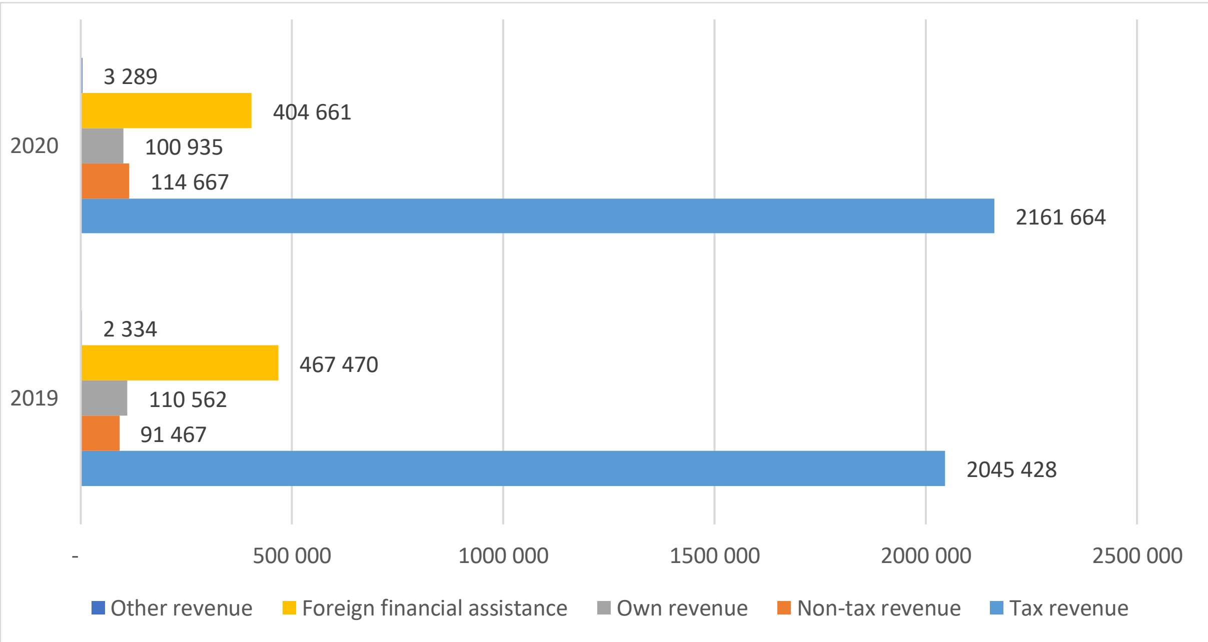
Fiskālās disciplīnas padome

## REVENUES

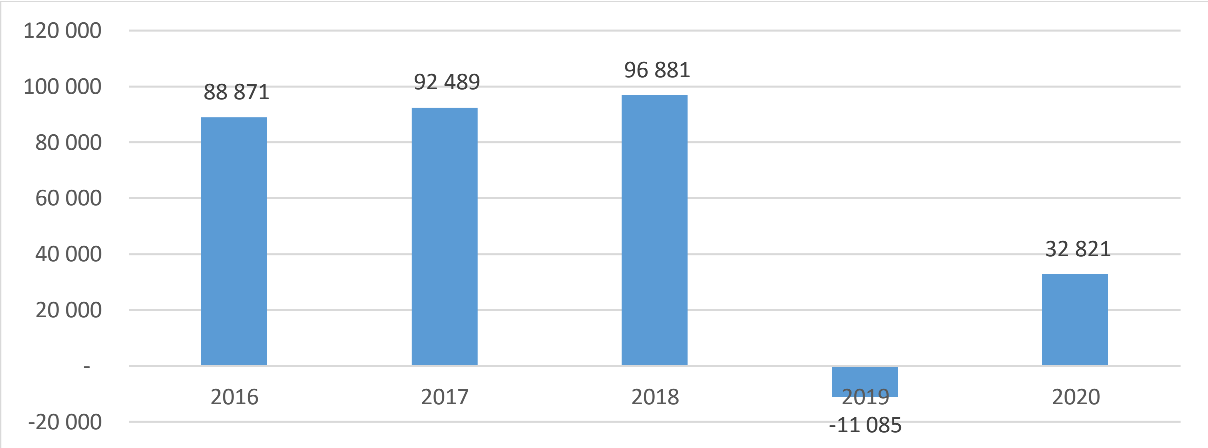
Despite the slowdown in economic growth at the end of 2019 and the economic crisis caused by Covid-19 in early 2020, **general government consolidated budget revenue increased by 2.5% in the first quarter of 2020 compared to the first quarter of 2019, reaching 2.8 billion euros .** Tax revenue in the first quarter of this year increased by 5.7% year-on-year, while non-tax revenue increased by 25.4%. At the same time, own revenues and foreign financial assistance decreased by 8.7% and 13.4%, respectively, during the period considered. Tax revenue plays the largest role in the revenue structure of the consolidated budget at 77.6%, the share of which increased slightly compared to the 1st quarter of 2019.




