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Proposal for a

COUNCIL IMPLEMENTING DECISION

granting temporary support under Council Regulation (EU) 2020/672 to Latvia to mitigate unemployment risks in an emergency situation following the COVID-19 outbreak

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Council Regulation 2020/672 (“SURE Regulation”) lays down the legal framework for providing Union financial assistance to Member States, which are experiencing, or are seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. Support under SURE serves for the financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self-employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace.

On 7 August 2020, Latvia requested Union financial assistance under the SURE Regulation. In accordance with Article 6(2) of the SURE Regulation, the Commission has consulted the Latvian authorities to verify the sudden and severe increase in actual and planned expenditure directly related to a scheme for the compensation of idle workers, and its related expenditure - the downtime allowance and the workers’ bonus for children-, a scheme for wage subsidies for the export industry, wage support payments for medical professionals and workers in the cultural industry, as well as health related expenditure on protective personal equipment and COVID-19 related sickness benefits caused by the COVID-19 pandemic. In particular, it concerns:

- (1) a scheme for the compensation of idle workers. The scheme pays wages to employees of private sector companies who have been furloughed. It covers between 50% and 75% of employees’ salaries, depending on the size of the business, with a cap of EUR 700 per employee per month. Attached to the scheme for the compensation of idle workers are the related downtime allowance scheme and workers’ bonus for children. The downtime allowance scheme provides a minimum benefit to furloughed employees or self-employed persons who either do not qualify for support under the scheme for the compensation of idle workers due to reasons unrelated to the employee, or receive less than EUR 180 from it. The benefit ensures a minimum level of support is provided, ensuring that all employees or self-employed persons receive a benefit of no less than EUR 180 per month. The bonus for children scheme provides additional support to furloughed employees who have dependent children.
- (2) a scheme for wage subsidies for the tourism and export industries, which is a continuation of the idle workers scheme aimed specifically at tourism and exporting industries. The measure is dependent on the recipient proving that the resources will be used to cover salary costs.
- (3) two wage support payments targeted at medical professionals and workers in the cultural industry. The wage support payments provide grants to the medical and cultural industries in order to support the payment of wages whilst workers are furloughed. Both schemes are conditional on the grants being used to cover salary costs.
- (4) health related expenditure on personal protective equipment and other medical supplies to ensure the health and safety of public sector employees, in particular, healthcare workers.
- (5) COVID-19 related sickness benefits, whereby the government paid the sick leave support to people who had to miss work due to a requirement to self-isolate or self-

quarantine. Normally, part of the sickness benefit would have to be paid by the employer, whereas under this scheme the state paid the entire cost.

Latvia provided the Commission with the relevant information.

Taking into account the available evidence, the Commission proposes to the Council to adopt an Implementing Decision to grant financial assistance to Latvia under the SURE Regulation in support of the above measures.

- **Consistency with existing policy provisions in the policy area**

The present proposal is fully consistent with Council Regulation 2020/672, under which the proposal is made.

The present proposal comes in addition to another Union law instrument to provide support to Member States in case of emergencies, namely Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (EUSF) (“Regulation (EC) No 2012/2002”). Regulation (EU) 2020/461 of the European Parliament and of the Council, which amends that instrument to extend its scope to cover major public health emergencies and to define specific operations eligible for financing, was adopted on 30 March.

- **Consistency with other Union policies**

The proposal is part of a range of measures developed in response to the current COVID-19 pandemic such as the “Coronavirus Response Investment Initiative”, and it complements other instruments that support employment such as the European Social Fund and the European Fund for Strategic Investments (EFSI)/InvestEU. By making use of borrowing and lending in this particular case of the COVID-19 outbreak for supporting Member States, this proposal acts as a second line of defence to finance short-time work schemes and similar measures, helping protect jobs and thus employees and self-employed against the risk of unemployment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this instrument is Council Regulation 2020/672.

- **Subsidiarity (for non-exclusive competence)**

The proposal follows a Member State request and shows European solidarity by providing Union financial assistance in the form of temporary loans to a Member State affected by the COVID-19 outbreak. As a second line of defence, such financial assistance supports the government’s increased public expenditure on a temporary basis in respect of short-time work schemes and similar measures to help them protect jobs and thus employees and self-employed against the risk of unemployment and loss of income.

Such support will help the population affected and helps to mitigate the direct societal and economic impact caused by the present COVID-19 crisis.

- **Proportionality**

The proposal respects the proportionality principle. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be adopted in a timely manner by the Council, a stakeholder consultation could not be carried out.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

4. BUDGETARY IMPLICATIONS

The Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State requesting financial assistance under the SURE instrument.

