific institutions". Support is intended for 14 strongest Latvian scientific institutions for strengthening their institutional capacity, development of research infrastructure, and concentration of research resources. Projects appraisal is underway. It is planned to start the projects in the 4th quarter of 2017.</p> <p>Support to post-doctoral research planned within the framework of the 2014-2020 programming period of EU Funds makes a partial contribution to the increase of competitiveness of the sector, 64,029 mln euro in total. The first round of selection of research applications within the framework of activity 1.1.1.2 "Post-doctoral research support" of SO 1.1.1 "To increase the research and innovation capacity of Latvian scientific institutions and the ability to attract external funding by investing in human resources and infrastructure" of Operational Programme "Growth and Employment" has closed and contracts on the implementation of 141 applications for the total amount of 19.17 mln euro are concluded.</p> <p>Latvian participants – scientists, higher education institutions, scientific institutions, entrepreneurs, etc. – in cooperation with representatives of other countries successfully participate in the EU programmes for research, technological development and innovation (7<sup>th</sup> Framework Programme "Horizon 2020", EURATOM, EUROSTARS 2, EUREKA, BONUS, ARTEMIS, ECSEL, IMI and COST), receiving high assessments of project applications submitted for competitions. In order to provide support for implementation of projects in Latvia, the amount of available funding was gradually increased within the framework of Sub-programme 70.06.00 "Participation in the EU research and technology development programmes" of the state budget programme 70.00.00 "Implementation of projects and measures of other European Union policy instruments".</p> <p>(2) According to the MoES's assessments, connecting of the sector with societal and economical needs would also require active participation of other departments of the sector in defining the state demand for scientific research, as well as provision of necessary funding within the scope of their budgets. The state research programme in the field of energy planned by the MoE and MoES, which is implemented according to the MoE's Energy Development Guidelines for 2018 and will provide necessary knowledge and new technology for the needs of the specific sector, can be mentioned as an example of involvement of sectoral ministries in the implementation of state research programmes. A Latvian language state research programme (with MoES as the responsible sectoral ministry), etc. is also anticipated.</p> <p>The model of the student innovation grants within the 1.1.1.3 activity "Innovation Grants for Students" was presented in the Initial sub-committee of the RTDI priority sub-committee of the EU funds, as well as several discussions</p>
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	<p>with the companies, incl. start-up, representatives of employers' organizations and scientific institutions about the implementation of the program were launched.</p> <p>(3) Introduction and implementation of the RIS3 monitoring system that started in 2015 continues. An interim evaluation of RTDI and RIS3 (time period from 2014 to 2016) was performed (informative report "Monitoring of the Smart Specialization Strategy", announced by Meeting of the State Secretaries on 08.06.2017, VSS-621), which includes information on trends, targets and challenges of the development of Latvian economy, progress of implementation and advancement to the achievement of RIS3 programmes and activities, as well as analysis of RIS3 indicators and the plan of further activities.</p> <p>The evaluation of the impact of science, research and innovation support activities of the 2007-2013 programming period of the EU Funds on the activity and sustainability of 21 scientific institution specified in the research, as well as sustainability of the results achieved within the framework of support activities, taking into account the activities planned within the 2014-2020 programming period of the EU Funds for support of research, development and innovation support is ongoing (evaluation will be completed in the 3<sup>rd</sup> quarter of 2017).</p> <p>(4) The following EU funds activities are going to be implemented to support development of innovative enterprises in 2017:</p> <ul style="list-style-type: none"> <li>• Within the framework of the Technology Transfer Programme (Voucher scheme), open call of project proposals was announced in February, 2017, of total funding 7 mln euro. Innovation voucher aim is to support innovation activities in SME's by providing them with the support of outsourcing R&amp;D activities for making new or significantly improved products or technologies. 8 projects have already been approved till September, 2017 to promote innovative activities in micro, SME's for developing new products and technologies.