*Picture 1.: Consolidated budget revenue in Quarter I (thou. euros). Source: Treasury*

Overall, general government revenue data for the first quarter should be assessed positively, taking into account the country's economic situation. However, it should be borne in mind that revenue data is expected to deteriorate significantly in the second quarter due to the Covid-19 crisis. In addition, within the framework of the government's economic stabilization program, the State revenue service (SRS) grants tax holidays to entrepreneurs, as well as refunds VAT faster. The impact of these measures on the General government budget balance (GGBB) in 2020 is estimated at 331 million euros.

Although the collection of corporate income tax (CIT), which has changed its collection base since 2019, has improved in the first quarter of 2020, the tax collection plan has been fulfilled by only 82.1%. 32.8 million euros were collected in the first quarter, while a year ago in this period tax refunds exceeded the amount of taxes collected by 11.1 million. Thus, progress in CIT collection is observed despite the crisis caused by Covid-19. Although in the first quarter of this year CIT was collected in the amount of only 35.5% of the amount collected in 2018 in the respective period.




*Picture 2: Corporate income tax revenues (thou. euros). Source: SRS*

The collection of excise duty is also slow: in the first quarter, only 88.2% of the planned amount was collected, reaching 241.6 million euros, which is 3% less than in the corresponding period in 2019. The worst excise tax was collected on natural gas in the amount of 69.9% from the previous year's level. However, in nominal terms, higher losses have been caused by decreased revenues from excise duty on alcohol - 89.4% of the 2019 level.

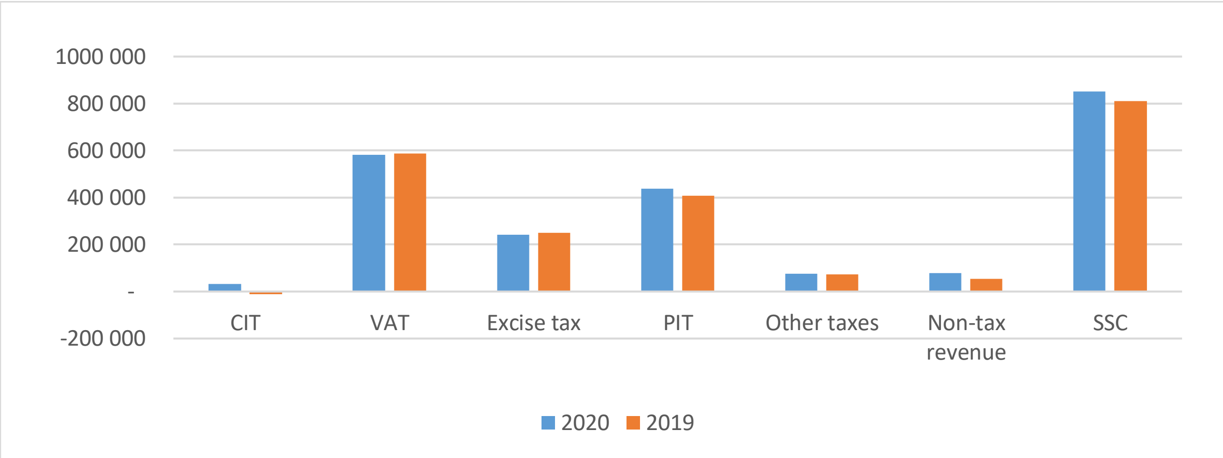
| | 2019 Q I | 2020 Q I | 2020 vs 2019 |
|---|---|---|---|
| Alcohol | 49 534.4 | 44 291.6 | 89.4% |
| Beer | 9 287.1 | 10 109.0 | 108.8% |
| Tabaco | 51 126.6 | 50 318.5 | 98.4% |
| Oil products | 126 681.2 | 126 704.3 | 100.0% |
| Gas | 8 623.8 | 6 031.1 | 69.9% |
| Other excise goods | 3 974.5 | 4 193.8 | 105.5% |
| **Total** | **249 227.5** | **241 648.3** | **97.0%** |