In addition to the provision of Member State guarantees, other safeguards are built into the framework in order to ensure the financial solidity of the scheme:

- A rigorous and conservative approach to financial management;
- A construction of the portfolio of loans that limits concentration risk, annual exposure and excessive exposure to individual Member States whilst ensuring sufficient resources could be granted to Member States most in need; and
- Possibilities to roll over debt.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak¹, and in particular Article 6(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) On 7 August 2020, Latvia requested financial assistance from the Union with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and its socio-economic consequences for workers.
- (2) The COVID-19 outbreak and the extraordinary measures implemented by Latvia to contain the outbreak and its socio-economic and health-related impact are expected to have a dramatic impact on public finances. According to the Commission's 2020 Spring forecast, Latvia was expected to have a general government deficit and debt of 7.3% and 43.1% of gross domestic product (GDP) respectively by the end of 2020. According to the Commission's 2020 Summer interim forecast, Latvia's GDP is projected to decrease by 7% in 2020.
- (3) The COVID-19 outbreak has immobilised a substantial part of the labour force in Latvia. This has led to a sudden and severe increase in public expenditure by Latvia in respect of the scheme for the compensation of idle workers and the related support schemes - the downtime allowance and the workers' bonus for children, a scheme for wage subsidies for the export industry, wage support payments for medical professionals and workers in the cultural industry, as well as health related expenditure on protective personal equipment and COVID-19 related sickness benefits, as set out in recitals 4 to 7.
- (4) "Regulation No. 179 (Adopted 31 March 2020) Regulations Regarding the Allowance for Idle Time for the Self-employed Persons Affected by the Spread of COVID-19" and "Regulation No. 165 (Adopted 26 March 2020) Regulations Regarding the Employers Affected by the Crisis Caused by COVID-19 which are Eligible for the Allowance for Idle Time and Division of the Payment for Late Tax Payments in Instalments or Deferral Thereof for up to Three Years", as they are referred to in Latvia's request of 7 August 2020, introduced a scheme for the compensation of idle workers. The scheme pays wages to employees of private sector companies who have

¹ OJ L 159, 20.5.2020, p.1.

been furloughed. It covers between 50% and 75% of employees' salaries, depending on the size of the business, with a cap of EUR 700 per employee per month. Attached to the scheme for the compensation of idle workers are the related downtime allowance scheme and workers' bonus for children. On the basis of "Cabinet of Ministers No. 236 "On the Allocation of Financial Resources from the State Budget Program "Funds for national emergencies"", as it is referred to in Latvia's request of 7 August 2020, the downtime allowance scheme provides a minimum benefit to furloughed employees or self-employed persons who either do not qualify for support under the scheme for the compensation of idle workers due to reasons unrelated to the employee, or receive less than EUR 180 from it. The benefit ensures a minimum level of support is provided, ensuring that all employees or self-employed persons receive a benefit of no less than EUR 180 per month. The bonus for children scheme provides additional support to furloughed employees who have dependent children. The measure can be considered as a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as it provides income support to employees and the self-employed, which will help to cover the costs of childcare during school closures and therefore help parents to continue working, preventing putting the employment relation at risk

- (5) The "Information report on measures to overcome the Covid-19 crisis and economic recovery" has established a scheme for wage subsidies for the tourism and export industries, which is a continuation of the idle workers scheme aimed specifically at tourism and exporting industries. The measure is dependent on the recipient proving that the resources will be used to cover salary costs.
- (6) The authorities have introduced two wage support payments targeted at medical professionals and workers in the cultural industry. On the basis of the "Law On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19 and Law on the Suppression of Consequences of the Spread of COVID-19 Infection" and "Cabinet of Ministers order No. 303 "On the Allocation of Financial Resources from the State Budget Program "Contingency Funds"" respectively, as they are referred to in Latvia's request of 7 August 2020, the wage support payments provide grants to the medical and cultural industries in order to support the payment of wages whilst workers are furloughed. Both schemes are conditional on the grants being used to cover salary costs.
- (7) Finally, Latvia has introduced two health-related measures. On the basis of "Cabinet of Ministers order No. 79, 118 and 220 "On Allocation of Financial Resources from the State Budget Program "funds for emergencies"", as it is referred to in Latvia's request of 7 August 2020, the authorities have increased health related expenditure on personal protective equipment and other medical supplies to ensure the health and safety of public sector employees, in particular, healthcare workers. Additionally, on the basis of "09.06.2020. Cabinet Regulation No. 380 "regulations on the resources for ensuring epidemiological safety necessary for institutions included in the list of priority institutions and needs"", as it is referred to in Latvia's request of 7 August 2020, the authorities have paid COVID-19 related sickness benefits, whereby the government paid the sick leave support to people who had to miss work due to a requirement to self-isolate or self-quarantine. Normally, part of the sickness benefit would have to be paid by the employer, whereas under this scheme the state paid the entire cost.
- (8) Latvia fulfils the conditions for requesting financial assistance set out in Article 3 of Regulation (EU) 2020/672. Latvia has provided the Commission with appropriate

evidence that the actual and planned public expenditure has increased by EUR 212 808 280 as of 1 February 2020 due to the increased amount directly related to the scheme for compensation of idle workers and related support schemes, the scheme for wage subsidies for the export industry, medical professionals and the cultural industry. This constitutes a sudden and severe increase because the new measures cover a significant proportion of undertakings and of the labour force in Latvia. Latvia intends to finance EUR 20 108 280 of the increased amount of expenditure through its own financing.