</li> <li>• Support programme for the introduction of new products in production was developed and approved in 2016. Its purpose is to foster the increase in productivity and competitiveness of businesses by developing and introducing new products and technologies in production, as well as increasing investments of the private sector in research, development and innovation. The aid provided to experimental production facilities within the programme is a significant contribution to the Latvian economy, providing companies the possibility to increase their competitiveness in the local and export market. The support is granted for the manufacturing or purchasing, as well as installation and testing in real production environment of experimental technologies, ensuring that at least 20% of the experimental technology are unique components and no more than 80% of components or equipment of the experimental technology have been chosen from those available in the market. Total programme funding is 60 mln euro. During the 1<sup>st</sup> open call (12.07. – 12.09.2016) 41 project proposals have been received for total funding 53,13 mln euro from which 18 projects were approved of total funding 25,8 mln euro. It is planned to announce 2<sup>nd</sup> open call of total funding 34,2 mln euro in October, 2017. It is planned to support at least 30 enterprises for developing new products and technologies till the end of 2022. At the same time it is planned to attract at least 10,5 mln euro private funding for R&amp;D activities.</li> <li>• New Start-up Law has been developed and approved at the end of 2016. Specific Start-up Law provides tax relief and cash grants for attraction of highly skilled team members for start-up companies starting from January, 2017. It is 1<sup>st</sup> Law which provides start-up definition thus clarifying the target group for getting specific oriented support. Working closely together with start-up community Start-up visa has just came into force starting from</li> </ul>
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<p>1<sup>st</sup> of May. At the same time 3 new accelerators will start giving support for start-ups at the end of 2017 and 60 mln euro venture capital investments will be available starting from year 2018.</p> <ul style="list-style-type: none"> <li>• Implementation of the Norwegian financial instrument programme "Green Industry Innovation" has been continued in 2017. Within the programme support was provided for pre-incubation and incubation services (Green Technology/Incubator) till the April, 2017. 24 ideas have been supported in the pre-incubation phase and 153 entrepreneurs has been supported in incubation phase of total funding 2,67 mln euro. At the same time, in order to develop, commercialize and introduce into production new or significantly improved environment products and technologies 22 projects have been approved of total funding 2,2 mln euro in Small Grant Scheme and 13 projects have been approved of total funding 5 mln euro in Open Competition Scheme. Additionally, there are still available specific support for promoting cooperation with Norway in fields of innovation and entrepreneurship under the Bilateral Cooperation Fund till the end of 2017. Total budget for Bilateral Cooperation Fund is 12,6 mln euro (2012-2017).</li> <li>• The following measures have been developed to support learning for employees requested by the employer: <ul style="list-style-type: none"> <li>- <u>Support for training of employees</u>. Support for employed learning. Support for learning is provided to persons employed with a merchant. The aim of this measure is to provide the merchants with labour force holding the relevant qualification, thus contributing to increase in productivity and development and putting into production of new or improved products and technologies. On 24 March 2016, selection of project applications was concluded, and 10 projects implemented by the largest sectoral associations were approved. Total ERDF funding within the programme is 18 mln euro. It is planned to train 5620 employees till the end of 2018.</li> <li>- <u>Support for ICT and non-technology learning, as well as learning aimed at attracting investors</u>. The measure is developed with the aim to increase the productivity and work efficiency of self-employed persons, as well as micro, small, medium, and large merchants, by raising the employees' qualifications and skills in information and communication technology areas, to provide merchants with employees holding the relevant qualification, promoting introduction of non-technological innovations in merchants, as well as to provide support for learning thereby attracting investments in the country. In a limited project application selection conducted in 2016, Latvian Chamber of Commerce and Industry, Latvian Information and communications technology association and Investment and Development Agency of Latvia were selected to ensure a successful implementation of the programme. Total ERDF funding within the programme is 6,9 mln euro. It is planned to train 3540 employees till the end of 2018.</li> </ul> </li> <li>• Starting from July 1, 2014, companies in Latvia were able to use the CIT incentive for R&amp;D costs of companies, which can be written off in the year when such costs have occurred, by applying a value increasing coefficient "3". According to the information from the State Revenue Service, there were 86 companies in 2014 who indicated R&amp;D costs (1,33 mln euro) in their annual reports to get the CIT tax rebate. Also there were 30 companies in 2015 who indicated R&amp;D costs (4,2 mln euro) in their annual reports to get the CIT tax rebate. State Revenue Service is currently gathering data of the year 2016.</li> </ul> <p>(2) A targeted communication campaign for popularisation of science, which will be implemented within the framework of activity 1.1.1.5 "Support to international cooperation projects in research and technologies", will take place for the first time in 2018. Regulation on 1.1.1.5 activity "Support for International Cooperation Projects in Research and</p>	