*Table 1:Excise tax revenues Quarter I (thou. euros). Source: SRS*

In the first quarter of 2020, the value added tax (VAT) collection plan was fulfilled by 94.6%. Revenues from VAT amounted to 581.7 billion euros, which is 0.8% less than in the corresponding period of 2019. Taking into account that within the framework of the economic stimulus program, VAT is refunded to entrepreneurs faster, it is forecasted that VAT collection will deteriorate in the coming quarters. VAT is the most important source of tax revenue, providing more than 40% of all tax revenue

The personal income tax (PIT) collection plan was overrun by 12.3% in the first three months! The good results are based on the January and February excellent results (+72.2 million above the plan), which were due to faster-than-expected wage growth, and partly because of the withholding tax on dividends paid in December was transferred to the budget in early January. In March, the planned target was not met, which was due to an increase in PIT repayments after the submission of PIT yearly declarations, but the consequences of the crisis were not yet fully felt on PIT revenues.
The social security contribution (SSC) plan was fulfilled by 102.3% in the first quarter.
It should be noted that PIT revenues are less affected by the crisis than SSC, as their share in payroll taxes is much more significant and creates a greater burden on entrepreneurs. This is also confirmed by the fact that the extensions of deadlines granted for the SSC payments are approximately 7 times higher than those for the PIT.

In total, in the first quarter of 2020, the SRS administered revenue in the amount of 2.30 billion, which is 5.9% more than in the first three months of 2019.




*Picture 3: SRS collected revenues in Quarter I 2020 (thou. euros). Source: SRS*

| | 2020 | 2019 | 2020/2019 (%) |
|---|---|---|---|
| | 32 821 | - 11 085 | - |
| CIT | 581 704 | 586 410 | -0,8% |
| VAT | 241 648 | 249 228 | -3,0% |
| Excise tax | 438 156 | 408 834 | 7,2% |
| PIT | 74 753 | 72 920 | 2,5% |
| Other taxes | 77 415 | 52 767 | 46,7% |
| Non-tax revenues | 851 837 | 810 826 | 5,1% |
| SSC | **2 298 335** | **2 169 898** | **5,9%** |
| **Total** | | | |

*Table 2: SRS collected revenues in Quarter I of 2020 and 2019 (thou. Euros). Source: SRS*