- (9) The Commission has consulted Latvia and verified the sudden and severe increase in the actual and planned public expenditure directly related to short-time work schemes and similar measures, as well as the recourse to relevant health-related measures related to the COVID-19 outbreak referred to in the request of 7 August 2020, in accordance with Article 6 of Regulation (EU) 2020/672.
- (10) Financial assistance should therefore be provided with a view to helping Latvia to address the socio-economic effects of the severe economic disturbance caused by the COVID-19 outbreak.
- (11) This decision should be without prejudice to the outcome of any procedures relating to distortions of the operation of the internal market that may be undertaken, in particular under Articles 107 and 108 TFEU. It does not override the requirement for Member States to notify instances of potential State aid to the Commission under Article 108 TFEU.
- (12) Latvia should inform the Commission on a regular basis of the implementation of the planned public expenditure, in order to enable the Commission to assess the extent to which Latvia has implemented that expenditure.
- (13) The decision to provide financial assistance has been taken taking into account existing and expected needs of Latvia, as well as requests for financial assistance pursuant to Regulation (EU) 2020/672 already submitted or planned to be submitted by other Member States, while applying the principles of equal treatment, solidarity, proportionality and transparency,

HAS ADOPTED THIS DECISION:

Article 1

Latvia fulfils the conditions set out in Article 3 of Regulation (EU) 2020/672.

Article 2

1. The Union shall make available to Latvia a loan amounting to a maximum of EUR 192 700 000. The loan shall have a maximum average maturity of 15 years.
2. The availability period for financial assistance granted by this Decision shall be 18 months starting from the first day after the entry into force of this Decision.
3. The Union financial assistance shall be made available by the Commission to Latvia in a maximum of eight instalments. An instalment may be disbursed in one or several tranches. The maturities of the tranches under the first instalment may be longer than the maximum average maturity referred to in paragraph 1. In such cases, the maturities of further tranches shall be set so that the maximum average maturity referred to in paragraph 1 is respected once all instalments have been disbursed.

4. The first instalment shall be released subject to the entry into force of the loan agreement provided for in Article 8(2) of Regulation (EU) 2020/672.
5. Latvia shall pay the cost of funding of the Union referred to in Article 4 of Regulation (EU) 2020/672 for each instalment plus any fees, costs and expenses of the Union resulting from any funding.
6. The Commission shall decide on the size and release of instalments, as well as on the size of the tranches.

Article 3

Latvia may finance the following measures:

- (a) the scheme for compensation of idle workers, as provided for by Regulation No. 179 (Adopted 31 March 2020) Regulations Regarding the Allowance for Idle Time for the Self-employed Persons Affected by the Spread of COVID-19 and Regulation No. 165 (Adopted 26 March 2020) Regulations Regarding the Employers Affected by the Crisis Caused by COVID-19 which are Eligible for the Allowance for Idle Time and Division of the Payment for Late Tax Payments in Instalments or Deferral Thereof for up to Three Years;
- (b) the downtime allowance, as provided for by Cabinet of Ministers No. 236 "On the Allocation of Financial Resources from the State Budget Program "Funds for national emergencies";
- (c) the workers' bonus for children, as provided for by Cabinet of Ministers No.178 "On the Allocation of Financial Resources to the State Budget Program "Funds for National emergencies";
- (d) the scheme for wage subsidies for the tourism and export industries, as provided for by Information report on measures to overcome the Covid-19 crisis and economic recovery;
- (e) wage support payments for medical professionals and the cultural industry, as provided for by Law On Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19 and Law on the Suppression of Consequences of the Spread of COVID-19 Infection and Cabinet of Ministers order No. 303 "On the Allocation of Financial Resources from the State Budget Program "Contingency Funds"" respectively;
- (f) health related expenditure on protective personal equipment, as provided for by Cabinet of Ministers order No. 79, 118 and 220 "On Allocation of Financial Resources from the State Budget Program "funds for emergencies"";
- (g) COVID-19 related sickness benefits, as provided for by 09.06.2020. Cabinet Regulation No. 380 "regulations on the resources for ensuring epidemiological safety necessary for institutions included in the list of priority institutions and needs".

Article 4

Latvia shall inform the Commission by [*DATE: 6 months after date of publication of this Decision*], and every 6 months thereafter of the implementation of the planned public expenditure until such time as that planned public expenditure has been fully implemented.

Article 5

This Decision is addressed to the Republic of Latvia.

Article 6

This Decision shall be published in the *Official Journal of the European Union*.

Done at Brussels,

*For the Council
The President*