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		<p>Innovation" was approved by the Cabinet of Ministers and it entered into force in June, 2017. 1st Call for Proposals was announced in August this year. It intends to strengthen the representation of Latvian research and development interest in the "Horizon2020" programme committees and other international programmes; national level measures for the expansion of international cooperation networks, including cooperation with the Latvian diaspora abroad.</p>
<p><b>GHG emission reduction target [12,2 Mt CO<sub>2</sub>]</b></p>	<p>1. Limiting non-ETS sector emissions; 2. Research, innovations, raising public awareness</p>	<p>Latvia's total GHG emissions in 2005-2015 are raised by 0.06% and in 2015 were 11.3 Gg CO<sub>2</sub> eq, and this amount is 1.2% lower than the target that Latvia has set – 12.2 Gg CO<sub>2</sub> eq. Latvia is allowed to increase its non-ETS emissions in the period 2005-2020 by 17% comparing to the non-ETS emissions in 2005. In 2015 Latvia's non-ETS emissions have been increased by 6.5% and in 2015 Latvia's GHG emissions that are not covered by EU Emission Trading Scheme were 9.0 Gg CO<sub>2</sub> eq. This amount is 4.6% lower than the 2015 target set for Latvia in Decision No. 40/6/2009/EC of European Parliament and Council. It is projected that Latvia will fulfil the targets set in national and EU level.</p>
<p><b>Renewable energy target [40,0%]</b></p>	<p>1. Adjusting the legal basis; 2. Ensuring availability of financial resources for the production of renewable energy; 3. Promoting the use of biofuels in the transport sector; 4. Measures for achievement of 10% renewable energy resources within the transport sector.</p>	<p>(1) In 2017 evaluation of the existing support mechanism for electricity generation from renewables and in high efficient cogeneration has been continued and the proposals for future solutions has been made. On June 13, following a positive decision by the EC the Cabinet of Ministers Regulation No.395 "Procedure for Energy-Intensive Manufacturing Companies to Obtain the Right to Reduce Their Participation in the Mandatory Procurement Component Payment" (adopted on July 14, 2015) came into force. These amendments foresee terms and conditions under which energy-intensive producers can receive state aid in a form of decreased RES part in the mandatory electricity procurement payment. On September 22, 2017 the Cabinet of Ministers adopted conceptual report (No. 530) "Complex measures for the development of the electricity market" by supporting a proposal to decrease state aid to electricity cogeneration plants receiving guaranteed payments with electric capacity over 100MW. This is foreseen as voluntary solution which on the one hand allows government to decrease state aid to be paid in remaining state aid period and on the other hand gives an opportunity for producers to benefit from one time discounted settlement. The solution that will ensure decrease in state aid intensity and is in line with the principles of the allowed state aid in Latvia now is notified to the EC.</p> <p>(2) The total amount of the aid above the market price for the energy producers that sell electricity within the framework of mandatory procurement or receive a guaranteed payment for installed electric capacity in 2016 is about 97,1 Mln euro and is about 2% less than the paid amount in 2015. This decrease is related to the decrease in natural gas prices. In turn, the total volume of electricity purchased within the support mechanism in 2016, compared to 2015, is 9% higher.</p> <p>(3) On July 21, 2017, the Cabinet of Ministers adopted conceptual report (No. 379) "On renewable energy resources in transport sector" by supporting that in 2020 8.5% fuel retailers will have to ensure 8.5% biofuel admixture in the total transport fuel amounts sold on the market. The remaining 1.5% will be achieved by electricity in transport. MoE is responsible for the implementation of the EU funds SO 4.3.1. "To promote energy efficiency and use of local RES in district heat supply". The support is provided to enterprises operating in centralized district heating system for transition to renewable energy sources, as well as improve energy efficiency in thermal power plants that already use renewable energy resources. Please see the next section for further details.</p>
	<p>1. Improving energy efficiency in households and industrial production; 2. Improving energy efficiency in public buildings;</p>	<p>Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector). The gross domestic energy consumption has decreased from 4.57 Mtoe in 2008 to 4.27 Mtoe in 2015 (decrease by 0.3 Mtoe), and the implementation of energy efficiency measures has an important role in this progress.</p>