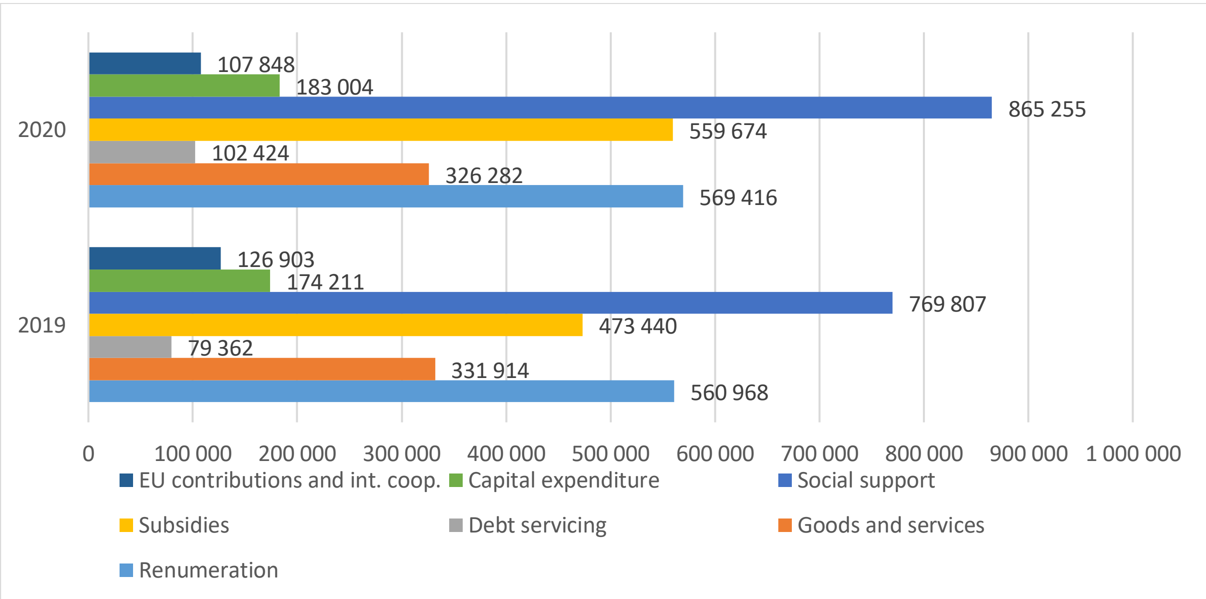
# EXPENDITURE

**In the first quarter of 2020, the general government consolidated budget expenditure increased by 7.8% compared to the first quarter of 2019, reaching 2.71 billion euros.** The largest increase in percentage terms was in interest expenses, which increased by 29.1%. However, their share in the total expenditure structure is still relatively small at 3.8%. Social benefits have increased by 12.4%, while subsidies and grants have increased by 18.2%. These expenditure items are expected to increase in the coming quarters as well.

Contributions to the EU and spending on international cooperation have fallen significantly by 15%. A positive assessment is the fact that the increase in Capital expenditures is 5%, because traditionally, in crises, first reduction comes to investment, which can further deepen the crisis.

Expenses for Remuneration have increased by only 1.5%. Considering the fact that PIT and SSC were well collected in the first quarter of the year, it can be concluded that the reduction in wages has mostly taken place only the public sector.

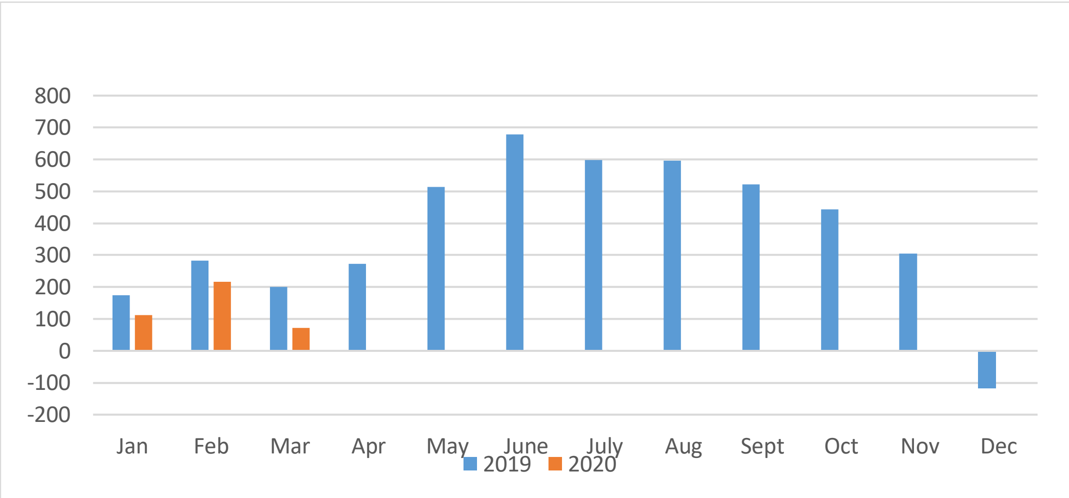
The largest share of the general government consolidated budget expenditure is on social benefits and remuneration - around 31.9% and 21.0% in the first quarter of this year, respectively. Although the share of the latter has slightly decreased. The share of subsidies and grants has increased to 20.6% this year. The share of capital expenditure has risen to 6.7%, while contributions to EU and international cooperation have fallen from 5% to 4%.




*Picture 4: Consolidated budget expenditure in Quarter I 2019 and 2020 (thou. euros). Source: Treasury*

## BALANCES

Traditionally, the general government consolidated budget balance is positive after three months - revenues exceed expenditures by 71.3 million euros, which is 0.2% of GDP. Last year, however, these figures were 200.6 million euros and 0.6%, respectively. Of course, the impact of the Covid-19 crisis on the country's financial situation must be taken into account. It is clear that the revenue targets will not be met this year, but expenditure will increase significantly. The “Covid-19” scenario developed by the MoF envisages that the consolidated general budget deficit in 2020 will reach 2398 million euros, or 8.5% of GDP. Given the high level of uncertainty in economic and fiscal developments, it is currently difficult to judge the state of the general government consolidated budget balance at the end of the year.




*Picture 5: Consolidated budget balance (mil. euros) accrued values at end of month. Source: Treasury*