<p>3. Introducing efficient lighting infrastructure in public territories of municipalities;</p> <p>4. Improving energy efficiency in heat energy production;</p> <p>5. Support for energy-intensive merchants.</p>	<p>In order to ensure Latvia's transition to a low-carbon economy in all sectors, the MoE in the planning period of the EU Structural Funds and the Cohesion Fund for the 2014-2020 period is responsible for the implementation of the following programmes with the common funding of EU funds 333,55 mln euro:</p> <ul style="list-style-type: none"> <li>• SO 4.1.1. "To promote effective use of energy resources, reduction of energy consumption and transfer to RES in manufacturing industry". The total available funding from the Cohesion Funds is 22,55 mln euro. Grant support is provided to small (micro), small, medium and large enterprises engaged in economic activities in the manufacturing industries. There has been completed the first round of selection of project applications – 37 project applications were submitted, requesting funding of Cohesion Fund in the amount of 9,14 mln euro. At the moment the first evaluation of projects has been carried out and project applications are being finalized.</li> <li>In addition, the MoE is currently drafting criteria and implementing conditions for the second project selection round. It is planned that the regulations of the Cabinet of Ministers on the implementation of the second round of the SO 4.1.1. will be approved by the end of 2017 and the selection of project applications will be started in the first quarter of 2018.</li> <li>• Measure of the SO 4.2.1.1. "Promote energy efficiency improvement in residential buildings". For the implementation of SO measure 4.2.1.1. the total public funding is 166,47 mln euro (ERDF funding 141,49 mln euro and co-funding from the national budget 24,97 mln euro). At the end of 2016 Alhau started to provide support to apartment owners in the form of grants, loans and guarantees. On September 12, 2017 the technical documentation was submitted for 210 projects, 20 grant decisions were made for 2,9 mln euro (ERDF funding), 12 Alhau guarantees were issued (ERDF funding of 1,5 mln euro) for receiving loans in commercial banks, and 2 Alhau loans were issued totaling 0,2 mln euro.</li> <li>• Measure of the SO 4.2.1.2. "Promote energy efficiency improvement in public buildings". For the implementation of SO measure 4.2.1.2. the total public funding is 115,12 mln euro (ERDF funding is 97,83 mln euro, state budget – 17,26 mln euro). Project applications can be submitted by direct state administrations, their subordinate institutions, state universities, state scientific institutes and state capital companies that manage state owned real estate. On September 13, 2017, 29 project applications have been submitted to the Central Finance and Contracting Agency, requesting ERDF funding of 14,75 mln euro, and 5 contracts have been signed for the implementation of projects for the ERDF funding amounting to 1,5 mln euro.</li> <li>In addition, the MoE is working on the development of conditions for the implementation of the 2nd stage of the SO measure 4.2.1.2, where project applications will be non-governmental organizations in social and cultural sectors, and state owned companies in healthcare, culture, sport and education sectors. It is planned that regulations of the Cabinet of Ministers on the implementation of the second round of the SO measure 4.2.1.2 will be approved by the Cabinet of Ministers in October 2017 and the selection of project applications will start at the end of 2017.</li> <li>• SO 4.3.1. "To promote energy efficiency and use of local RES in district heat supply". For the implementation of the SO 4.3.1, the total available funding of Cohesion Fund is 53,2 mln euro. Grants are provided to energy supply companies engaged in centralized district heating. The 1st stage selection of project applications ended in July 2017. 85 project applications were submitted, requesting funding Cohesion Fund of 45,84 mln euro. Project application evaluation is currently underway.</li> </ul>
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		<p>In August 2017, the conditions of the 2nd selection phase of the SO 4.3.1 were approved, and the selection of project applications is planned to start at the end of 2017.</p> <p>After the conclusion of the Climate Change Financing Instrument, the MoEPRD has launched new support programme EAAI. Funding was given to projects selected through open tenders for project applications. By the end of 2016, 2 different EAAI open tenders had been organised: "Reducing greenhouse gas emissions in the national protected architectural monuments of national importance" with 9 projects contracted for the total amount of EAAI aid amounting to 8.86 mln euro and "Reduction of Greenhouse Gas Emissions - Low Energy Consumption Buildings" with 7 projects contracted for the total amount of EAAI aid of 23 mln euro. Within the framework of these two open tenders, the total planned CO<sub>2</sub> emission reduction will reach 1005 tonnes.</p> <p>The implementation of the projects within the framework of the Climate Change Financing Instrument has been completed in 2015 and now there is a phase of projects results monitoring. Also, there is no other support for the introduction of effective lighting infrastructure in public areas of municipalities within competence of the MoEPRD.</p>
<p><b>National early school leaving target (13.4% (10.0%))</b></p>	<ol style="list-style-type: none"> <li>1. Ensuring access to primary and secondary education;</li> <li>2. Introducing modern teaching methods.</li> <li>3. Implementing structural reforms in vocational education;</li> <li>4. Implementation of vocational education content reform;</li> <li>5. Strengthening the cooperation with sectoral social partners to improve and develop vocational education.</li> </ol>	<p>(1) An independent study "Creation of an optimal model of the network of general education institutions" was ordered by MoES, the purpose of which is to establish a geospatial planning platform of the network for general education institutions and to develop an optimum model of the network for general education institutions. The study is carried out based on data on the number of pupils, demographic and migration trends and forecasts in the municipality, the availability of educational institutions, social and economic situation in municipalities, as well as quality indicators of educational institutions (qualitative and quantitative criteria). Interim results of the study, incl. the geospatial planning platform "School map" were published this July, while the final report of the study is expected in October. The results of the study will be used for further negotiations with local governments on the arrangement of the network of general education institutions.</p> <p>The implementation of the SO 8.1.2 "Improvement of the Learning Environment of General Education Institutions" will be continued in the 2017/2018 school year in order to facilitate the gradual implementation of the competency-based general education curricula. In the result of SO projects implementation, it is expected that at least 100 general education institutions will be modernized (positively affecting a total number of students not less than 47 206 pupils).</p> <p>From March 16, 2017 the State Education Quality Service started to implement a project of SO 8.3.4 "Prevention of and Intervention to Early School Leaving" of Operational Programme "Growth and Employment" of the European Social Fund for the purposes of reducing early school leaving among children and youths by implementing preventive and intervention measures in 665 educational institutions for pupils of forms 5 to 12 of general education institutions, as well as for pupils of years 1 to 4 of VET institutions and general education institutions, which implement VET programmes. The planned total eligible funding is 39,8 mln euro, including ESF funding of 33,8 mln euro and state budget funding of almost 6 mln euro. During the project, it is intended to introduce systemic support in Latvian general education and vocational education for mitigation of the risk of early school leaving, providing both individual material and advisory support to pupils subject to the risk of early school leaving and creating a supportive learning environment by implementing professional improvement of teachers and youth initiative projects. The preparation works were made in the 1st half of 2017. Guidelines for the identification and prevention of early school leaving risks were developed, and cooperation agreements with municipalities and state VET institutions were commenced, with the involvement of 102 educational institutions in the project. In school year 2017/2018 introductory seminars in educational institutions, creation</p>

<p>and implementation of individual support plans, development of methodical aids, implementation of professional improvement courses for teachers are envisaged.</p> <p>In the project "Implementation of initial vocational education programmes as a part of Youth Guarantee", young people aged 17 to 29 (inclusive) can learn an occupation in demand in the labour market for a year or a half free of charge in vocational education programmes. From 1 September 2017 there are offers to start training in 31 vocational education institutions and colleges providing the possibility to learn more than 70 different occupations. The implementation of the project started on 1 July 2014 and it will last until 31 August 2018 and it is planned that 500 NEET young people and 1496 employees will receive support in obtaining second or third level of professional qualification within its scope. 4920 young people have already obtained professional qualification level of the framework of the project by 31 August 2017, 1623 students continue studies.</p> <p>The implementation of the EU funds project of SO 8.3.5 "Improving Access to Career support for Students in General and Vocational Education Institutions" started in the 4th quarter of 2016. 51 co-operation contract with municipalities and 1 co-operation contract with state vocational education competence center were signed in the 1st half of 2017, thus providing involvement of 198 education institutions in career support implementation measures. In 2017, the total number of educational institutions, where career education services are available, will reach 262 educational institutions (it is planned to reach up to 275). The intended total number of schools to be involved in SO 8.3.5. in 2023 is 328.</p> <p>(2) Changes in learning approach according to the development of new training content within the framework of activity 8.3.1.1 "Competency-based approach to general education content approbation and implementation" of SO 8.3.1 "To develop competency-based general education curriculum" and its implementation in general education from preschool age (1.5 years) until form 12. 100 education institutions are involved in approbation. The development of the pedagogues professional competence were launched in 2017 as well as elaboration of education materials, i.e. digital. Approbation and improvement of the elaborated curriculum will be provided in study year 2017/2018, thus ensuring since the September, 1, 2018 gradual introduction of curriculum will be insured in pre-school and the 1<sup>st</sup> level of primary school (grades 1-6) and since the September 1, 2019 – in the 2<sup>nd</sup> level of primary school (grades 7-9) and secondary school (grades 10-12). Piloting of sample programs and support materials in Computing course in grades 3, 6 and 9 will continue in 153 educational institutions (see also National reform programme).</p> <p>Implementation of measure No 8.3.2.1. "Support to the Implementation of National and International Measures for the Development of the Students' Talents" under the European Union Structural Funds specific objective No 8.3.2. "To Increase Support for General Education Institutions to Develop Students' Individual Competences" was launched at the end of year 2016. Implementation of measure No 8.3.2.2. "Support to the development of students' individual competences" was launched in 2017.</p> <p>(3) In the result of the adjustment of the network of vocational education institutions the number of secondary vocational education institutions under the MoES decreased from 60 institutions in 2010 to 22 in 2017 (information as at 11.09).</p> <p>Within the SO 8.1.3. "To increase number of fully modernized vocational education institutions" 25 VET institutions are planning to implement infrastructure modernization projects according to VET institution's Development strategies 2015-2020. 18 VET institutions have started the implementation of modernization of projects in the year 2017.</p>	
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	<p>By the end of the year 2017 five more VET institutions are expected to begin the implementation of the development projects</p> <p>In order to optimise the number and locations of vocational education institutions in the regions, obtaining the status of a vocational education competence centre was encouraged. From 1 September 2017, in total 23 vocational education institutions had been granted vocational education competence centre status, where 17 vocational education competence centres were established in vocational education institutions under MoES.</p> <p>By encouraging vocational education institutions to involve more actively in the implementation of adult education, on 29.08.2017 the Cabinet of Ministers supported the solutions developed by interinstitutional working groups envisaging:</p> <p>1) by 15 September 2017 the MoF should prepare and submit for review to the meeting of the Cabinet of Ministers a draft law on amendments to the Law "On Budget and Financial Management" envisaging a flexible solution for simplification procedures of planning own income for state budget institutions and transfer of unused balances to the next year; 2) MoES in cooperation with the Central Finance and Contracting Agency should amend the project "Efficient management of vocational education establishments and raising the staff competence" of SO 8.5.3 "To ensure efficient management of vocational education institutions and to improve the professional expertise of staff" of the Operational Programme "Growth and Employment", envisaging within the framework of the project to develop a methodology for vocational education institutions for determination of prices of paid services and according to the project to implement training of staff of vocational education institutions on the use of such a methodology in preparation of specialists of services of vocational education institutions; 3) by 31 August 2018 MoES should submit for review to the Cabinet of Ministers an informative report on the possibilities of introducing and conditions of performance financing in state vocational education institutions.</p> <p>At the same time, the improvement of professional competence of teachers was started within the framework of SO 8.5.3 for the work with adult students. On 22.08.2017, a seminar on the promotion of involvement of Vocational education competence centres was organised to promote the supply of adult education and strengthening of cooperation with employers.</p> <p>(4) See information provided in table 6. a "Country-specific recommendations"</p> <p>(5) See National reform programme.</p>
<p>1. Modernisation of higher education – implementation of a new financing model of higher education;</p> <p>2. Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use;</p> <p>3. Ensuring equal access to higher education;</p> <p>4. Establishment of a national institution for quality assurance;</p> <p>5. Reducing fragmentation of study programmes; joint use of resources;</p> <p><b>National target for tertiary education [34.36%]</b></p>	<p>Significant reforms have been made to the higher education field, introducing principles of allocation of funding according to policy guidelines in the new higher education funding model.</p> <p>(1) By making a contribution to modernisation of higher education and implementing a new model of funding of higher education budget sub-programmes 03.01.00 "Higher education institutions" and 03.11.00 "Colleges" finances pillar I of the new funding model – funding of study places Budget sub-programme 03.03.00 "Development of scientific activity in higher education institutions and colleges" finances pillar II stimulating research as a basis for qualitative higher education, replacement of academic and scientific personnel and raising of funding from merchants, international projects and other sources. Pillar III is innovation-oriented funding, which promotes the development of specialisations and profiles of institutions, is implemented with funding of EU Structural Funds (for example, the implementation of activities 8.1.1 and 1.1.1.4 has started).</p> <p>(2) The implementation of projects of SO 8.1.4 "To improve the learning environment of STEM, including medical and creative industry, studies of the first level professional higher education in colleges" were started and the assessment</p>

6. Internationalization of the higher education.	<p>of the project applications within the SO 8.1.1 "To increase the number of modernised STEM, including medical and creative industry, study programmes" were started as well.</p> <p>On September 5, 2017, amendments prepared by MoES to Regulations of the Cabinet of Ministers No.203 of March 27, 2007 "Procedures for preparation and updating of personal files of students" and Regulations of the Cabinet of Ministers No.788 of August 17, 2010 "Content of the State Education Information System, its Maintenance and Updating Procedure", which introduces the register of Students and Graduates, were adopted. The Register of Students and Graduates will be linked to the data of the State Revenue Service and the State Employment Agency to allow future students purposefully evaluate the possibilities of working in the chosen occupation and an average wage after graduation of a higher education institution before the selection of a higher education institution and a study programme. Higher education institutions will first provide data on December 31, 2017. The Register of Students and Graduates allows to provide objective and credible information about all the parties involved in the process of higher education in Latvia – both students and higher education institutions, policy makers, taxpayers and the society in total.</p> <p>(3) The crediting of student and study loans from assets of credit institutions with a state warranty continues according to demand. On September 12, 2017, the Cabinet of Ministers has supported amendments to Regulations of the Cabinet of Ministers No. 220 of May 29, 2001 "Procedures of Allocation, Repayment and Deletion of Study and Student Loans from Assets of Credit Institutions with a State Warranty", which increases the maximum size of the study and student loan.</p> <p>(4) The Academic Information Centre keeps working on the ESF project "Support for Fulfilment of Requirements to the Agency Set by ERAQ". The purpose of the project is to provide support for fulfilment of requirements to the Agency set by the ERAQ, including for the improvement of quality and strengthening of capacity of the Agency. The strategy of the accreditation agency was approved. An application has also been submitted to assess the accreditation agency's compliance with the standards and guidelines for quality assurance in the European Standardization and Quality Assurance Reference Framework and has submitted an application for admission to the EQAR. It is planned that EQAR's decision will be taken in December 2018.</p> <p>(5) The International Reconstruction and Development Bank research on improvement of internal management in higher education institutions continues and will be completed in 2018. Internal management and financial administration of higher education institutions in the context of new higher education financing model will be evaluated within the framework of the project.</p> <p>By decree No.164 of the Cabinet of Ministers of April 3, 2017 "On Liquidation of the Riga Teacher Training and Educational Management Academy" the Riga Teacher Training and Educational Management Academy was added to the University of Latvia, which will stimulate consolidation of pedagogical study and research resources, spatial concentration of materially technical base and reduction of study programme fragmentation.</p> <p>The work aimed to reduce the fragmentation of higher education study programmes is underway, including the development of a new content for teacher education. Inductively 10 mln euro are allocated within the EU Structural Funds SO 8.2.1. "Reduce the fragmentation of study programs and strengthen resource sharing", SO 8.2.3 "Ensure better governance in higher education institutions" and SO 8.2.2. "Strengthen the academic staff of higher education institutions in the areas of strategic specialization".</p> <p>(6) In the period of time from 2009 to 2017 the share of foreign students in Latvia was constantly growing 1-2% per year, 8137 foreign students studied in Latvia in academic year 2016/17, which is 9.81% of the total number of students.</p>
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<p><b>National poverty target [21,0%]</b></p>	<p>1. Reducing income inequality, 2. Encouraging people at risk of poverty and social exclusion to participate in the labour market, 3. Eliminating discrimination threats and stereotypes, as well as fostering participation of the civil society.</p>	<p>Latvian state scholarships are one of the tools for attraction of foreign students. In 2017/2018 school year, Latvian state scholarships were granted to 20 researchers (of 86 applicants) and 78 students (of 230 applicants) from 26 countries, as well as 6 summer schools, which were organised in Latvian higher education institutions, granting 60 scholarships to foreigners. Altogether, 158 Latvian state scholarships of all types have been granted to foreigners.</p> <p>See updated information on CSR2 in Table 6. a</p> <p>Gradual increase of the non-taxable minimum for pensions will be implemented:</p> <ul style="list-style-type: none"> <li>• in 2018 from 235 euro to 230 euro,</li> <li>• in 2019 up to 270 euro,</li> <li>• in 2020 up to 300 euro.</li> </ul> <p>For 2018 an additional financing is provided to increase the availability and to expand the range of social rehabilitation services with new services, such as social rehabilitation for</p> <ul style="list-style-type: none"> <li>• persons with predictable or first-time disability due to oncological disease and their family members;</li> <li>• children who need palliative care and their family members.</li> </ul>
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According to MoF assessment based on the macroeconomic development scenario updated in July 2017 and taking into account the execution of the budget in this year's eight months, the general government budget deficit in 2017 will be 0.9% of GDP, which is lower than the allowed deficit set in the 2017 budget law, but is slightly higher than projected in the Stability Programme for 2017-2020. Compared to the Stability Programme, the higher general government budget deficit is mainly determined by a one-time discounted lump sum compensation payment for installed electricity capacity in the amount of 140 mln euro, which in the medium-term will save the state budget funds, and will ensure the possibility of reducing the size of the MPC for electricity end-users. Since the introduction of the MPC, the cost of electricity has been steadily increasing, as a result of which the MoE, in accordance with the government's task, has prepared a solution for the further reduction of the MPC after the abolition of the subsidized electricity tax. The solution foresees that electricity producers, who receive a guaranteed fee for the installed electrical capacity of the cogeneration unit and have an installed electrical capacity of more than 100 MW, will be able to partially abandon the installed capacity for the remaining period of the guaranteed electrical capacity by receiving a one-off discounted payment. This payment will be expressed as the discounted value of future state aid revenue, applying a discount factor of 9% of the reduction in capacity charge, and continue to receive 25% of the current aid amount each year in the subsequent periods. In the case of a lump sum payment, the state will ensure the possibility of reducing the liability for the guaranteed electric power installed in the cogeneration station, as well as the amount of MPC will not increase for the end users of electricity and will remain at 26.79 euro/MWh in 2018 with a tendency to decrease in the medium term.

**The general government deficit at unchanged policy** is projected at 0.8% of GDP in 2018. Compared to the Stability Programme 2017-2020 the projected general government budget deficit has improved by 0.7% of GDP. The change was mainly due to the one-time effect of the tax reform of 0.7% of GDP. The major changes affecting general government budget balance are:

- 1) The PIT reform (impact on the general government budget balance approximately +0.4% of GDP), which introduced the following changes:
  - The Stability Programme 2017-2020 indicated the introduction of a progressive PIT rate of 20% for annual income till 20,000 euro and a 23% if annual income exceeds 20 000 euro, while the introduction of a progressive rate of 20% for annual income till 20 000 euro, 23% of annual income in excess of 20 000 euro, but less than 55 000 euro and 31,4% for annual in excess of 55 000 euro, was approved by the MTBF;
  - Stability Programme 2017-2020 indicated that relief for dependent persons in 2018 will be 250 euro, while MTBF confirmed that relief for dependent persons in 2018 will be 200 euro;
  - Stability Programme indicated that the non-taxable minimum for pensioners in 2018 will be 300 euro, while on MTBF the non-taxable minimum for pensioners was approved in the amount of 250 euro.
- 2) An increase in the SSC rate of 1 percentage point was approved for the MTBF, thus the total SSC rate will reach 35.09%, the corresponding increase of 0.5% will be paid by the employer and 0.5% by the employee. Increase will be fully allocated to the health reform. Increasing SSC by 1 percentage point will increase SSC revenues

by 85.3 mln euro in 2018, but as the revenues are directed entirely to health financing, the impact on the general government budget balance will be neutral.

- 3) In comparison with the planned tax reform in the Stability Programme 2017-2020, a number of changes were made to the CIT regulation. In 2018, a gradual abandonment of CIT advance payments will be introduced. By changing the CIT regulation it will be possible to maintain an advance payments of 50% by 2018 (impact on the general government budget balance of +0.4 % of GDP).

Reform of health system is determined as priority direction for 2018 budget: financial resources are foreseen for the financing of health reform, using the available deficit deviation in 2018, providing that in 2018 additional financing is 113.4 mln euro, additionally 1 percentage point of the SSC will be allocated to health system reform, which will reach 85.3 mln euro in 2018. Expenditure on defence from 2018 is projected to be at the level of 2.0% of GDP in the medium term.

Having regard to decisions mentioned above, the general government budget deficit in 2018 is projected at 1.0% of GDP<sup>3</sup>, which, taking into account the cyclical component of the budget 0.1% of GDP, corresponds to structural deficit target of 1.2% of GDP .

**Table 7: Divergence from Stability Programme 2017-2020**

	ESA Code	2016	2017	2018
		% GDP		
<b>Target general government net lending/ net borrowing</b>	B.9			
Stability Programme		-1.0	-0.8	-1.6
Draft Budgetary Plan		-0.9	-0.9	-1.0
Difference		0.1	-0.1	0.5
<b>General government net lending projection at unchanged policies</b>	B.9			
Stability Programme		-1.0	-0.8	-1.5
Draft Budgetary Plan		-0.9	-0.4	-0.8
Difference		0.1	0.4	0.7

<sup>3</sup> According to government decisions general government budget deficit in 2018 reaches 0.9% of GDP. In addition it is assumed that the fiscal safety reserve in the amount of 0.1% of GDP will be used in accordance with the fiscal risks defined in the Fiscal Risk Declaration.

### **Annex: Methodological aspects**

Macroeconomic forecasts are developed by a 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.

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

- using a 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 uses tax revenue forecast model LATIM-F, whose main components are 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 Treasury, the State Revenue Service, the Central Statistics Bureau and other sources is used.